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COMMENTARY AND RECOMMENDATIONS REGARDING PROPOSED BUDGET MODEL¹

This commentary is founded upon two fundamental premises:

- I) That the new budget model be a transparent, effective, financial resource allocation policy and decision making framework; and
- II) That shared governance between the administration and the general faculty as led by the Faculty Senate is an integral cornerstone of decision-making at ISU, including that of budgetary policy particularly as it affects academic mission. This commitment to shared governance was reconfirmed by the Regents in their action this past June to approve the revised Senate Constitution

The following is an **Executive Summary** listing of the recommendations and commentary. They are more fully discussed in the subsequent text:

Shared Governance Recommendations:

- *Shared governance between the faculty and administration is a privileged and unique concept that must be maintained within the framework of more broadly conceived participatory decision processes.*
- *It is the position of the Faculty Senate that in order to fulfill the concepts embedded in shared governance each budget model advisory board should have representatives from among the elected leadership of the Senate, and a preponderance of general faculty members as a proportion of the full body.*
- *The Resource Policies and Allocation Council (RPA) of the Senate, as a matter of university policy, currently is the provost's advisory board for budget policy and academic issues. This role should be continued and explicitly designated as such in the new budget model.*
- *The unit plans called for on page 12 of the Report need to define a mechanism/process that includes faculty in budget policy development and allocation. It should be stipulated in the budget model that Senate and general faculty representatives not holding administrative positions be a part of collegiate budget development processes in sufficient numbers to have significant meaningful and active participation in the creation of policy and in making allocation decisions.*

Budget Model Effectiveness Recommendations and Observations:

- *We recommend that a specific entity be charged with the responsibility to develop, maintain and review the allocation, assessment and charge-back factors in the budget model. Shared governance processes should be put in place for this activity.*
- *We recommend that the advisory boards advise the executive officers of their respective area. The executive officers should incorporate the advisory board commentary into their annual budget plans (perhaps even in full as an appendix) specifically acknowledging where they may differ. The University Budget and Advisory Board (UBAB), having access to each plan, can arrive at its own recommendation.*

1. This commentary and recommendations are based upon the updated Report (V. 4.1) dated August 9, 'Alternative Budget Model #3' (ABM3) presented therein, and the PowerPoint show "The View from 10,000 Feet".

- *Advising the president regarding policy and allocation of legislative increment increases (or declines) should be added as a sixth enumerated item in the list of UBAB roles on page 12.*

General Concerns Commentary: We have identified the following General Concerns that require clarification from the text of the current Report:

- *Unit Self-Interest versus Interdisciplinary Commitment.*
- *'Strong Dean' or 'Weak Dean' Leadership Model?*
- *The model appears to be expensive to operate.*
- *How reflexive is the model in actuality?*
- *Non-Tenure Eligible Faculty (NTEF) issues.*
- *Indirect Cost Recovery and Direct Expenses from Sponsored Research*

Addressing Chronic Budget Shortfalls:

- *Despite the transparency and income/cost accountancy that is evident in the proposed model, it does not appear to be able to address chronic budgetary problems associated with historic funding bases.*

I. SHARED GOVERNANCE

The General Faculty, led by the Faculty Senate, and administration are the central voices in shared governance as articulated in the Regents' approved Senate Constitution. Shared governance operates in areas of Senate legislative authority (academic standards, promotion and tenure, curriculum) and advisory authority regarding quality of life, conduct, and any other matters pertaining to the advancement of the university. *Shared governance between the faculty and administration is a privileged and unique concept that must be maintained within the framework of more broadly conceived participatory decision processes.* The new budget model, more than any previous model at ISU situates financial resources at the intersection of academic mission: academic standards, pursuit of research, student development and relationships with faculty, curriculum, and quality of life – precisely the terrain of shared governance.

A. Advisory Board Membership

It is the position of the Faculty Senate that in order to fulfill the concepts embedded in shared governance each advisory board should have representatives from among the elected leadership of the Senate, and a preponderance of general faculty members as a proportion of the full body.

