BUDGET REVIEW COMMITTEE
December 5, 2006
Summary of Meeting

Members present:

Jeff Berghoff	Sally Kandel	Nancy Mitchell
Betsy Boze (via telephone)	Maureen Kennedy	Charlene Reed
Cheryl Casper	Mark Kretovics	Rick Rubin
Dave Creamer	Larry Marks	Wayne Schneider
Laura Davis	Tim Martin	Mary Stansbury
John Gosky	Jeff Milam	Denise Zelko

Meeting Summary

The meeting summary from 11/28/06 was distributed. Two changes were made to the summary at the request of Laura Davis and Tim Martin. Comments and suggestions are to be forwarded to Shelley Steinbrecher (rsteinbr@kent.edu). A general summary of each meeting will be available on the Business and Finance website.

Budget Model Presentations

A. Mission-Market Approach

Dave Creamer referred the committee back to the article about allocating resources to achieve mission distributed at the 11/28/06 meeting. He began the discussion by stressing the importance of a strategically sustainable economic model and having financially viable subparts of the university as one of the essential elements of a successful economic model. While not every academic program or other activity must be financially successful, the mix of successful and unsuccessful programs and activities must be sustainable.

The concept of a sustainable economic model is important for the committee to remember because whatever is recommended at the end of this review process must be sustainable over time. One of the committee members asked how to sustain quality faculty over time; buildings are easy to understand what is needed, but what about the human factor? Dave Creamer responded that there are many elements to sustaining a quality faculty but if the university is not economically successful, it will lack the financial where-with-all to adequately compensate its faculty. While financial resources are not the only element required to sustain a quality faculty, it is one of the more important pieces.

Allocating resources to achieve mission is not a distinct budget approach but a framework for resource allocation that could be used with almost any budget model. Under this approach, a resource allocation map is created to assist a university in prioritizing its resource allocation decisions. The map is developed using four dimensions to guide allocation decisions: mission/strategic plan, financial performance, internal competencies and market trends. Academic programs or other initiatives are placed in one of the 16 categories with each category suggesting different implications for the academic program.

This approach could be useful in helping universities to recognize the different contributions that academic programs make to a university, external influences, and how these factors should influence resource allocation decisions. While there are potential benefits to using this strategy, its complexity raises concerns about its applicability for a large university with many programs. This was validated during the discussion since Kent State had tried a similar approach several years ago but was unable to successfully categorize its programs in accordance with the mapping exercise.

There was considerable discussion during and following the presentation. Much of this focused on the difficulty in working with the matrix. There also were questions about non-financial criteria which the matrix requires but is more difficult to estimate the benefit for a program. There also was the view that there should be a role for AQIP in this approach.

There was a presentation and discussion of the University of Dayton mission/market approach to budgeting and resource allocation. Using an approach similar to that described in the article, each college was given a revenue goal at the University of Dayton. Certain colleges like education were given more aggressive targets. If the university and a college exceeded their goal, the excess revenues were shared in accordance with the success of the different colleges. Each college had an incentive to exceed the goal but had no real certainty about the potential benefits since the university had to be successful in total before any benefits were shared.

B. Budget Incentives

Material pertaining to an Incentive Based Budgeting (IBB) approach was distributed and there was discussion of the key points of IBB. The most widely recognized and purest IBB institution is Harvard University. At Harvard, each college operates as a financial center, generating revenue and managing expenses. The president and provost are responsible for institutional planning and measuring progress toward the mission of the university. The Central Administration also sets policies, provides support services, and manages university assets. Academic units at Harvard are taxed to provide funds for general operating expenses. While there is some effort to also collect funds for weaker colleges, there historically has not been a lot of support for redistributing funds between colleges.

There is a high level of independence for each academic unit, with deans and faculty having considerable influence over a college. The situations that deans and faculty address in this environment are wide-ranging, complex, and dynamic. The independence at times can impede cooperation among units and lead to financial inequities.

There was considerable discussion about the IBB approach. There was the recognition that there are a number of differences between Kent State and Harvard. There was a concern for how IBB would affect the interdisciplinary work at Kent State which is an institutional strength. There also were very positive comments about the opportunity of faculty and others to have a greater voice in the direction of a college given the IBB approach. There also were comments that this greater role would require a different type of organizational support and knowledge by a college's leadership.

Probably the best description of IBB is that it is RCM "on steroids."

C. Special Incentives Fund

Material pertaining to the more traditional incremental budgeting approach was distributed but with an adaptation for how new investments could be identified and prioritized. This approach would still build upon historic spending patterns but lead to greater changes in spending over time as circumstances warrant. Extra revenues under this approach would be viewed as a supplemental pool of funds that would be allocated through greater consultation and communication with the university community.

Advantages of incremental budgeting include promoting stability within the organization. There is a sense of fairness and the ability to argue for your program. This approach provides the central authority significant power and control over the organization's direction.

At Kent State, the University Priorities and Budget Advisory Committee (UPBAC) was developed based on the approach at Princeton University where a committee advises the president on priorities. UPBAC at Kent State has not successfully functioned that way but the potential exists for such a group to advise the president in this manner.

Disadvantages of incremental budgeting include the sources and uses of resources being disconnected which makes it difficult to assess the opportunity cost of the different choices available to the institution. Another disadvantage is that incremental budgeting tends to lead to low morale. Over time people within the university community always think decisions are made without consultation and wonder why the decision was made. People also are more likely to become disillusioned and think even the best decision making is disconnected because the criteria used for budget decision making are not well known or understood.

Again, there was a good bit of discussion that followed the presentation. While there was agreement that the university's current approach to incremental budgeting could be improved, it probably cannot be improved to the point where it would respond to all of the issues that need to be addressed, although this would be a much easier and safer approach to introducing changes to the budget process.

<u>White Paper</u>

Dave Creamer distributed a new draft of the White Paper Outline with refinements as suggested at the 11/28/06 meeting. He and Sally Kandel will begin working on Section II (Background).

Mary Stansbury, Laura Davis, Charlene Reed, and Rick Rubin agreed to work on Section III (Objectives and Expectations for New Budget Model). Cheryl Casper suggested that Section III.A. be changed to University Mission.

Dave Creamer, Sally Kandel, and Mark Kretovics will work on Section IV (Budget Model Alternatives – Including Strengths and Weaknesses).

It was agreed that Section V (Implementation Issues) needs to be shorter and broken into two sections; possibly General Issues, and FAQs with short answers. Rick Rubin agreed to put

together a draft of V.A. (How would RCM change the roles and responsibilities of Deans and Chairs?).
Dave Creamer, Sally Kandel, and Wayne Schneider will work on the FAQs. We do not have all the answers yet to the questions, but we need to have the questions listed and how we think the decision variables will be needed to be listed.

All draft sections are to be submitted to Shelley Steinbrecher (rsteinbr@kent.edu) prior to December 29, 2006. A draft of the complete document will be sent via email to all committee members on December 29, 2006. This draft will then be discussed at the January 3, 2007 meeting. We will begin at 12:00 noon on January 3 in the KSC conference suite. Lunch will be provided.