

Second Report of the Budget Model Development Committee

Introduction

Six months ago, President Geoffroy charged the Budget Model Development Committee with the job of developing a new budget model for Iowa State University that links allocation of resources and expenses with a unit's responsibilities and performance. The new budget model, scheduled for completion by July 1, 2006 and implementation on July 1, 2007, will form the core of a larger set of processes and policies that inform and shape the university's annual operating budget.

This charge followed a period of study culminating in a Budget Symposium held last May for university leaders that was facilitated by Larry Goldstein, President of Campus Strategies. The symposium featured presentations on budget practices at the University of Illinois, Indiana University, and the University of New Hampshire. Goldstein's report that followed the symposium observed that the university's current budget model does not provide appropriate incentives to undertake new or increased levels of activities, or to generate new sources of revenues required to assure the university's success in an increasingly competitive higher education environment.

Goldstein concluded that the university "requires a more flexible and responsive budget model... and it is needed now because, like most research universities, Iowa State University faces a critical time in its evolution. Competition for scarce resources is increasing and the University must employ systems, processes, and tools that will ensure maximum effectiveness of resource allocation decisions."

Last October, the Budget Model Development Committee released its first report that included preliminary lists of objectives the budget model must accomplish, issues pertaining to the distribution of revenues and expenses, and questions that need to be resolved. The objectives, issues, and questions included in that report were informed by output captured from small group discussions at last May's Budget Symposium (included in the symposium report) and by a review of budget practices at several other universities. Input from a university forum, the President's Advisory Committee on Budget Priorities and Planning, and from other groups and individuals informed committee discussions that have led to this second report.

This second report includes the committee's current thinking on the issues and questions included in the first report and a general concept for a new budget model. Many refinements and details are still needed. Different methods of distributing state allocations and allocating costs to units are being studied as well as ways of adjusting for the differential cost of education inherent in the university's academic disciplines, e.g., it costs far more to offer an intensive lab course than it does to offer a lecture course to similarly sized group of students.

The committee is in early conversation with a consultant who has worked with several other prominent universities that employ budget methods similar to the model described below in hopes that the association will allow Iowa State University to learn from hard won experience at these universities.

It has become clear that many intermediate steps will be needed to fully implement the final version of the budget model. Information systems and staffing will need to be ready to provide college and university administrators with current data behind all of the calculations used to distribute revenues and expenses. And, it will be necessary to provide support to colleges and other administrative units throughout implementation, and training for key administrators and fiscal officers who work closely with budgets.

The university community is again encouraged to provide feedback that will assist the committee's efforts to develop a new budget model for the university. Feedback can be provided via e-mail – budgetmodel@iastate.edu – or at an open forum that will be held mid-February.

Budget Model Overview

1. Academic goals

The primary purpose of the new budget model is to serve as a tool that will help Iowa State University more effectively accomplish its mission, reach its vision of being “the best at advancing the land-grant ideals and putting science and technology to work,” and address strategic plan priorities – Undergraduate, Professional, and Graduate Education; Research; Economic Impact; Iowa Life, and University Life – with excellence through innovation and continuous improvement. It is particularly important that the new budget model reinforce an environment favorable for interdisciplinary collaborations that have proven so important to advancing the university.

2. Measures of Success

The new budget model will be considered successful if:

- a. The general quality of the university's academic programs increases,
- b. Measurable progress is made on the university's strategic plan,
- c. Undergraduate and professional student enrollment targets are met and tuition revenues are maximized,
- d. The number of graduate students earning terminal degrees increases and graduate tuition revenues are maximized,
- e. Revenues from sponsored funding and indirect cost recovery increases,

- f. The president and provost have adequate resources to affect strategic change and reward quality, and
- g. Support and services are provided in an increasingly efficient and cost effective manner.

3. General Principles

The budget model has been designed to:

- a. Link revenue distribution to the responsibilities and performance of major academic and administrative units,
- b. Distribute revenues and costs in a manner that is transparent, easy to understand, and informed by data,
- c. Increase flexibility, enable multi-year budget planning through some form of carryover authority, and enable simulation of future budget years,
- d. Distribute the cost of providing central administrative support and services to units that utilize and benefit from the support and services,
- e. Work effectively during years of revenue growth and revenue decline both for the university and for major academic and administrative units, and
- f. Hold formulas for distributing revenues and expenses stable for a defined period of time, e.g., 3 to 5 years, before changes are considered and then only after a careful evaluation process.

