Brad West, MPFM

University of South Carolina
Associate Vice Provost for Academic Operations and Budget

Budgeting: Large Schools

Agenda

- Introductions
- Operating and capital budgets
- Accounting for budgeting and financial reporting
- Fund accounting
- Budgetary best practices and budget models
- USC operating budget
- Budget communications

University of South Carolina

- Flagship, public, R-1 university founded in 1801
- 16 degree-granting colleges
- 3 - four-year degree-granting comprehensive institutions
- 4 - two-year campuses
- 350+ degree programs
- 58,906 fall 2025 student headcount
- 6,866 employees in FY2025-26
- FY2025-26 operating budget of $2.3 billion

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Audience Survey

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What is your role at your institution?

Do not edit
How to change the design

What is the type of institution you come from?

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What is the enrollment size (rough headcount) of your institution?

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- Introductions
- **Operating and capital budgets**
- Accounting for budgeting and financial reporting
- Fund accounting
- Budgetary best practices and budget models
- South Carolina operating budget
- Budget communications

Operating Budget

- A budget is a financial plan that estimates income and expenses over a set period of time – usually a 12-month period for an operating budget

- SACSCOC requires "an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board."

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Capital Budget

- Plan for spending large sums of money for investment in equipment, building, or infrastructure, and over a much longer period of time than an annual operating budget

- Project fund sources:
  - Cash (e.g. fund balances, private funds)
  - State or federal appropriations
  - University debt
  - Public Private Partnerships(P3)

- Requires extensive approvals
  - Governing board
  - Legislative authorization

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Presenting to Campus

- Budget = plan to spend
- Finance Directors = best friend
- Recurring = ongoing
- Nonrecurring = one-time
- Provisos/KRS/(State specific terms) = temporary instructions from the state
- Cost-Savings or Reduction Plans = budget cut

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Prep / Hearings / Buy-In

- Communications plans
- Status updates – USC “Blueprint” process
- Accomplishments and goals
- Key Performance Indicators (KPIs)
- Senior leadership meetings / opportunities for requests

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BUDGETING: LARGE SCHOOLS

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- Introductions
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- **Accounting for budgeting and financial reporting**
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Accounting for Budgeting and Financial Reporting

- Financial Reporting – What has happened
  - Highly regulated – states financial position at a given time
  - Historical
  - Auditable
  - Generally Accepted Accounting Principles (GAAP)

- Budgeting – What do we want to happen
  - Decision-based – dependent on the financial model implemented
  - Future-leaning
  - Board planned
  - Budgetary basis of accounting

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Reporting versus Budgeting

Accounting/Financial Reporting

- GAAP
- Governmental Accounting Standards Board (GASB)
- Financial Accounting Standards Board (FASB)
- NACUBO
- Auditors
- Government Finance Officers Association
- Historical
- Posted at a granular level

Budgeting

- Driven by the strategic plan
- Board approved prior to activity
- State allocations/request processes
- Accreditors
- NACUBO
- Government Finance Officers Association
- National Advisory Council on State and Local Budgeting
- Generally booked in large buckets

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Financial Terms

- Fiscal Year (FY)
- Accounts – General Ledger
- Assets
- Liabilities
- Net Position
- Fund Balance
- Recurring
- Non-Recurring
- Reserves

- ERP/Institution Specific Terms:
  - Funds Center or Cost Center
  - Chartstring
  - Commitment item
  - Project
  - WBS
- Current, Non-Current & Agency Funds

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Fund Accounting

- Fund: a self-balancing set of accounts including assets, liabilities, fund balance, revenues, and expenses
  - Income Statement:

    Revenues minus expenses = change in net position or margin
  - Balance Sheet:

    Assets minus liabilities = net position or fund balance
- Fund Types:
  - Current Funds – Frequent income and expense activity
  - Non-Current Funds – Capital projects, endowments, and special funds
  - Agency Funds – External to the entity – e.g., Student Organizations

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Fund Types

- Current Funds:
  - Unrestricted – State Appropriation and Tuition
  - Restricted – Gifts, Grants, and Contracts
  - Auxiliary – Fees for service (Athletics, Housing, Dining, etc.)
- Non-Current Funds:
  - Project or Plant – Capital Projects and Equipment
  - Endowment – Investment Funds
  - Loan – Student Loan or Internal Loan Funds
- Agency Funds:
  - External Entities – Student Organization Funds

