

First Report of the Budget Model Development Committee

To President Gregory L. Geoffroy
October 19, 2005

Introduction

Last February you asked the Budget Model Study Group to study alternative budget models with the goal of recommending changes to Iowa State University's budget practices. Particular emphasis was given to models that link allocation of resources and expenses with a unit's responsibilities and performance. This group conceived and planned the Budget Symposium held last May that included presentations on budget practices at the University of Illinois, Indiana University, and the University of New Hampshire. The Symposium was facilitated by Larry Goldstein, President of Campus Strategies, who produced a set of conference proceedings and recommendations. The principal recommendation was that you form a committee to develop a new budget model for review and implementation.

This September you constituted the Budget Model Development Committee and charged it with the job of creating and testing a new budget model for Iowa State University by July 1, 2006 and designing the process for implementing this new model by July 1, 2007. You asked that this new budget model include a method of allocating resources that is closely tied to a unit's responsibilities and contribution to performance on *Forward Thinking: The Iowa State University Strategic Plan for 2005-2010* (Strategic Plan), particularly progress on increasing enrollment and sponsored funding.

This report includes 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 this report were informed by output captured from small group discussions at last May's Budget Symposium (included in the symposium report) and by the articles and case studies listed in the bibliography that accompanies this report.

This first report will be used during the first round of discussions with key constituent groups and at a university open forum. Responses from the university community will help the committee determine if the objectives shown below are the right set and if we have captured the issues and questions that need to be considered. The committee will use the feedback received from the university community to refine the objectives and develop a set of principles for distribution of revenues and expenses. After another review by the university community, these objectives and principles will guide the development of the budget model and accompanying revenue and expense distribution formulas. Most of the 2006 spring semester will be devoted to testing and refining the proposed model through an extensive set of simulations.

Objectives

The purpose of the new budget model will be to determine the amount and mix of revenues (tuition, appropriations, indirect cost recovery, etc.) that each major academic and administrative unit (see list below) will receive as well as the set of expenses for which each of these units will be responsible. The continuance of strong leadership and credible governance mechanisms will be necessary to reinforce the university's direction and avert unhealthy internal competition.

The new budget model will be successful to the extent that it:

1. Links resource allocations made to major academic and administrative units with each unit's responsibilities and performance on the Strategic Plan thus providing incentives and accountability for advancing the university.

2. Provides the president and vice presidents with resources to support new initiatives and emerging priorities, and address unforeseen circumstances such as governmental mandates and institutional emergencies.
3. Includes a process for ensuring that units providing support and services do so in the most cost effective manner.
4. Addresses the complexity of a land-grant research university.
5. Works effectively during years of revenue growth and revenue decline with a mechanism for smoothing out revenue highs and lows as well as a mechanism that allows colleges to adequately respond to changes in enrollment.
6. Protects against actions intended to manipulate the distribution of resources but that are not in the best overall interest of the university community.
7. Is easy to comprehend with a clear relationship between causes and effects lending predictability to the budget development process, i.e., everything is out in the open.
8. Holds revenue/expense distribution formulas stable for a defined period of time, e.g., 3 to 5 years, with any changes to the formulas occurring only after a careful evaluation process.
9. Increases flexibility and enables multi-year budget planning through multi-year simulations and through seeking some form of carryover authority.
10. Establishes a budget starting point that does not disadvantage large programs that are already at or beyond their instructional capacity.
11. Evaluates college costs, rankings, quality, and reputation relative to a college's national and aspirational peers rather than against other colleges at ISU.

Major Academic and Administrative Units

College of Agriculture
College of Business
College of Design
College of Engineering
College of Human Sciences
College of Liberal Arts and Sciences
College of Veterinary Medicine
President
Academic Affairs
Research Administration
Extension
Library
Information Technology Services
Student Affairs
Business and Finance

Revenue Allocation Issues and Questions

1. Tuition

- a. Deal with undergraduate, veterinary medicine, graduate, continuing education, and summer school tuition separately and differentially.
- b. Take set-aside for student financial aid off-the-top before distributing tuition revenue.

