

Drake University Senate Budget Committee

DATE: April 30, 2014
TO: Drake University Faculty Senate
FROM: John Rozycki, Chairperson, Senate Budget Committee
SUBJECT: Report of the Senate Budget Committee

The opinions expressed in this report are those of the chairperson of the Senate Budget Committee (**SBC**). While it is not the collective work of the Senate Budget Committee per se, it is based on discussions the Committee had throughout the 2013-14 academic year.

Below is the charge of the Senate Budget Committee as specified by the Drake University Faculty Senate. In order to properly understand this report, it is necessary to read the charge carefully.

Charge of the Senate Budget Committee (SBC)

The Committee shall be a standing committee of the Faculty Senate. The Committee is charged with monitoring the University budget in order to insure that academic concerns are the central focus in Drake University's strategic planning and in the translation of those plans into the University's budget. The Committee shall advise the President and his/her Cabinet and advise the Senate on budget-related Senate actions. The Committee gathers information on the budget from the Office of Business and Finance and provides that information to the faculty as a whole through reporting to the Faculty Senate.

Issues related to the charge

The SBC concluded that the charge needs to be defined more specifically. Some parts of the charge need to be clarified. Below, I briefly discuss each component of the charge and the issues that we raised.

The Committee is charged with monitoring the University budget in order to insure that academic concerns are the central focus in Drake University's strategic planning and in the translation of those plans into the University's budget.

What specific items should the SBC monitor in the University's budget? How should the SBC accomplish the monitoring? What data should be provided? When? In what form? By whom?

The Committee shall advise the President and his/her Cabinet.

Did the Faculty Senate SBC intend a specific process for advising the President and his/her Cabinet? As it is, there is no specific time or opportunity for providing any advice. If advising the President is important, it should not be ad hoc.

[The Committee shall] advise the Senate on budget-related Senate actions.

Is there a specific process intended or needed, other than an end-of-year report from the chairperson of the SBC?

The Committee gathers information on the budget from the Office of Business and Finance and provides that information to the faculty as a whole through reporting to the Faculty Senate.

The charge discusses the gathering of information related to the budget. It appears to be open ended. Does it refer to the most recent (last year's) budget? Or does it refer to the budget for the coming fiscal year? An analysis of the data is implicit. Is there specific data to be gathered and analyzed? Should the SBC be collecting, examining, and evaluating historical data?

Discussion of budget projections

In the fall 2013 semester, the SBC discussed some rudimentary budget projections. *If nothing is changed, and if the projections are correct, financial challenges lie ahead.* The Committee did not receive or discuss an explanation of the assumptions (including historical trends) underlying the forecasts. Such discussions would have been beneficial in helping the SBC better understand the forecasts.

The SBC thought that it can and should play an important role in helping to motivate and develop a long-term budget as well as in communicating the budget's importance to the faculty and broader campus community.

Three budget committees in need of coordination

We now have at least three committees charged with budgetary matters: the Senate Budget Committee (**SBC**), the Budget Advisory Committee (**BAC**), and the Strategic Budget Working Group (**SBWG**). The SBC's charge is discussed earlier.

The BAC was first formed in the fall 2012 semester. It is charged with determining *broad guidelines and priorities* for determining the University's budget. It is expected to continue meeting every fall. In the two years since its formation, its main task has been to recommend the overall percentage increase for faculty and staff salaries. In the past, the BAC has included several members of the SBC.

The SBWG was formed in December 2013 as an advisory group to the Vice-President of Finance. It was charged with advising the Vice-President of Finance and the President's Cabinet on the development of *long-term* budget assumptions related to revenue and expenses. These assumptions will be used to create a five-year strategic *cash budget*.

A five-year cash budget is a major step forward for the University. If developed and used effectively, it should be a valuable tool in ensuring the University's financial health. Approaches using accrual accounting are subpar.

The SBWG consists of members drawn from the President's Cabinet, academic deans, the SBC and the BAC. In addition, the SBWG is to be aided by recommendations prepared by an independent consultant as part of an administrative review. When initially established, it was expected to regularly communicate and solicit the input and guidance of the campus community, and deliver draft recommendations by March 18, 2014. According to the SBC members who are also members of SBWG, the SBWG's task has not been completed. At this point, it appears that the consultant's report will not be available until mid-May, and it is not known if the SBWG will be reconvened to complete its work.