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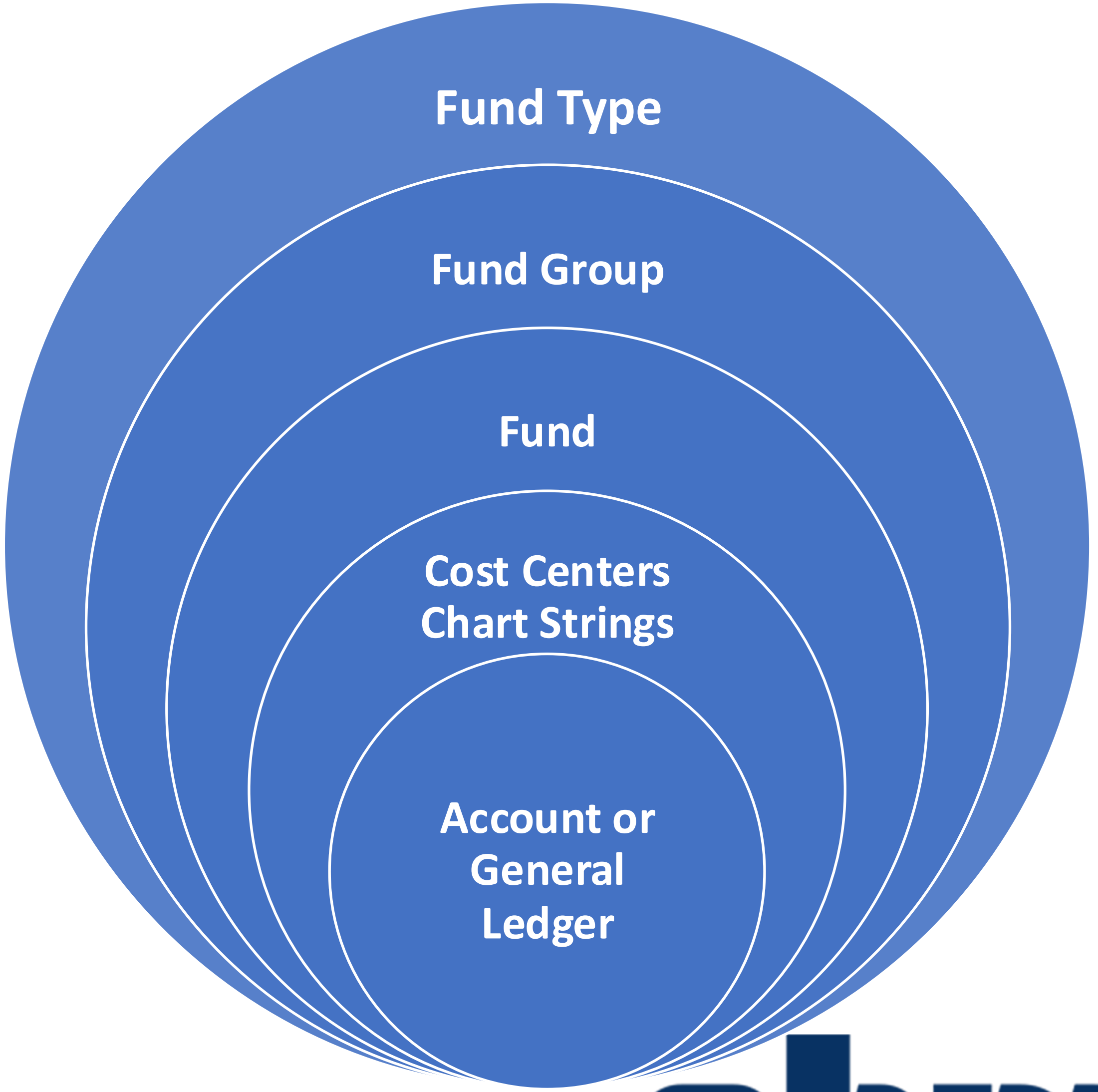
Fund Budgeting

- Budgets are typically limited to current funds only
  - Some institutions may use an "all-funds" budget model - healthcare
- Transfers in and out of non-current funds are budgeted in a given fiscal year – through investment strategies, capital planning activities, board action, etc.



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Expense Classifications

Natural Object: Nature of Expense

- Salaries and wages
- Employee Benefits
- Supplies and Services
- Depreciation and Amortization
- Student Scholarships and Financial Aid
- Utilities
- Other

Function: Purpose of Expense

- Educational and General
  - Instruction
  - Research
  - Public Services
  - Academic Support
  - Student Services
  - Etc.
- Hospitals and Clinics
- Auxiliary Enterprises
- Other

Group Activity

Think about the method your institution uses to develop a budget, and discuss it with each member of your group. Think about:

- How long does the process take?
- What are the key decision points along the way?
- What are the ways you believe could improve the process?
- Do you believe another model would be more productive?