The Report casts membership on the advisory boards quite loosely and broadly (p. 12), It is the position of the Faculty Senate that in order to fulfill the concepts embedded in shared governance each advisory board should have representatives from among the elected leadership of the Senate, and a preponderance of faculty members as a proportion of the full body. Each college should be represented by a member of the general faculty. Not more than 50% of the general faculty members selected by the colleges to be on an advisory board should hold the administrative position of director, chair, associate/assistant dean or dean. The nominations of collegiate representatives should arise from a shared governance consultative process within each unit. Under no circumstance should any of the Advisory Boards become so broadly based (as is the case with the current University Calendar Committee) that the shared governance partners of administration and faculty become simply one of many constituencies. Because Senate members act on behalf of the full faculty, their colleges should have separate

representation. The specific recommendations for Senate leadership participation are as follows:

- 1) The University Budget Advisory Board (UBAB) should have both the president and president elect of the Senate among its membership, as well as the chair of RPA. This enables continuity, both from the Advisory Boards and the Senate.
- 2) The Library Advisory Board (LAB) should have the president of the Senate among its membership, as is currently the case with the University Library Committee.
- 3) The Services Advisory Board (SAB) should have the chair of RPA or a designee among its membership. Services central and assigned costs have a critical impact not only on the colleges and centers but also on individual research projects which now will be directly charged for certain expenses.
- 4) The Student Services Advisory Board (SSAB) should have the president-elect of the Senate among its membership. Moreover, tempting as it may be to have a preponderance of students on this board – this is *the* university body charged with recruitment, retention, and student support. As such, it has a significant impact on enrollment and teaching – two of the financial foundations of the new model as well as being student/faculty centered. The stakes are fiscal as well as policy oriented.

B. Provost Advisory Committee

The Resource Policies and Allocation Council (RPA) of the Senate, as a matter of university policy, currently is the provost's advisory board for budget policy and academic issues. This role should be continued and explicitly identified as such in the new budget model.

The RPA currently serves as the provost's advisory committee for budget policy and academic issues. While the Executive Vice President and Provost has overall budget responsibilities, in his or her role as provost, she/he, should continue to have a separate advisory body with respect to budget policy related to academic issues. Within the total budget, the preponderant share pertains to academic issues, the area that is central to shared governance. The Report is silent on this issue. That role is currently filled by RPA and should continue to be.

C. Collegiate Decision Frameworks

The unit plans called for on page 12 of the Report need to define a mechanism/process that includes faculty in budget policy development and allocation. It should be stipulated in the budget model that Senate and general faculty representatives not holding administrative positions be a part of collegiate budget development processes in sufficient numbers to have significant meaningful and active participation in the creation of policy and in making allocation decisions.

Perhaps even more than at the university level, internal collegiate budget and allocation policies directly affect faculty and academic operations. The Report indicates that the colleges and administrative units are to develop "consultative" internal processes. This is far too general a statement that opens the door to either symbolic participation or diffuse participation, both of which undercut the concept of shared governance.

II. BUDGET MODEL EFFECTIVENESS

Beyond measures related to shared governance, there are a number of structural and decision making issues in 'Alternative Budget Model #3' (ABM3) that we believe are quite detrimental to transparency, equity and effective operations. Some of them are related to shared governance.

A. Methodology for Determining, Updating & Maintaining Allocation|Assessment Factors: formulae, percentages, billing rates and charges, Student Credit Hour (SCH) value cost/allocation rates, space and utility allocations and charges, subvention, and oversight of allocating revenues and expenses.

We recommend that a specific entity be charged with the responsibility to develop, maintain and review the allocation, assessment and charge-back factors in the budget model. Shared governance processes should be put in place for this activity.

There appear to be thirty or more factors that come into play in operating the budget allocations and charges. The initial outlines of these factors are discussed in the Report sections 'Distribution of Revenues' (p. 6-9), 'Distribution of Expenses' (p. 9-10), and 'Budget Tools, Model Parameters and Data' (p. 10-11). The complexity of these parameters and managing them is revealed in Slide 19 of "The View from 10,000 Feet". The Report does not describe how these factors are to be set and refined, nor does it identify *who* actually develops, revises and maintains each of them.

Our concern is that the factors require scrutiny, not just upon their initial determination, but ongoing during the life of the budget model. E.g., the initial state for SCH's is impacted by the Delaware Study and internal historic cost factors, both of which are acknowledged as flawed. If there is to be faith in the system, sooner or later, these factors have to be revised closer to zero-based concepts that reflect actual experience here at ISU and more refined peer comparisons by discipline. No specific entity is described as having this role in the Report, even in the section 'Review, Refinement and Implementation' (p. 13-16).

Moreover, since the parameters are the central allocation mechanisms, and these have significant impact on academic resources and faculty, we view these as areas of shared governance, where Senate and general faculty representatives need to be involved (as they are in the Budget Model Review and Implementation Committee (BMRIC)).