While it is anticipated that a new budget model will create a better rationale for distributing revenues and costs, strong leadership and credible governance mechanisms will be more important than ever to reinforce the university's direction and protect the university against actions that are not in its best overall interest.

Budget Model Design

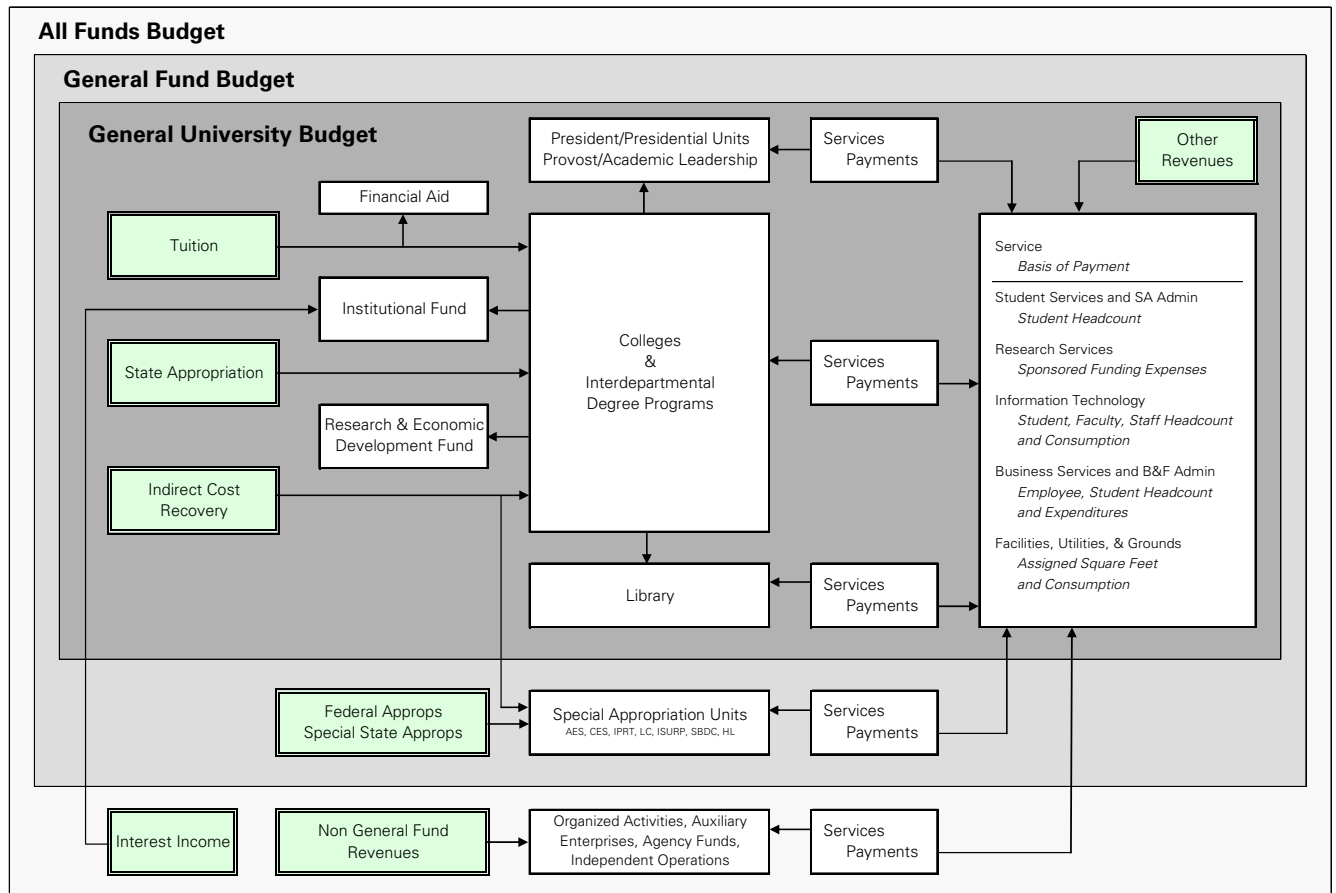
1. Diagram

The committee has attempted to capture the essence of the budget model under consideration for Iowa State University in the diagram that follows.