BUDGETING: LARGE SCHOOLS

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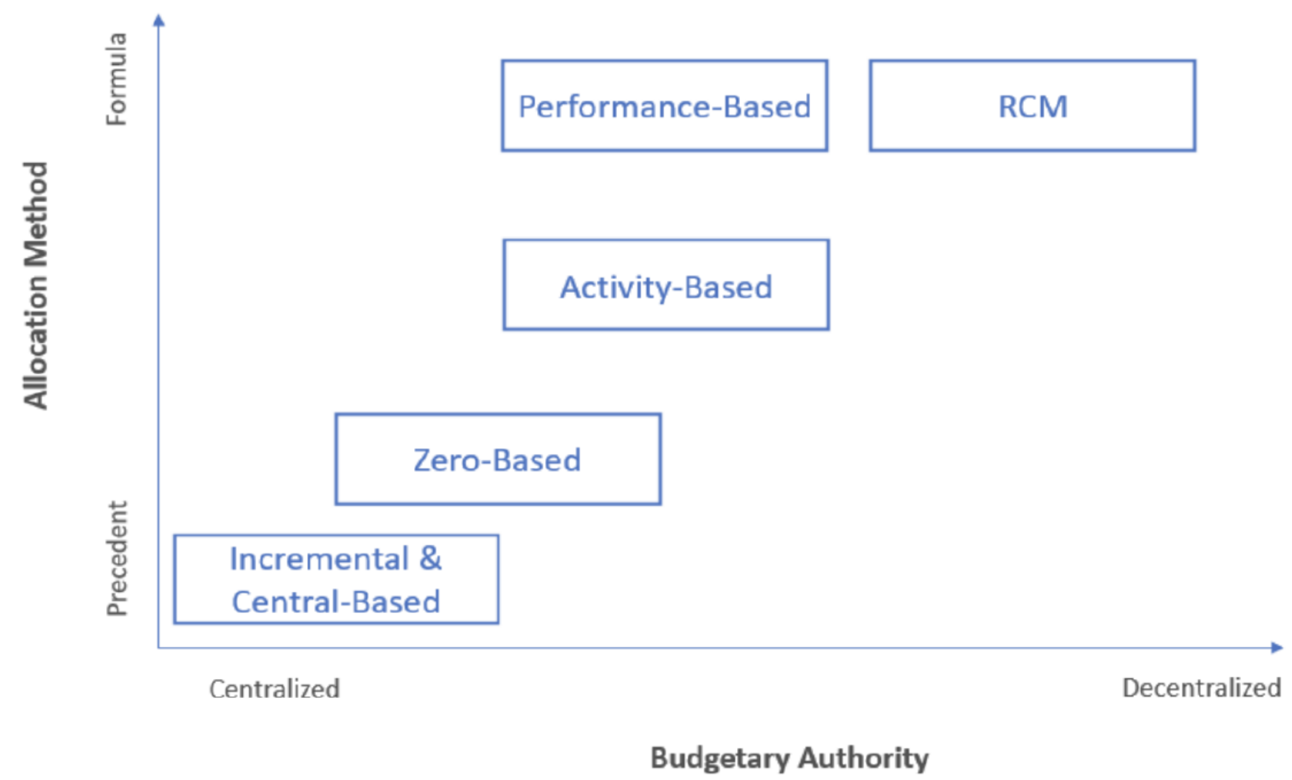
Budget Models

Figure 1: Budget Model Framework of Allocation and Authority



Note: Modified from *Exploring Alternative Budget Models*, by C. Auerbach and L. Edmonds, pg. 7, Copyright 2013 by The Advisory Board Company

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Budget Models

- All models have pros and cons
- Most, if not all, institutions implement a modified model that combines elements of different types:

- USC – Modified RCM
- UK – Incremental with Performance Funding
- UW – Activity-Based

Centralized Budget Models

Model	Advantages	Disadvantages
Centralized	• Quick Decisions • Easy Implementation • Emphasize Institutional Priorities	• Lack of Accountability • Cost Control • Transparency and flexibility
Incremental	• Commonly used in HE • Stability in funding and predictability	• Lost funding over time or turnover in the org. • Changing priorities are more difficult to "sell"
Zero-Based	• Cost Control • Communications between leadership and units are more frequent • Maintains priorities at the institutional level	• Time-consuming • Significant effort to assemble, monitor, maintain, and track • Transparency and flexibility

