Budgeting

Jerry Farley
Washburn University
Budget - Definition

- A plan or schedule adjusting expense during a certain period to the estimated or fixed income for that period.

- An itemized, authorized, and systematic plan of operation, expressed in dollars, for a given period.
What Is A budget?

- Statement of Expected Need for Resources
- Plan for Using Resources
- Allocation of Resources
  - To Different Categories of Expenditures
  - To different Organizational Units
  - To Different Purposes or Needs
- Statement of Priorities
What Do We Budget?

- All Limited Resources
  - Fiscal Resources
  - Purchasable Resources
  - Programmable Resources
Why Do We Budget?

- Resources are Limited
- Needs and Wants Are Unlimited
- Identification of Needs
- Choose Among Need
- Communicates Plan
- Equates Plan in Financial Terms
- Permits Review and Re-evaluation of Program
- Control Device
Elements of a Budget

- Written
- Dollars
- Plan
- Time Frame
- Measuring Stick
Information Needed for a Budget

- What is to be accomplished programmatically?
- Why is it needed?
- How can it be done?
- What are the resources needed to do it?
- What will it cost?
- Is it worth it?
Budgeting Participants

- President
- Executive Officers
- Institutional Research
- Chief Budget Officer
- Governing Board
- Faculty Budget Council
- Students
Budget Process

- Internal Review
- Estimate Revenue
- “Needs” Budget
- Alternatives
- Guidelines
- Salary Determination
- Redistributions/Reductions
- Implementation
OPERATIONALIZE
THE BUDGET

Revenue
--Identify major revenue source
--Sensitivity/Volatility
  **Tuition -- Credit Hours/Refunds
  **State Funds – Formulas/%Increase
  **Endowment – Spending Rate
  **Internal Sources
  **Auxiliary Enterprises
- Broad Expenditure Categories
  - Educational & General
  - Auxiliaries
- Budget Based On:
  - Strategic Plan
  - Priorities
Salary Program

- Comparison Groups
- Faculty/Staff Differential
- Market Differential
- Merit vs Across the Board
- Vacant Positions
- Annualize Partial Year Funding
Other Expenditures

- Employee Benefits
  - Allocate to Departments
  - Centralize

- Utilities
RESERVES

- Year End Carryforwards
- Size of Reserves
- Reserves vs/ Fund Balance
REALLOCATION REDUCTIONS
NEW FINANCIAL REALITY

How Do We Define?

Less Funding

Competition

Perceived Value of Our Product
Can We/Should We Do Things Fundamentally Differently?

Presumption: Do Things Differently To Reduce Cost

Important To Understand Cost Drivers
Continue To Become More Efficient Administratively

Cost Driven By Faculty In Front of Students
(or not in front of students)
What Is Competition Doing?
For Profit Entities

Productivity
Work Load
Salaries
What Do We Teach?

Mission (many statements look similar)
What Disciplines/Departments
  Do We Need All The Disciplines

Combine/Eliminate Departments

Eliminate Direct Cost
Presumes Students Will Take Same
  Number of Credit Hours
Thus Same Revenue/Less Cost
Relationship Between Elements of Revenue

State Funding

Tuition

Direct Costs/Direct Revenues

Cross-Subsidy
Program Combinations/Eliminations

Financial Exigency

Process - Participatory/Collaborative

Broad Based Committees

Metrics

Evaluate Possible Outcomes

Is Cost Savings Worth The Pain

Time To Complete – Including Finishing Students In Program

Tenure

Severance Cost - Time Deadlines
CHANGE BUSINESS MODEL

- Understand Cost Drivers
- Be Willing To Make Bold Changes
Improve Efficiency/Prioritize

- Graduate Programs
  - Increase Class Size
  - Eliminate Low Enrollment Classes
    Not Required To Master Discipline
  - Redirect Faculty
RESEARCH

Research
- Support Economic Development
- Externally Funded - Applied/Basic
- Other – To Advance Knowledge In Discipline

Work Load/Productivity
- Released Time
  - Administrative Task/Titled Positions/Dep’t Chair
- Increase Teaching Load