- The **General University Budget**, represented by the center most darkly shaded box, includes colleges and interdepartmental degree programs, university leadership, and most of the administrative and support services.
- The **General Fund Budget**, represented by the slightly larger moderately shaded box, encompasses the General University Budget and adds the special appropriation units (Cooperative Extension Service, Experiment Station, Institute for Physical Research and Technology, Leopold Center for Sustainable Agriculture, Small Business Development Center, ISU Research Park, and Livestock Disease Research).

- The All Funds Budget**, represented by the outer lightly shaded box, encompasses the General University and General Fund Budgets, and adds auxiliary enterprises, organized activities, agencies, and independent operations, e.g., funds received for research, Department of Residence, Intercollegiate Athletics, Ames Laboratory, Veterinary Clinical Services, ISU Bookstore, 4-H, etc.

The smaller boxes included in the diagram are each described in the sections that follow.



2. Revenues

a. Tuition

Most of the tuition revenue collected will be directed to colleges to support the direct cost of educating students and for services and infrastructure that support students' education. Distribution of tuition revenue will be based on individual student records. This distribution method includes tuition collected for fall, spring, and summer sessions. Tuition revenue will be distributed to colleges; college deans will decide how these revenues are distributed among departments.

- ▶ Student Financial Aid. A portion of undergraduate and Doctor of Veterinary Medicine (DVM) student tuition will be set aside from gross tuition revenues for student financial aid. Currently, 20.5% of undergraduate and 8.2% of DVM tuition revenue is used for student financial aid. Tuition revenues set aside for student financial aid will be managed and distributed by the Office of Student Financial Aid. Graduate student support will be the responsibility of the college where the student is enrolled, thus no portion of graduate student tuition will be held centrally but will be distributed entirely as described below.
- ▶ Undergraduate base tuition distribution. Once the increment for student financial aid is set aside, each undergraduate student's base tuition will be distributed with 25% going to the college where the student is enrolled and 75% to colleges from which the student is taking courses distributed pro-rata based on student credit hours. All of the tuition paid by non-degree seeking students, net student financial aid, will be distributed to the college in which the student is taking courses.
- ▶ Undergraduate differential tuition distribution. Differential tuition refers to the portion of tuition that exceeds the base tuition rate set for resident and non-resident undergraduate students. At least fifteen percent of revenues from differential tuition will be set aside for financial aid to be managed by the Office of Student Financial Aid and awarded to students enrolled in the college charging the differential. After the increment for financial aid is set aside, the remainder will be directed to the college where the student is enrolled.
- ▶ DVM tuition distribution. The increment of DVM tuition revenue set aside for financial aid will be managed by the Office of Student Financial Aid and awarded to DVM students. Once this increment is set aside, the balance of each DVM student's tuition would be divided with 75% going to the College of Veterinary Medicine and 25% to colleges from which the student is taking courses distributed pro-rata based on student credit hours.
- ▶ Graduate tuition distribution. The method of distributing graduate student tuition reflects the large investment of an individual faculty member's time inherent in graduate education. Thus, 70% of each graduate student's tuition would go to the college where the student is enrolled and 20% to colleges from which the student is taking courses distributed pro-rata based on student credit hours excluding 599's and 699's. For students in interdisciplinary programs, 55% of each student's tuition would go to the student's primary college home, 15% to the interdisciplinary program where the student is enrolled, and 20% to colleges from which the student is taking courses distributed pro-rata based on student credit hours excluding 599's and 699's. For all graduate students, the final 10% will be distributed among the colleges based on the number of terminal degrees awarded in the previous academic year.