B. Advisory Board Reporting Logic -- advising executive officers versus the University Budget Advisory Board (UBAB).

We recommend that the advisory boards advise the executive officers of their respective area. The executive officers should incorporate the advisory board commentary into their annual budget plans (perhaps even in full as an appendix) specifically acknowledging where they may differ. The University Budget and Advisory Board (UBAB), having access to each plan, can arrive at its own recommendation.

The Report indicates that the UBAB is to prepare "one unified set of recommendations to the Provost" coordinating its recommendations with those of the other boards." (p.12) This presumes that the other boards directly advise the UBAB, *not* principally the executive administrators of the offices they advise – thus creating a dual reporting system: one from the boards to UBAB and the other from the administrative leaders to the provost. The distancing of the deans and officers from this process is summed up in the phrase: "Directors of responsibility centers ... are encouraged to make their opinions on budgeting processes known to the advisory boards during their deliberations, as well as directly to the provost." (p. 12) Slide 18 from "The View from 10,000 Feet" confirms this, showing no direct path from the line administrators to the UBAB.

The separate path of the advisory boards may seem to advantage their input – free of being overridden by the executive officers they advise – but this potentially sets the advisory boards at odds with the executive officers, leading to a 'show down' as the provost reaches a decision. This allows advisory boards to second guess or do an end around in cases where they disagree – thus stepping out of their advisory role to being an alternative policy making body. It

freezes unit leaders' visions and initiatives – virtually all of which have been developed with members of their units.

The dual reporting path proposal sets in motion a massive lobbying program – since presumably each dean or center director would have to independently make his or her thoughts known to each board as well as the provost. Depending upon the membership of the UBAB, the Chief Information Officer (CIO) and Dean of Library have no further voice; the VP's for Business and Finance, and Student Affairs may have at least two – as members of the UBAB and as members of the president's cabinet. The diffuseness of the process as proposed both disempowers the administrative officers and weakens the concepts of shared governance that are based upon Senate & faculty+administration working together on the topics to which they are best attuned.

C. Advising the President on Budget Increment

Advising the president regarding policy and allocation of legislative increment increases (or declines) should be added as a sixth enumerated item in the list of UBAB roles on page 12.

The state appropriation increment is noted on page 7 where it is indicated that the president makes the distribution. Assuming that this refers to the annual legislative allocation and the increases to base budget or one time funding within it, this should not be a function of the president or the president's cabinet. We believe this should be an advisory function of the UBAB working with the president and provost.

D. Addressing Pitfalls

Most of the following are observations without particular solution suggestions. They are offered here to assist in clarifying various pitfalls that the BMRIC needs to address for ABM3 to operate smoothly. We expect to continue to work on suggestions in these areas.

1. Unit Self-Interest versus Interdisciplinary Commitment. The report notes at the bottom of page 1: "... this approach to budgeting will more than ever require strong leadership to set priorities, guide change, and ensure that institutional goals are being met, particularly those of progressively increasing the quality of the university's academic program and continuing to foster an environment favorable for interdisciplinary collaboration." On page 11: "the provost and the Faculty Senate will be responsible for shaping curricular and course review processes that ensure changes advance the quality of the university's degree programs and are in the best interest of the university."

Taken together, these two notes appear as admonitions to arguably the single largest problem inherent in RCM structured budgeting: unit self-interest in contrast to interdisciplinary commitment to the whole. Student enrollment competition, Student Credit Hour (SCH) allocations and their valuation rates, focusing on research where resources can flow to the PI and the PI's home unit, differential tuition, struggles over development resources and prime candidates for giving, creating courses and programs that are self-interested, and using grade inflation to woo students are scenarios ripe for abuse. Some of them have occurred at other institutions that have adopted RCM. *Forewarned though we may be -- the mechanisms to prevent these scenarios are not much in evidence, leaving the door open for abuse.* The Senate will be working with the provost's office to strengthen curriculum decision-making processes keeping in mind the prospects for the university as a whole. However, this is only one component of a set of issues and more needs to be addressed in the model.

2. 'Strong Dean' or 'Weak Dean' Leadership Model? While deans have management responsibility and can work to advance recruitment, research and development resources, implying a strong dean model, this is not born out by the processes identified in 'Alternative budget Model #3' (ABM3). It appears that the academic deans, charged though they may be

with “leadership to set priorities...”, etc., need to wait for each of the boards and the UBAB to determine the allocation, assessment and charge-back factors: then each responsibility center receives an allocation and a bill. Compared to the present model where each dean or unit director can at least count on continuity of base funding, this holds up final budgeting until the algorithms and shares are set. ABM3 as currently described increases indeterminacy late into the budgeting process. It is expressly suggested that the dean’s and unit leaders go out to the boards, etc., to make their positions known. This appears to be a weak dean model.

