

Understanding IUB's Budget

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University Budget Models

- What are purposes of a model, and what choices?
- What are elements of a model?
- How does our model work?



Purposes of a Budget

- “ A budget is a plan for getting and spending money to reach specific goals by a specific time.” (Maddox 1999)
- More specifically, aligns available resources with university mission: Teaching, research, service
- Budgets are tools that can:
 - Provide predictability; put strategy into operation; allocate resources; provide incentives, give control, and provide means of communication (Barr, McClellan 2011)



Elements of University Budget: Revenue and Expenditures

From Periodic Table of Budget Model Elements

- Revenue: $Ug + Gr + Pm + Su + Sa + Ar + Icr + Nc + Er + Dg$
- Costs: $Rf + Fc + Ds + Aa + Gn + Bs + Rs + Li + It$



Elements of University Budget: Revenue and Expenditures

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- Revenue: $Ug + Gr + Pm + Su + Sa + Ar + Icr + Nc + Er + Dg$
- Costs: $Rf + Fc + Ds + Aa + Gn + Bs + Rs + Li + It$
- Ways to distribute revenues and costs (model)

Terminology

- Base funding: recurring funding from stable source (state appropriation, predictable enrollments): can support hiring, eg
- Cash funding: non-recurring funding (ICR, unspent base, etc): can support programmatic initiatives
- Philanthropic funding: endowments are like base; annual giving is like cash
- ALL are part of an accurate picture of financial health



Budget Levels

- University (President, CFO, HR, etc): Provide shared services to all the campuses
- Campus (Provost, Vice Provost for Student Services, UGE, Grad, Academic Affairs, Diversity, etc):
- Schools (Dean, local student services, etc)



Responsibility-Centered Financial System

- RCM refers only to one over-arching aspect:
decentralized decision-making about some aspects of budget
 - Many names
 - Responsibility center management
 - Incentive based budgeting
 - Decentralized budgeting
- NO SINGLE MODEL**



Literature Based Positives


- Provides strong incentive (and need) to generate revenue
 - Encourages responsiveness to students' interests and concerns and environmental/market forces
 - Provides incentive to improve instruction to attract students and generate revenue*
- Fosters independence, flexibility & accountability at local level
 - Encourages bottom-up decision making and planning
 - Enhances unit nimbleness since decisions are made and budgets can be modified at local level

Literature Based Negatives

- Campus has fewer resources for common good needs
- Reduces collaboration among units (perception vs. reality)
- Can create incentives to teach courses outside of core areas, lower class standards, and increase grade inflation to attract students
- May incentivize quantity over quality & use of NTT instructors
- Assessment are necessary but not always transparent or predictable
 - Instructional units don't control of services from non-instructional units
 - Non-instructional units have limited revenue generating options
- Can create incentive to add fees

Responsibility Center Management


Schools are primarily responsible for:



**Generating
Revenue**



**Determining
Investments**



**Managing
Expenditures**



Responsibility Center Management

Benefits:



Faculty Involvement
More Open
and
Participatory



Decentralized
Greater
Autonomy,
Greater
Responsibility



Local Control
Merit-based
Decisions,
Optimization of
Opportunities



IU: Starting Principle

- IU was the first large public research university to move to RCM. Funding sources include:
 - **State Appropriations:** Maintained 1990 state allocation to keep units whole. Increases in SA are distributed proportionally to original allocation. Cuts are based on expenditures budget
 - **UG Revenue:** Based on market share with one year lag
 - **Grants, Graduate Revenue, and Advancement:** Pass directly through to units
 - **Campus Assessments and University Tax:** CA was a complicated formula; UT was a pass-through of expenses



IU: Evolutions

1990-2015

- 1996: Provost fund was developed when state appropriations declined to provide for central campus investments
- 1997: Lag time for UG tuition became two years to help schools adapt to changes
- 1998: 5% of ICR allocated to OVPR to foster research
- 2000: Provost funds were increased to provide additional funding for central campus investment



IU: Evolutions

1990-2015 (continued)