Accreditation Limitations Of Teaching Loads
• **Research**
  - Externally Funded
  - Capture Indirect Cost To Offset Real Operating Cost
  - Do Not “Share” With Dep’ts
  - Otherwise Cost Covered By Tuition/State
- Research
  - Internally Funded
  - Dep’t Research (Released Time)
  - Tuition or State Paying
  - Must Be Part of Mission
  - How Long Will Students/State Pay
Traditional Academic Workload

- Teaching/Research/Service
- Is Each Faculty A “Triple Threat”? 
- Redefine Effort To Gain Efficiencies
  - Content Developers/Delivery Methods Designers/Teachers
Change Pricing Model

- Eliminate Cross Subsidies
- Compute Cost By Degree/Discipline
- Differential Tuition
- Cost Drive Price
- Does Price Derive Value/Earning For Graduates
Change Time To Degree

- Three Year Programs
- High School Direct To Professional Degree
What Should Degree Cost?
Has Anyone Evolved “Right” Model?
Howard Bowen (1980)

– Revenue Theory Of Expenditures
– Get All We Can/Spend All We Get
– Does More Spending Result In Better Outcomes?
BUDGET REDUCTIONS

Immediate Actions

FREEZE - Hiring/Travel/Equipment Purchases

Across-the-Board vs/ Differential Percent or Fixed Dollar Amount

Delegate to VPs/Deans/Directors to Manage Within Final Budget Target

Reduced Maintenance Adds to Deferred Maintenance

Assess Energy Saving Initiatives
PERSONNEL COST REDUCTIONS

Retirement/Layoff/Salary Reduction/Furlough/Benefits

Retirements
  Phased Retirement
  Early Retirement Incentive

Layoffs
  Staff vs/ Faculty
  Performance vs/ Seniority (Bargaining Units)
PERSONNEL COST REDUCTIONS

Salary Reductions

Temporary vs Permanent
Decremental Across-the-Board vs Merit
Protect Lowest Paid

Furloughs

Temporary By Definition -- Pushes Cuts Forward
How Flexible -- Close School/Employee Option
Contracts -- 9/10 vs 12 Month Contracts
Protect Lowest Paid
PERSONNEL COST REDUCTIONS

Retirement Benefits

Temporary vs/ Permanent

Potential Contract and Legal Issues

Reduce Contributions

No Current Out-of-Pocket Reductions

Voluntary Contribution Options
REVENUE ENHANCEMENTS

Enrollment Increases
- Incremental Revenue
- Added Incremental Cost
- Marketing/Recruiting Cost
- Capacity Issues

Retention
REVENUE ENHANCEMENTS

Tuition
- Guarantee/Fix For Period
- Differential
  - Cost Or Market Based
  - Earmarking

Fees
- Cost Based
- Earmarked

Discounting

Adjust Financial Aid
REVENUE ENHANCEMENT

Private Support
  Current Operations
  Endowment
    Growth
    Returns
REVENUE ENHANCEMENTS

Outsourcing

Reduce Cost for Educational Operations

Revenue From Auxiliary Operations

Culture Changes
COMMUNICATIONS

Campus – Wide Meetings
Solicit All Savings Ideas – Big or Small
Explain Difference Between Capital vs/Operating Budgets
Expand/Create Committees
  Board
  Faculty/Staff/Students/Deans
Engage Outside Consultants
Budgeting Techniques

- Formula
- Zero Based
- Program
- Incremental
- Performance
- Peer
- Quota
- Open-ended
- Alternative Level
Budget Techniques Continuum

Control

Line Item

Zero Based

Planning
BUDGET MODELS

- Determination of Amount of Funding
  - Formula

- Distribution of Amount Funded
  - Performance

- Most Models Are Distribution
Formula Budgeting

- Needs/Requirements Determined By Mathematical Formula
Basis of Formula

- Rate Per Base Factor Unit
- Credit Hours x Dollar Rate
- Base Factor Ratios x Salary Rate
- Percentage of Base Factor
Formulas Often Based on Instruction

- Full-Time-Equivalent Enrollment
- Student-Faculty Ratio
- Average Faculty Salary
- Percentages of Instruction Base For Other Activities
Building Maintenance Formula

- Maintenance Cost Factor x Current Building Replacement Cost
Formula - Advantage