- Distance education. Tuition revenue for credit bearing courses offered at a distance will be distributed to the college offering the course as indicated above with colleges paying Continuing Education and Communication Services for any services they use. All tuition revenue for non-credit bearing course will be allocated to Continuing Education and Communication Services.

b. State Appropriation

Funds appropriated by the Iowa Legislature to the General University will be directed entirely to the colleges. Colleges will support the direct cost of educating students, the research and outreach missions of the university, general university leadership and administration, and the library. All areas of the university including the colleges will pay for core infrastructure and service costs necessary for daily operation as well as other services in proportion to consumption. The committee is currently examining different methods of distributing state appropriations among the colleges that reflect each college's obligations and the differential cost of education. The committee anticipates completing this study by the end of February and including a recommended method for distributing these revenues in its third report.

c. Indirect Cost Recovery

Revenues from indirect cost recovery revenues will be distributed as they are received in the following manner:

- 60% to the college of the principal investigator,
- 15% to the principal investigator,
- 15% to the college, institute, or center where the research is being conducted, and
- 10% for facilities and equipment renewal.

d. Federal and Special State Appropriations

Federal and state appropriations designated for the Experiment Station, Cooperative Extension Service, Leopold Center for Sustainable Agriculture, Livestock Disease Research, Institute for Physical Research and Technology, Small Business Development Center, and the ISU Research Park will be distributed to the respective unit as required by law

e. Interest Income

Interest earned on the unspent balances in general fund accounts will be distributed to the Institutional Fund described below.

f. Non General Fund Revenues

Non general fund revenues will flow directly and entirely to the unit generating the revenue.

g. Other Revenue

Other revenue includes special fees paid by students, e.g., application and transcript fees, and will be distributed directly and entirely to the unit providing the service.

3. Carry Over Authority

An integral element of the budget model is a mechanism for units to carry over a limited amount of funds to help even out annual fluctuations in revenues; for major collegiate initiatives like new faculty positions in strategic areas and capital improvements; for faculty retention and start-up packages; and for investments in new ventures. The committee is exploring different ways in which carry over authority can be implemented.

4. Participation

A portion of each college's budget will fund general university leadership and administration, the library, an institutional fund, and a research fund. The basis of this charge will be determined by faculty, student, and staff headcount as well as total revenues (tuition, appropriations, and indirect cost recovery).

a. President/Presidential Units, Provost/Academic Leadership

General university leadership and administration includes the Office of the President and units reporting to that office, and the Office of the Provost, Offices of the Vice Provosts, and units reporting to each of these offices. Two exceptions are Information Technology Services and research services which will be supported through payments for services and infrastructure.

b. Library

The library encompasses the current staff, facilities, and resources of the Parks Library including all reading rooms, the Veterinary Medicine Library, and the Library Storage Building.

c. Institutional Fund

The institutional fund will be used by the president and provost to affect strategic change and reward quality. The university's mission, vision, and strategic plan will guide decisions on the use of these funds.

d. Research and Economic Development Fund

The research and economic development fund will be used for investments made by the Vice Provost for Research that will advance the university's vision for research and economic development.

5. Payments for Services and Infrastructure

All units require a range of administrative and support services to accomplish their unique mission. Many of these services are provided by campus service providers; others may be purchased by off-campus providers. Each unit will pay for services, space, and utilities provided by campus providers in proportion to level of use and consumption. Panels comprised of service providers and consumers will be established for each of the five service groups

shown below. These panels will recommend rates for services to the president who is responsible for final decisions on rate levels.

a. Student Affairs Administration and Services

Student Affairs Administration and Services includes all of the General University units reporting to the Vice President for Student Affairs. Each college and interdisciplinary degree program will pay for student services in proportion to the number of students (headcount) it enrolls.

b. Research Services

Each unit that receives funding for sponsored projects will support the general costs of administering research programs in proportion to actual expenditures on sponsored projects.

c. Information Technology

Each unit will be charged for the information services and technologies using two metrics: the charge for core services including central systems support will be based on the number of student, faculty and staff associated with the unit, with all other charges based on consumption.

d. Business Administration and Services

Each unit will be charged for general business administration and services using two metrics: the number of students, faculty, and staff employed by the respective unit and expenditures.

e. Facilities, Utilities, and Grounds

Each unit will be charged for utilities, operations and maintenance of facilities, and grounds upkeep using two metrics: the amount of space assigned to the unit and consumption.