- c. Tuition revenue distribution formulas should be blind to residency or student need.
- d. The number of enrolled students and student credit hours taught will be major factors in determining the distribution of tuition revenue. Dollars per SCH and dollars per enrolled student will change somewhat year-to-year as the mix of resident and non-resident students changes, thus reducing revenue predictability.
- e. The model must develop a viable funding mechanism for interdisciplinary, interdepartmental, and intercollegiate programs because of their importance to graduate education and research at Iowa State University (Budget models studied at other institutions have not adequately addressed interdisciplinary, interdepartmental, and intercollegiate programs).
- f. The new revenue distribution model will subsume special tuition distribution agreements currently in force.
- g. Should a portion of tuition be used to support student services, central administration, etc.?
- h. How will the different cost of education among disciplines affect revenue distribution?
- i. How will revenue from differential tuition be handled as compared to revenue from the base tuition rate?
- j. Should all graduate tuition flow to colleges and let each college be responsible for supporting its own graduate students?

2. Indirect Cost Recovery (IDC)

- a. Should IDC revenues be distributed to the collegiate home of PI(s) with their distribution based on expenditures associated with the grant/contract?
- b. Will a portion of IDC be used to support other costs associated with conducting research, e.g., Office of the Vice Provost for Research including grants and contracts, O&M cost for research facilities, library, etc.?
- c. Will special arrangements, e.g., Ames Laboratory, change with new method?

3. Sales and Services and Miscellaneous Fee Income (Applies to General Fund and Auxiliary Units)

- a. Revenue will flow directly to the unit making sales or providing the service(s).
- b. Will the current method of assessing an administrative fee continue under the new model?

4. State Appropriations

- a. All state appropriations will go directly and entirely to the specified appropriation unit.
- b. Should the state appropriation for the general university be placed in a central, institutional fund with a defined method for distribution?

5. Federal Appropriations

- a. Formula driven federal appropriations, e.g., Smith Lever and Hatch funds, will go directly and entirely to the specified appropriation unit.
- b. The Department of Energy appropriation for the Ames Lab will go directly and entirely to the Lab.

6. General Fund Interest / Investment Income

Interest and investment income will be placed in a central account with the method for allocation to be determined.

Expenses Distribution Issues and Questions

1. Direct expenses

Salaries, travel, and departmentally purchased supplies, equipment, and services should be charged to the academic or administrative unit that incurred the expense irrespective of how the unit is funded.

2. Support Units

Should key support units, e.g., library, student affairs, university administration, public safety, museums, etc., that don't generate external revenues be funded "off the top," through a proportional charge to externally generated revenues, or by some other method?

3. General Services / Utilities

- a. Should services and utilities, e.g., electricity, water/sewer, steam/chilled water, telecommunications, internet, motor pool, etc., that don't generate external revenues be funded "off the top," through a proportional charge to externally generated revenues, through charges based on use, or by some other method?
- b. Need to distinguish between:
 - Core services/utilities where units **must** use the on-campus alternative. Everyone pays the same amount for the service and is taxed up front either because we can't distribute the costs or wouldn't want to even if we could.
 - Metered services/utilities where units **must** use the on-campus alternative but the amount charged to unit is based on the amount of service or utility used.
 - Supplemental services/utilities where units **may** use the on-campus option or outsource – go off-campus. Amount charged to unit is based on the amount of service or utility used.
- c. Need to ensure that general services and utilities meet the university's needs and standards while being provided at the lowest cost possible.

4. Building and Grounds

- a. Need to maintain university buildings and ground to protect investment.
- b. There are significant differences in the quality of space.
- c. Should operation and maintenance of buildings and grounds be funded "off the top," through charges based on use, or by some other method?

Other Issues and Questions

1. Will continue to need strong, knowledgeable local budget managers.
2. Consider establishing a central holding account to manage surpluses and deficits.
3. How do you set salary policy in the context of the new budget model?
4. How will centers and institutes be funded in the new model?
5. How will funding for central administrative support be obtained from special appropriation units, e.g. Agriculture Experiment Station, Cooperative Extension Services, Leopold Center, etc.?

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