Decentralized Budget Models

Model	Advantages	Disadvantages
Responsibility Center Management (RCM)	• Accountability of units • Transparency and flexibility among units to shift to market fluctuations • Cost control	• Sets up competition between units at the institution • Difficult to implement • Buy-In from leadership
Activity-Based	• Incentivizes revenue-generating activities • Accountability is data and metric driven	• Intensive models that require data and metric tracking for allocations • Adversarial feelings toward subsidized or support/tax units
Performance-Based	• Incentives desired performance in a measurable way • Transparency and flexibility to adjust to the metrics	• Useability as a standalone budgeting method • Time-consuming data tracking and performance reviews with units and colleges

Budgetary Best Practices

- Structurally balanced budget
- Unrestricted fund balance guidelines
- Adopt financial policies to efficiently manage resources
  - Business procedures
  - Reserves
  - Debt Management
  - Investment
  - Risk Management and Internal Controls
  - Long-Term Financial Planning
  - Budget Development Process
  - Guide budgetary decision making

- Government Finance Officers Association

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Budget Process

- Incorporates a long-term perspective
- Links directly to the strategic and organizational goals
- Focus budget decisions on desired results and outcomes
- Involves and promotes effective communication with stakeholders
- Provides incentives to management and employees

- *National Advisory Council on State and Local Budgeting*

Government Finance Officers Association

Budget Lifecycle

- Development
  - Establish a base (zero, incremental, etc.)
  - Decisions or algorithms for allocations/deductions/re-prioritization
- Justification and approval
- Implementation
- Maintenance – transfers/revisions
- Reporting
- Auditing