- 2002: Lag time for UG tuition returned to one year since growing school objected to a 2 year lag
- 2005: Assessment model changed and provost funds were increased (currently ~\$3.5M of a \$1.5B campus budget (of which \$1.1B is academic budget)
- 2010/2011: Assessment added and defined specific cost drivers to improve predictability
- 2015: Moved from UG allocation based on market share to one based on per credit hour rate, with three year smoothing

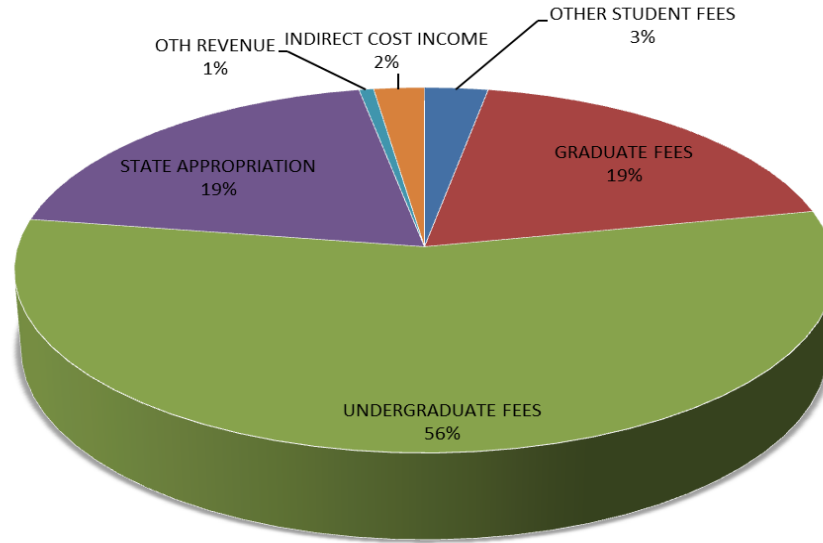
Summary of Evolutions

- More transparency: simplified formula for assessments
- More predictability: simplified formula for determining revenue allocation
- More resources at center: All rcm reviews have pushed for more ability of central campus to fund strategic initiatives and common goods (financial aid, library, cross-school research)

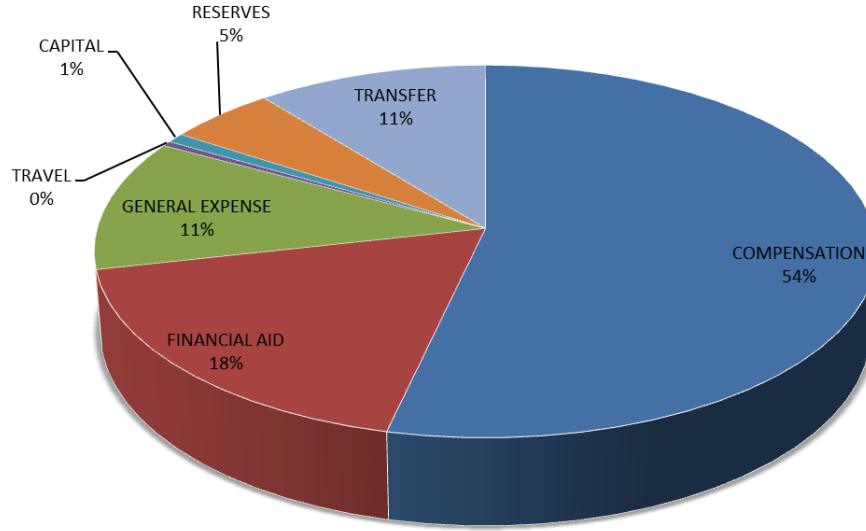
Today's Model

- High level of transparency and increased predictability
 - Assessment drivers are credit hours, # of FTEs, square footage
 - Graduate tuition, advancement and most ICR pass directly through to schools
- Three year average per UG credit hour rate gives:
 - Increased timeframe to adjust to UG trends
 - Ability for growing units to invest in faculty or other resources
 - Has a negligible impact on steady state UG schools
 - Gives schools with declining enrollment time to adapt