- Easy to Understand
- Objective
- Apparent Equity
- Minimizes Conflict
- Facilitates Analysis/Comparisons
- Reduces Uncertainty
- Simplifies Projections/Planning
Formula - Disadvantages

- Often Enrollment Driven
- Does Not Recognize Different Missions
- Insensitivity To Program Differences
- Historic Cost Base Curbs Creativity/New Programs
- Fosters Homogeneity/Mediocrity
- Negative Effect In Declining Enrollments
- Actual Funding Differs From Formula Funding
Performance Budgeting/Funding

Fundamental Shift in Financing Model
From: State Inputs To: Campus Outcomes
From: Institutional Needs To: State Priorities

- Relates Input Incentives to Results
- Resources Dependency Theory
  - Organizations Will Adapt Based on Resource Availability
  - Institutions Respond to Incentive/Disincentive
COMPONENTS

Goals --- Institutional/State Priorities
  – Increase Graduates/Improve Outcomes for Pell Eligible

Measurements --- Outcomes
  – Graduation Rates/STEM-Nursing

Incentives --- Financial/Regulatory
  – Increase Resources/Campus Autonomy
Delivery Models

Output Based Funding
– Payment for Results

Performance Contracts
– Negotiated Agreements for Results
  » Kansas Benchmarks/ Goals

Performance Contracts
– Separate Funding for Performance
  » Bonus – Early Model
  » Portion or ALL of Base Funding
Common Components/Characteristics

- Functional and Activities Classifications
- Performance Measurements
- Performance Reports
- Multi-year Contract
- Small Part of Budget Is Performance Based
- Intra Not Inter Institutional Comparisons
Problems

- Task Rather Than People Oriented
- Quantitative Rather Than Qualitative Measures
- Rewards For Little Things
- Leads to Rewards/Punishments
- Who Defines/Who Qualified to Measure Excellence
More Problems

- Potential Grade Inflation
- Lower Academic Standards
- Restriction on Admissions
- Inappropriate Measures
- Institutional Resistance
- No Evidence of Increased Funding
Benefits

• Awareness of Performance on Metrics
• Expanded Programs to Improve Outcomes
• Reduces Budget Detail
• Objective Measurements
• Use Post Audits
• Control Variances
Current Situation

- 31 States Have Some Form of Performance Funding
DETERMINATION VS DISTRIBUTION
Formula Approach to Budgeting

**Enrollment Projection:**

<table>
<thead>
<tr>
<th></th>
<th>Summer</th>
<th>Fall</th>
<th>Spring</th>
<th>Total Semester Credit Hours</th>
<th>Full-Time Equivalent Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Division</td>
<td>6,200</td>
<td>119,550</td>
<td>108,800</td>
<td>234,550 /30</td>
<td>= 7,818</td>
</tr>
<tr>
<td>Upper Division</td>
<td>16,300</td>
<td>113,250</td>
<td>103,650</td>
<td>233,200 /30</td>
<td>= 7,773</td>
</tr>
<tr>
<td>Graduate</td>
<td>15,100</td>
<td>24,600</td>
<td>24,350</td>
<td>64,050 /24</td>
<td>= 2,669</td>
</tr>
<tr>
<td><strong>All Levels</strong></td>
<td>18,260</td>
<td></td>
<td></td>
<td><strong>234,550</strong> /30</td>
<td>= 18,260</td>
</tr>
</tbody>
</table>

Projected Full-Year, Full-Time-Equivalent Enrollment = 18,260

**Full Time Teaching Faculty Needs:**

<table>
<thead>
<tr>
<th>Enrollment</th>
<th>Student-Faculty Ratio</th>
<th>Full-Time Equivalent Teaching Positions</th>
<th>Recommended Annual Salary</th>
<th>Total Teaching Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Division</td>
<td>7,818 /28</td>
<td>= 279.2</td>
<td>X $75,000</td>
<td>$75,112,500</td>
</tr>
<tr>
<td>Upper Division</td>
<td>7,773 /20</td>
<td>= 388.7</td>
<td>X $75,000</td>
<td></td>
</tr>
<tr>
<td>Graduate</td>
<td>2,669 /8</td>
<td>= 333.6</td>
<td>X $75,000</td>
<td></td>
</tr>
<tr>
<td><strong>All Levels</strong></td>
<td>18,260 /18.2</td>
<td>= 1,001.5</td>
<td>X $75,000</td>
<td>$75,112,500</td>
</tr>
</tbody>
</table>