3. The proposed model appears to be expensive. Databases need to be enriched; collegiate and center budgets go up – but so do their obligations to pay for services. It is not hard to imagine that from top to bottom tremendous expenditures will be incurred to monitor monetary flow: to hire and train new staff to account for income and expenses, and to negotiate the algorithms/allocations and charges. Also, the number of volunteer hours is very high. Are there diminishing returns to this particular model of transparency? What are they; is there a tipping point? The starting points are still historical – are we losing potential redistribution resources to pay for the greater expense to manage the budget?

4. How reflexive is the model in actuality? No zero-based budgeting is called for; subvention from state funding is indicated to be modified and phased out; state funding itself as a share of the budget may be decreasing. Carryovers and short turn up and down trends need to be modulated over time. What real changes are possible to the respective bases of the funded units?

5. Non-Tenure Eligible Faculty (NTEF) issues. The model seems to induce more, not lesser amounts of temporary teaching funds and more, not fewer NTEF. This is counter to university policy, as we hover close to the maximum in AAUP guidelines. Recently the number of departments exceeding AAUP guidelines for NTEF teaching faculty has increased. If collegiate base funding rises or falls with enrollment and SCHs, there is no incentive to hire tenure track faculty to teach. We consider this a major pitfall of this model. Proposals to continue the university’s efforts to invest in tenured and tenure-track faculty need to be reinforced. At present they are not addressed as a factor for consideration in the model.

6. Indirect Cost Recovery and Direct Expenses from Sponsored Research. The model seems to be overly casual in the way it treats over \$200M of direct expense funding from sponsored research. Indirect cost rates are no small sum and are treated in the model algorithms for allocation (p. 8), but how they are used within units once apportioned is not discussed. Direct research expenditures support our graduate programs, provide jobs for many staff members and support business activity at ISU in many ways.

ISU is a R1 university and this status depends on maintaining a vigorous research enterprise. Research is a key area of faculty responsibility, and a strong research program depends on a strong, energetic, and talented faculty. The IDC funds’ explicit purpose is to support and grow the research enterprise. They must not be seen as simply another source of funds for general use projects. As well, the importance of research needs to be reflected in the use of general university funds. Since research is a central part of the ISU mission it is important to ensure that the university provides resources to support and grow research and not treat it as a “cash cow” to be exploited for other purposes.

The model presumes that the historic process has been adequate. (p. 8) We think this area of distribution should be examined for greater transparency.

III. ADDRESSING CHRONIC BUDGET SHORTFALLS

This budget model is an instrument of budgeting and planning, of policy and allocation decision making. It holds the promise of being more transparent and more responsive to positive changes on the campus with present funding than our current historically based block budgeting. However, there are certain fundamentals that are yet to be addressed:

- 1) Salary compression.

- 2) Redistributing funding to the base to make funds more equitable in supporting collegiate and departmental units, particularly those that have been chronically underfunded. The subvention process does not seem to be able to rectify historic problems in this area.
- 3) Addressing and rectifying salary shortfall relative to peer programs at peer institutions.
- 4) Funding and managing an Excellence Fund – which as proposed in ABM3 is funded by a share of the responsibility center funds. We have not been able to fund much of this in our current financial position – how will we be able to do this in the new model? Sooner or later it has to come from collegiate funds.
- 5) The metrics of the Strategic Plan (other than a few measurable items such as enrollment or externally funded research) are not connected to the ABM3 – thus diluting the rationale as to what merits funds. The model as structured seems to ignore more subtle qualitative contributions to the strategic plan.

IV. CONCLUDING COMMENT

The above concerns are not an exhaustive list. Not all anticipated potentialities (positive or negative) can be addressed. We have commented upon a number that are most apparent and on the surface. They should be addressed by the BMRIC as the university community assesses ABM3 and considers how to refine the model and whether or not to implement it. While the proposed model (or any subsequent alternative) and the policies that pertain to it cannot be 'perfected' taking into account any and all eventualities, we should reduce those risks we can identify by taking positive proactive measures prior to adopting it.

Respectfully submitted,

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On behalf of the Senate Budget Model Steering Group:
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With concurrence and suggestions from:
The Senate Executive Board
The Resource Policies and Allocations Council