BL General Fund Revenue by Consolidation

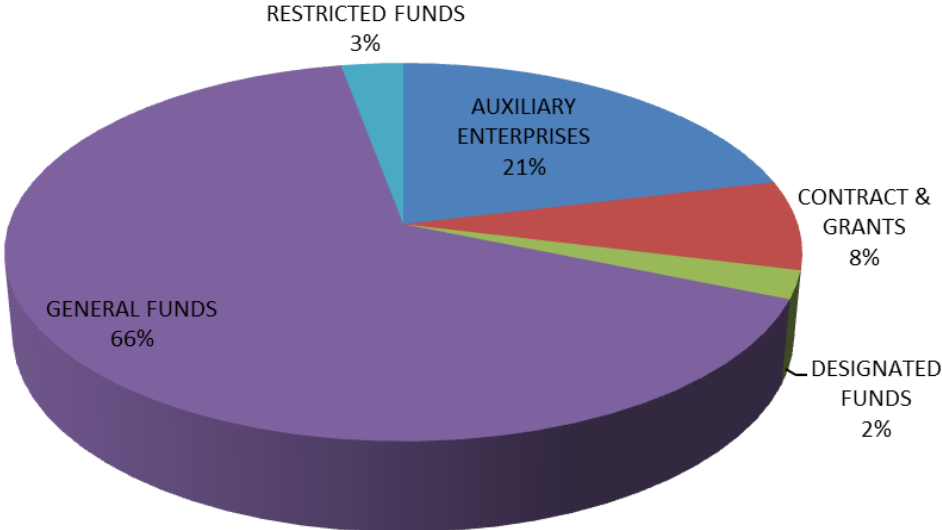


BL General Fund Expense by Consolidation



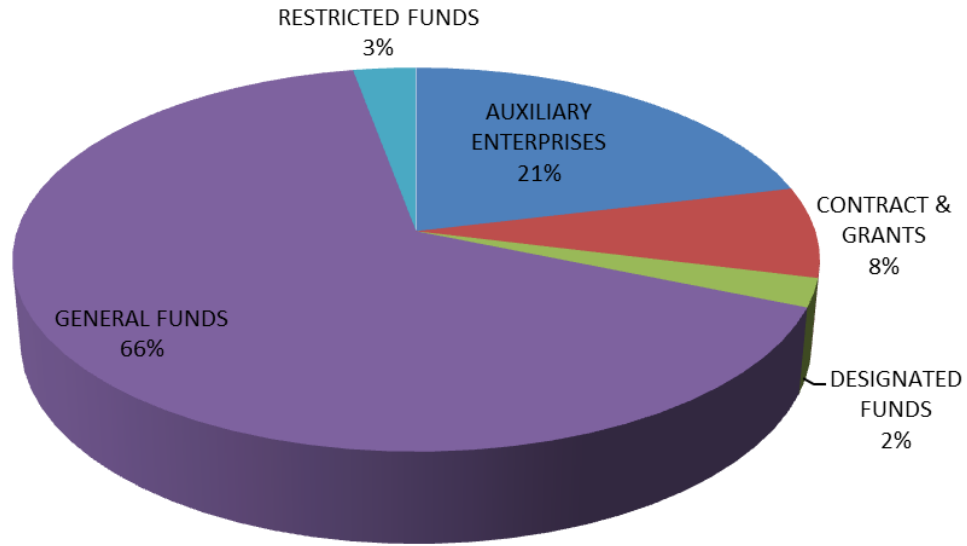
Total Expense = \$1,051,747,870

BL Campus Revenue by Fund Group



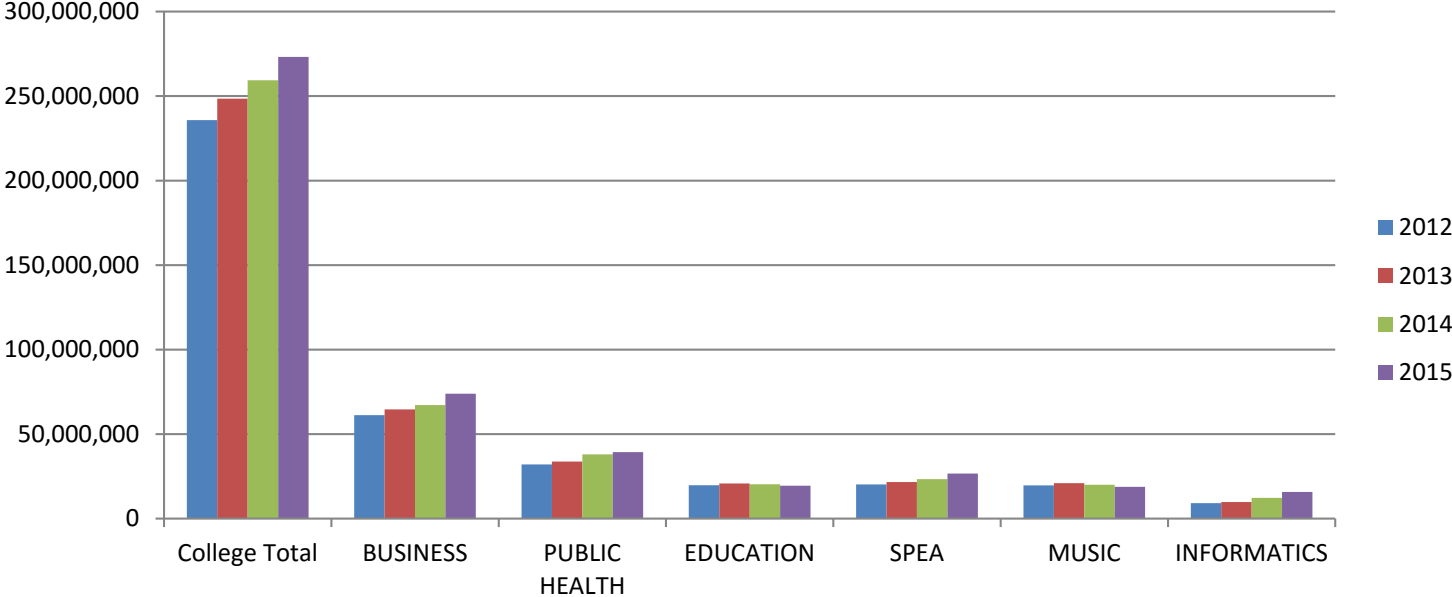