**Financial Needs:**

| Total Teaching Salaries + 4,891,325 | = $99,899,625 |
| Budget Base                         |

Instruction 99,899,625 Budget Base
Institutional Support 10,988,958 11% of Base
Research 7,991,970 8% of Base
Extension & Public Service 7,991,970 8% of Base
Academic Support 8,990,966 9% of Base
Operation & Maintenance of Physical Plant 13,985,947 14% of Base
Total Educational & General Budget 149,849,943

**Estimated Income:**

| Total Income | $149,849,943 | 100.0% |

Tuition & Other Incomes 104,894,961 70.0%
State-Appropriated Funds 44,954,982 30.0%
<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>of state funding based on Resident FTE enrollment. This would tie funds directly to supporting students using a 3-year rolling average.</td>
</tr>
<tr>
<td>15%</td>
<td>for Progress and Attainment. - 5% to be awarded based on achieving Student Credit Hour thresholds of 24-48-72. - 10% based on Degree Production. Measurement would be recent year completed.</td>
</tr>
<tr>
<td>10%</td>
<td>for Access. Regent universities should have a diverse student body as measured by low-income students, minorities, Iowa community college transfers, and veterans. Measurement would be over a 3-year rolling average.</td>
</tr>
<tr>
<td>5%</td>
<td>for Sponsored Research. 5% to be awarded based on sponsored research for the most current year recognizing the boon to economic development that the public universities provide.</td>
</tr>
<tr>
<td>5%</td>
<td>Weighted for Graduate and Professional Students. 5% for a proportional weighting of all graduate and professional students based on FTE enrollment.</td>
</tr>
<tr>
<td>5%</td>
<td>Based on Regent Selected Metrics. 5% for customized metrics to be distributed by the Board of Regents.</td>
</tr>
<tr>
<td>Other</td>
<td>- Transition to new funding model over period of 3 years - Cap any reallocation at 2% of the institution’s 2013 general education revenues per year.</td>
</tr>
</tbody>
</table>
Zero Based Budgeting

- Planning and Budgeting Process
- Requiring Entire Budget Request Be Justified From Scratch
Objectives of ZBB

- Achieve Institutional Objectives
- Better/Useful Information
- Link Budgeting and Planning
- Involve Program Managers
- Re-allocated Based on Priorities
- Reduce Budgets Rationally
Steps in ZBB

- Clarify Goals
- Review Planning Assumptions
- Develop Decision Packages
- Compile Service Levels
- Systematic/Simultaneous Evaluation
- Rank Decision Packages
- Budget Packages/Service Levels
- Evaluate Performance
ZBB Benefits

- Systematic Review of Mission/Programs
- Evaluate New/Old Programs
- Increases Understanding
- Involves Responsible Managers
- Forces Focus on Mission
- Politically Sound
Weaknesses of ZBB

- Complex
- Tremendous Workload
- Evaluation Measures Subjective
- Reallocations A Problem
- Evaluation of Academic Output Difficult
Program Budget

- Focus on Programs Rather Than Objects
- Combines Planning and Budgeting
Major Components

- Planning - Process To Establish Long Range Purposes/Objectives
- Programming - Process To Specify Short Range Goals for Units
- Budgeting - Formulation of Annual Plan for Programmed Units
Positive Characteristics

- Focus on Goals/Objectives
- Long and Short Range Orientation
- Broader Based Involvement
- Program Justification
- Systematic Analysis
- Increases Public Awareness Understanding
Negative Characteristics

- Problems of Definition
- Complexity - Difficult To Convert/Relate to Actual
- Time Consuming/High Cost
- Difficult to Quantify All Data
- Risky But Innovative Programs Often Passed Over
Incremental Budgeting

- Assumes Ongoing Base
  - Individual Components Increased By Percentage Amounts
  - Increase Added to Budget Base
Criticisms

- Non Rational
- Lacks Imagination
- Non Intellectual
- No Aspect of Planning
- Not Suited for Rapid Change
- Depends on Bargaining
- No Justification of Existing Programs
Strengths

