

Update from the Budget Model Development Committee

May 3, 2006

The purpose of this update is to brief the university community on the progress made by the committee since the release of its third report in March, to describe the work the committee will engage in this summer, and to assure the university community of its role in the review process that will begin when the academic year commences next fall.

The third report:

- Included two alternate budget models as well as a description of the current budget model to provide a point of comparison,
- Introduced Huron Consulting and described the assistance they would provide to the process,
- Identified key issues and challenges being addressed by the committee, and
- Recommended that the timeline for development, review, and implementation of a new budget model for the university be extended for an additional year.

In the six weeks since the third report was issued, the committee has:

- Developed prototypes for both alternative models under consideration and a simple tool that allows colleges to simulate scenarios about enrollments and other revenues,
- Identified long-term data needs that will be required regardless of the model recommended and worked with various data stewards and information technology managers to begin planning for these needs, and
- Worked to resolve the key issues and challenges provided in the third report by tasking subgroups to develop options for addressing them.

The 2 ½ day visit by James Kemp and John Curry from Huron Consulting provided an opportunity for many constituent groups and the full committee to discuss the benefits of more responsibility-oriented resource allocation models and the issues that many institutions face as they contemplate such a transition. Their insights and observations have prompted the committee to work to finalize the conceptual model as soon as possible, to further develop the scenario simulation tool, to focus more attention on governance, process change and infrastructure development, and to develop a work plan that will result in a recommendation to the President on June 30 and a university review process for fall semester.

Context and reason for a new budget model:

Iowa State University faces a turbulent external environment:

- Demographic trends presage declines in the number of students graduating from high school resulting in greater competition among universities nationwide, if not globally.
- The university's ability to generate new revenue from tuition rate increases is increasingly constrained by this competitive enrollment situation and by public policy considerations outside of the university's control.
- The portion of the university's general fund comprised of state appropriations has dropped 15% in the last five years and is growing more slowly than the rate of inflation thus losing real purchasing power.
- Entitlement programs are consuming an increasing portion of the federal budget, leaving federal financial aid and research sponsorship in jeopardy.

The inevitability of these macro trends and the risk of a "business as usual" approach form the context in which a new approach to budgeting is being proposed for Iowa State.

These trends are important reasons why President Geoffroy has asked the Committee to propose a new approach to budgeting that is more flexible and responsive to external conditions by shifting from a centralized, top-down approach to one that empowers decision-makers throughout the university to set academic strategies within their colleges and departments, and to fund initiatives directly with revenues they generate. The assumption underlying this strategy is that decisions made by individuals closer to teaching, research, and outreach efforts such as deans, department chairs, and unit leaders will be better aligned with academic strategies and market opportunities and demands than will decisions made formulaically or at the margin by a central authority.

While a new budget model will not “fix” the trends, it will provide better means of navigation by:

- linking revenue generation and revenue distribution,
- linking decision making with resource implications,
- focusing on the best use of all revenue sources rather than just the general fund,
- more automatically moving resources among units as a reflection of changes in activity and consumption of services,
- allowing funds to be accumulated and carried over the fiscal year for strategic expenditures and to manage revenue fluctuations,
- making budget decisions and priorities more transparent, and
- providing a regular review of expenditures and service costs.

By June 30 the Budget Model Development Committee will provide a report to the President that:

- Recommends a single budget model with descriptions of the structure of authority and accountability, the decision making process that supports budget development, and the method of distributing revenues and expenses. The report will describe a mature, fully implemented budget model recognizing that many interim steps will be necessary to achieve the final goal. And, not all of the details will be worked out in the report.

For example, the report might recommend that expenses for utilities and custodial services be distributed to a defined set of organization units with the goal of aligning the cost of space occupancy with the decisions on how a given area within a building will be used. However, the precise method for calculating these costs and the basis for distributing the costs will not be included but rather developed as the model evolves from recommendation to implementation.

- Suggests advisory and regulatory groups that will be needed to support the new model including a brief description of each group’s role, reporting relationship, proposed membership, and member selection process. The report will also address possible roles for existing groups that participate in budget and resource allocation processes.
- Describes data and technical processes needed to implement the recommended budget model, the work required to meet these needs, and recommends a manageable level of complexity.

Continuing the utilities and custodial example from above, it will be necessary to identify what actual cost information is available, e.g., is cost information for individual utilities (electricity, cooling, heat, water, sewer) available at the building level and should the average cost of custodial services be used to distribute costs, rather than creating different costs per square foot because of the seniority of individual custodians? Some space is much more expensive to operate than others. Should that be reflected when costs are distributed or should averages be used?

- Suggests a review process for the conceptual model that will engage the campus in the review and that will provide input to the President to inform his final decision on whether to implement a new budget model.

During the summer, and in preparation for the fall review process, the Budget Model Development Committee will:

- Continue to run scenarios to further expand the knowledge base of how the model functions in a wide variety of situations. Once actual data is final for FY06, two-year simulations can be constructed, which will further enhance understanding of the model's functionality.
- Develop the mechanisms that achieve the conceptual goals of some aspects of the model, e.g. the distribution of space costs example from above. Form or expand working groups that include individuals with a solid understanding of how current processes function.
- Further define the process for review and consultation about the proposed conceptual model that will occur in the fall. A series of dialogues and forums will be developed with various constituent groups.
- Engage individual college deans in discussions that allow them to begin to incorporate a new method for resource allocation into the leadership of their colleges. The scenario simulation tool currently under development will be shared and working sessions scheduled to familiarize college personnel with the proposed model.
- Continue to identify changes needed to data bases and administrative systems.
- Continue to advance the need for carryover authority with the Board of Regents.

Committee members:

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Committee web site:

<http://www.iastate.edu/~budgetmodel/>