Total Revenue = \$1,597,697,623

BL Campus Expense by Fund Group

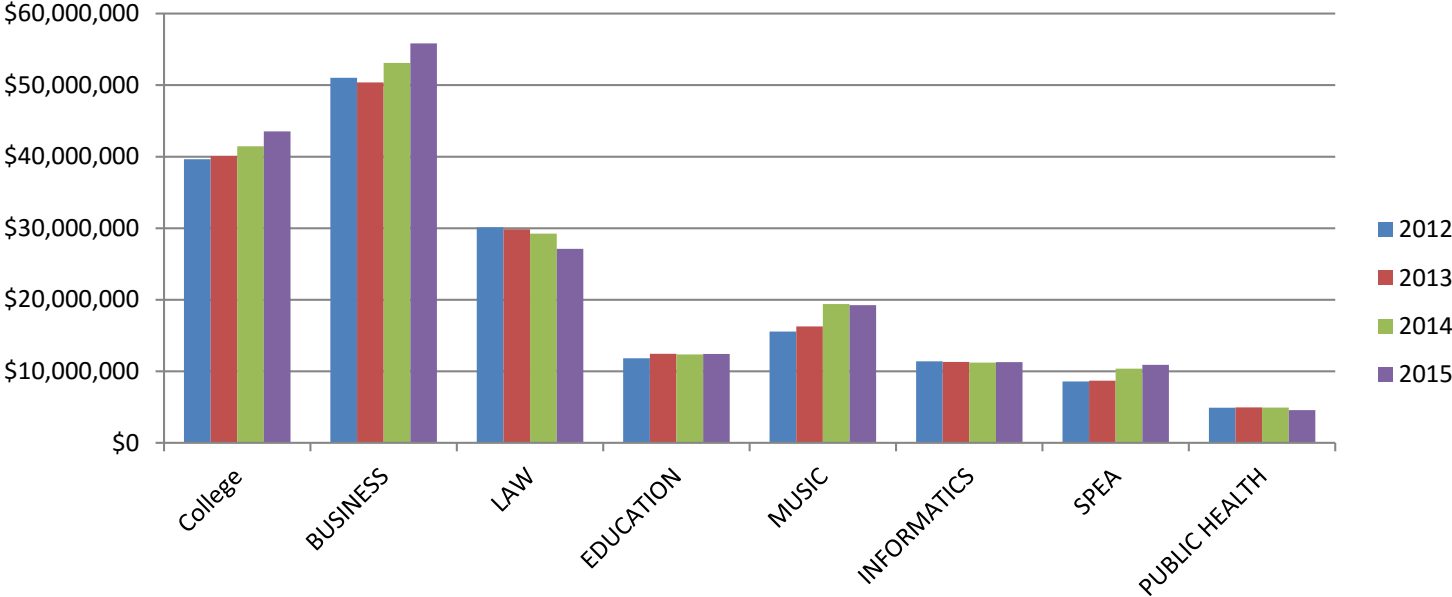


Total Expenses = \$1,597,697,623

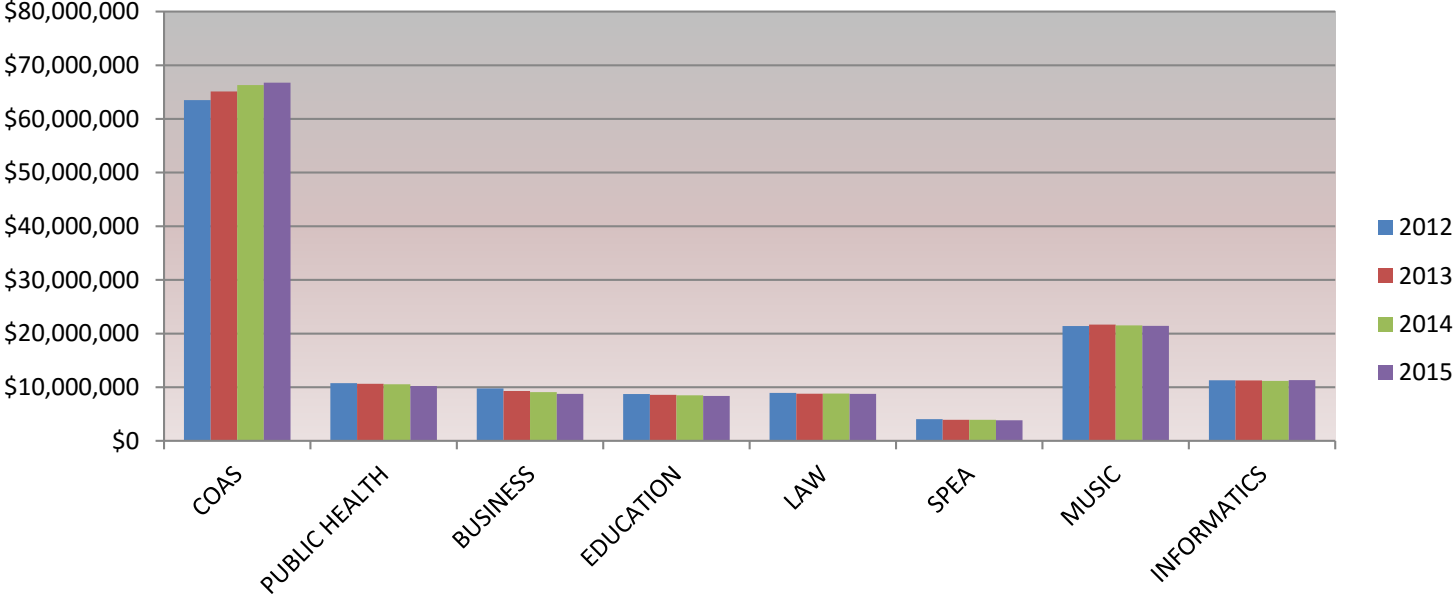
UG Revenue Over Years



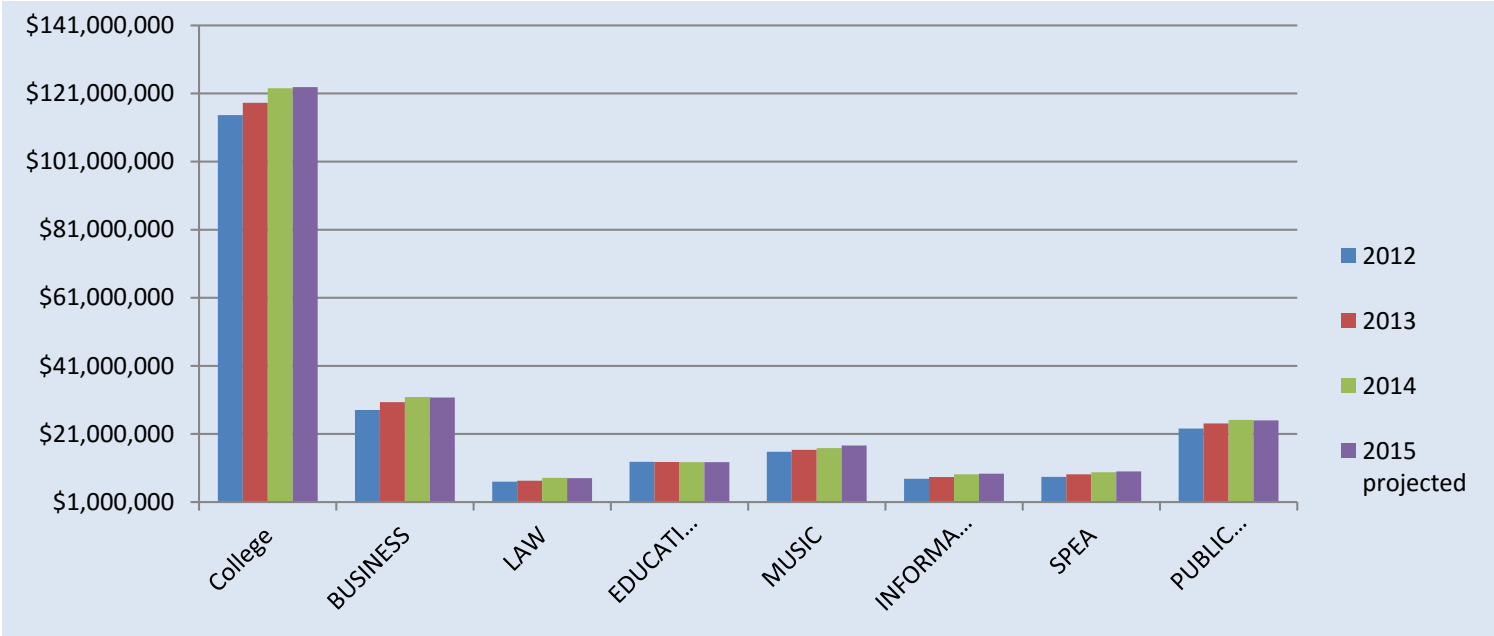
Graduate Revenue Over Years



State Appropriation Over Years



Assessment Over Years





IUB - Expected Outcomes from RCM

- Incentive for the campus to be innovative and contain costs.
- Academic priorities take precedence, not budget processes:
 - Investment in priorities - faculty, students, organization, academic and research excellence, and social responsibility.
- Transparency and predictability support nimble responsibility centers: proximity and proportionality.
- RCM lends stability: ability to recognize and reward performance, build community, and direction.

Discussion