- Easy to Construct/Operate
- Simple to Understand
- Politically Acceptable
- Widely Used Because It Works Best
- Brings Stability
- Fits Needs of Higher Education
- Minimizes Conflict
RESPONSIBILITY CENTER BUDGETING

- Decentralized Model
  - Couple Academic Authority With Financial Responsibility
  - Ownership of Revenue Coupled With Paying Both Direct and Indirect Costs
  - Maintain Adequate Unit Reserves

- Retain Some Centralized discretion For University-Wide Strategic Plan And Other Disparities
REWPONSIBILITY CENTER BUDGETING

- Establish Financial Parameters And Evaluate Financial Health
- Determine Revenue and Indirect Cost
- Allocation Methodologies
  - Credit Hours Taught
  - Space Occupied
  - Full-Time Equivalent Employees
RESPONSIBILITY CENTER BUDGETING

- Incentives/Rewards/Sanctions
- Accountability
- Build Financial Reporting Necessary To Support
RESPONSIBILITY CENTER BUDGETING

- **Strengths**
  - Encourages Entrepreneurial Decisions
  - Couples Academic/financial Decisions
  - Rewards Positive Change Immediately
  - Decisions Made Closer To Faculty
  - Increases Financial Transparency
RESPONSIBILITY CENTER BUDGETING

- Weaknesses
  - Financial Decisions Nearer To College Politics
  - Adds Complexity To Dean/Chair Roles
  - Adds Financial Staff To College/Departments
  - Invites Preoccupation With Allocation Rules
Peer Budgeting

- Process of Decisions Making Through Inter Institutional Comparisons
Objectives

- Establish Relative Benchmarks To Support Need For Resources
- Provide Comparative Data
- Data to Support Internal Allocations/Reallocations
- Augment Program Reviews
- Help Explain Decisions
Issues

- Lack of Agreement About Peers
- Peer Selection Methodology
- Incomparability/Unavailability of Data
Comparison Groups

- Types of Groups
  - Jurisdictional
  - Competitive
  - Aspirational
  - Peer
Peer Group Development

- Principles
  - Basic Role/Scope
  - Objective
  - Politics

- Methodological
  - Statistical
  - Hybrid
  - Threshold
  - Panel Review
Comparative Analysis

- Basic Activities
- Curricular Structure
- Clientele
- Salaries
- Workloads/Productivity
- Outcomes/Quality
- Tuition Rates
- Revenue Sources
- Unit Expenditures
- Expenditures by Function
- Rank/Tenure
- Administrative Structure
- Governance Structure
Quota Budgeting

- Budget must be developed within a given control figure
Quota Budgeting

- Known Budget Limit
- Eliminates Unrealistic Budget Requests
- Minimum Paperwork
- Typically Based on Old Budget Base
- Usually Budget is Line Item not Program
Open-Ended Budget

- All needs can be requested
- The Sky is the Limit
Open-ended Budget

- Feeling of Freedom
- Much Negotiation
- No Priorities Set by Departments
- High Expectations
- Better With Expanding Resources
Alternative Level Budget

- Requires budget at several levels - usually two or three
Alternative Level Budget

- Good Method of Program Evaluation
- Operations People Make First Cut
- Offers Alternatives
- Good When Revenues Uncertain
- Analysis at Likely Level
- Much Work
- Usually Arbitrary Levels
- Much Uncertainty
Line Item Budget

- Easy to Understand and Prepare
- Good for Fiscal Control
- Assumes Continuation of Programs
- Poor Connotation
- No Justification of Old Program
- Politically Oriented
- Difficulty to Adjust When Resources are Static or Declining
What Budget Technique

- Private or Public
- Increasing, Declining, or Static
- Amount of Democratic Involvement
- Flexibility in Process
- Timetable
- Legislative Requirement
What’s Wrong with Most Budget Processes

- Emphasis on New Programs
- Incremental
- Hurriedly Prepared
- Lack of Participation
- Non-Comprehensive
- No Long Range Plan
What’s Wrong with Most Budget Processes (continued)

- Responsibilities Unclear
- Lack of Communication
- Reductions Not Reviewed
- Little Flexibility
- No Periodic Review