One may question why the University needs three finance-related committees. This is a valid question. Furthermore, it is not apparent how the BAC and the SBWG help the SBC to fulfill its charge as there is no feedback loop enabling the SBC to evaluate the recommendations of the BAC or SBWG. (There is also no feedback loop enabling the BAC and SBWG to obtain feedback from the SBC.) While some SBC members are common to the other two committees, there is no direct and concurrent coordination among the three committees. For the SBC to be effective, it needs to be fully involved with the BAC and SBC *ex ante*, *not ex post*. It makes little sense for the SBC to comment on a five-year strategic budget that has already been accepted. As currently established, and *in my opinion*, these three committees are too disjointed to be an effective force for planning, direction, and decision making. It is incumbent on the University to make the necessary changes to allow these committees to serve the University more efficiently and effectively.

Given that the BAC was formed in 2012, the SBC briefly discussed the issue of redundancy. It concluded that the SBC has an important and unique role, namely to ensure that the University's budget adequately serves the needs of the *academic unit*.

The future role of the SBC

The assumptions and forecasts that are developed by the SBWG need to be discussed and debated to ensure realism and acceptability. The SBC should play an important role in this process, especially in light of its charge. In addition, SBC should aid in the motivation and development of a long-term budget. Previous SBC discussions have highlighted the following:

- Opportunity costs need to accompany each recommendation for major changes, including new programs.
- Given the SBC's understanding of the current expectations, significant resource reallocations need to be specified and made quickly.
- Forecasted variables (e.g., enrollment figures, retention percentages, etc.) should have pessimistic, expected, and optimistic values. A Monte Carlo simulation might be useful. Each of these values needs to be related to the outcomes (e.g., net cash flow) associated with those values. This will allow better and more thoughtful decision making *ex ante* and quicker and more effective changes *ex post*.

- Investment in the development of new ventures needs to be specified with clearly defined time lines and accompanying objectives.
- Given limited resources, all proposals need to be prioritized. An emphasis should be placed on the changes that are needed to ensure financial viability commensurate with distinctiveness.
- A timeline and responsibility for implementation of the specific components of the five-year cash budget needs to be specified.
- All capital expenditures and the like need to be evaluated in light of a five-year cash budget.
- The five-year cash budget needs to be evaluated and revised annually.

Future areas of focus

The SBC agreed that there are three areas where we—the University—need to focus our collective efforts: increasing enrollment, controlling (reducing) operating expenses, and enhancing the endowment.

As part of the strategic budgeting process, we need to set realistic goals for enrollment. It is the SBC's perception that the graduate and undergraduate recruitment/enrollment strategies currently reflect a bifurcated approach. These recruitment and retention strategies need to be integrated.

Retention is related to enrollment. The broader faculty could have a direct and positive effect on retention. Perhaps we need a better way to determine or predict future success and satisfaction other than standardized scores. In addition, a closer or better student-faculty relationship can help identify students who are likely to transfer. It might also help students feel more connected to Drake. A plan for getting students and faculty to work together more closely could help.

Data needed for analysis

In order for the SBC to be an effective monitoring and planning body, it needs to have consistent and timely data, in a usable form (MS Excel worksheet), provided at the beginning of the academic year.¹ To properly evaluate trends, I recommend that the SBC be provided with ten years of historical data (five years minimum) in the form of a detailed income statement, balance sheet. This should not entail much additional work as the data should be already

¹ Having the data at the beginning of the academic year should allow the SBC to promptly get to its work and avoid the distraction and pursuit of less relevant "hot button" issues.

available for input into the University's annual reports.² When available, the SBC should be provided with a copy of the operating budget for the next fiscal year.

Finally, I think it would be valuable for the Committee to be able to track the University's endowment (inflows, outflows, and current market value). I see no need for additional details as the Business, Finance, and Investments subcommittee of the Board of Trustees already manages the endowment.

Our University faces challenges, but finding intelligent, motivated, and interested faculty members is not one of them. The Senate Budget Committee enthusiastically looks forward to serving the University as it meets the financial challenges that lay ahead. If you have any questions, please contact me.

Respectfully,

John Rozycki, Ph.D., CFA
Chairperson, Senate Budget Committee

² It is possible that future committees might want to determine their own unique information needs. While this might entail a line item budget—which the SBC once received—the SBC is in no way interested in micromanaging the budget.