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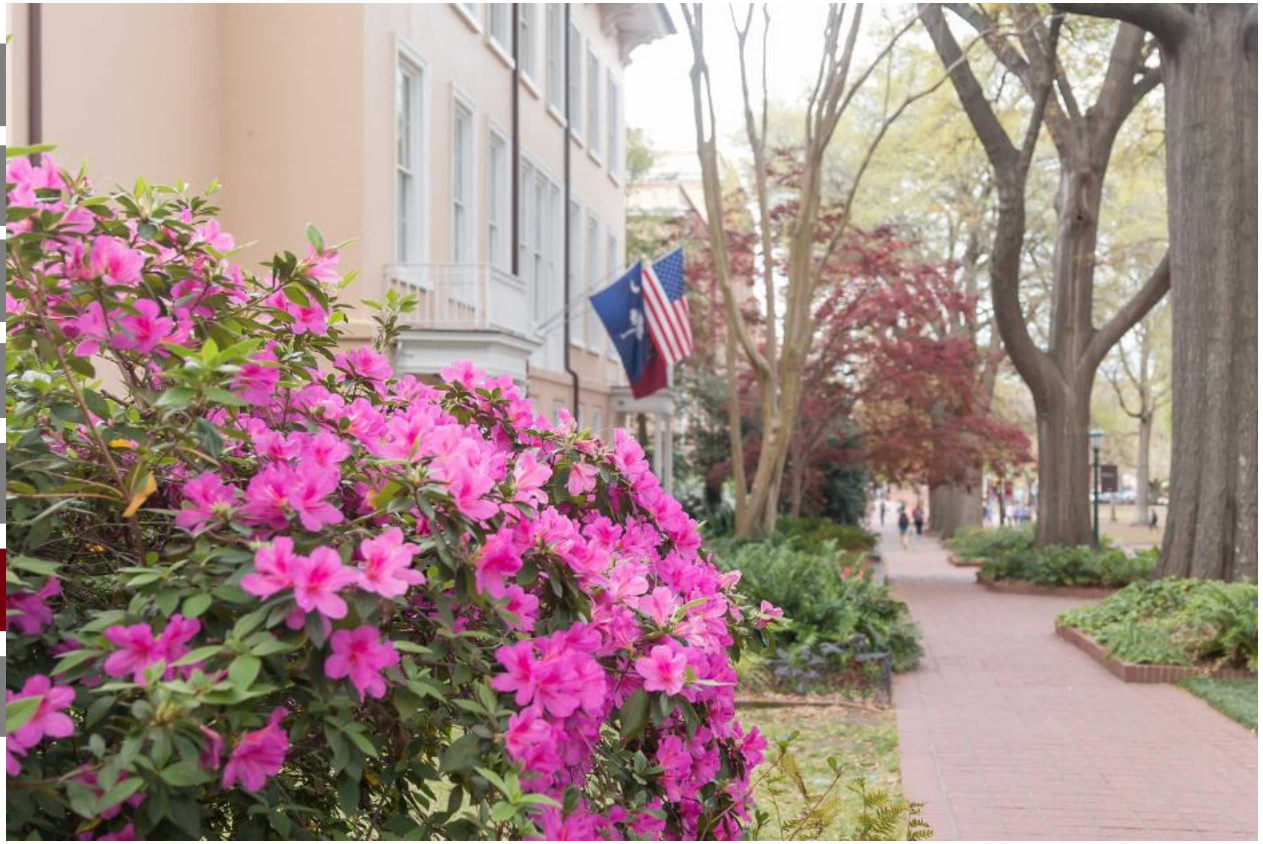
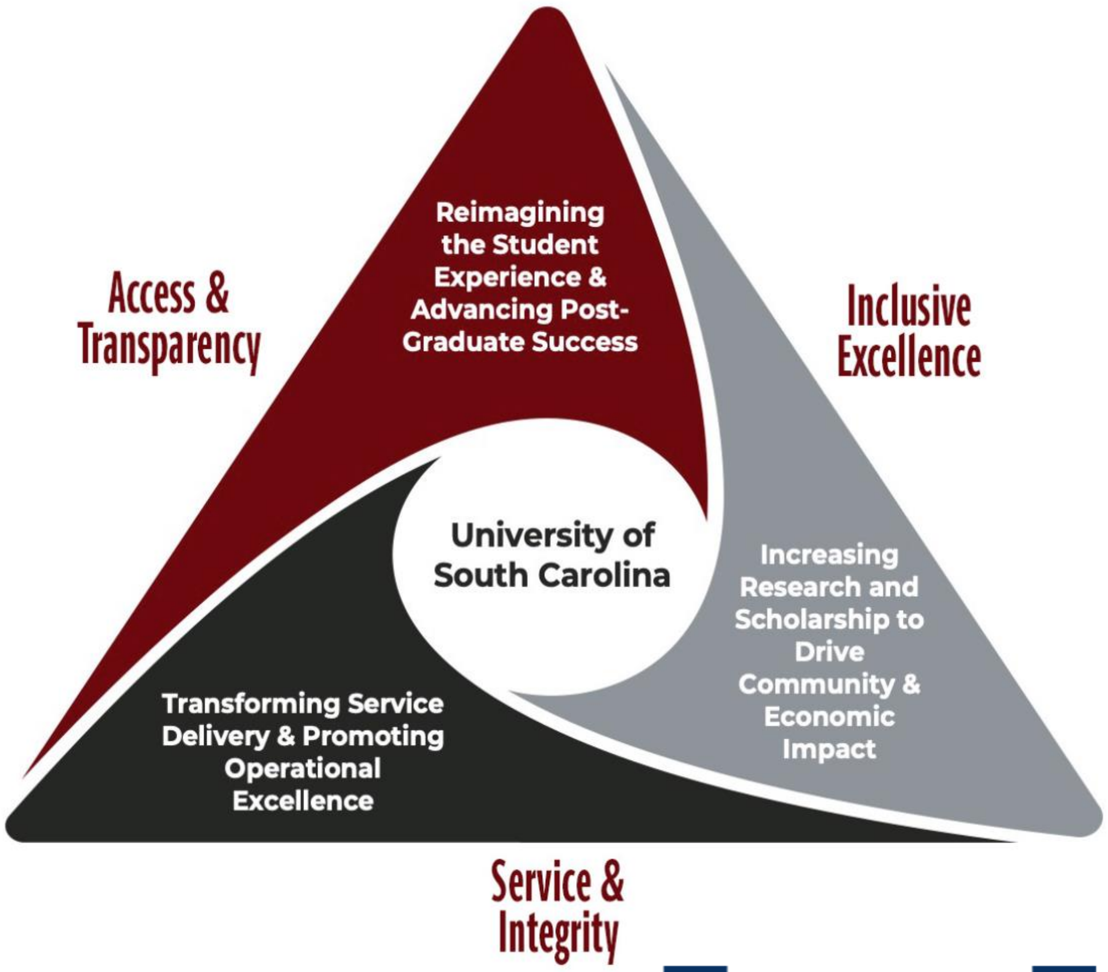


Institutional Priorities

- The strategic plan defines where we, as an institution, place our resources

- USC uses a modified RCM model to allocate our funds in striving to achieve our strategic plan



https://sc.edu/about/our_leadership/president/strategic_plan/

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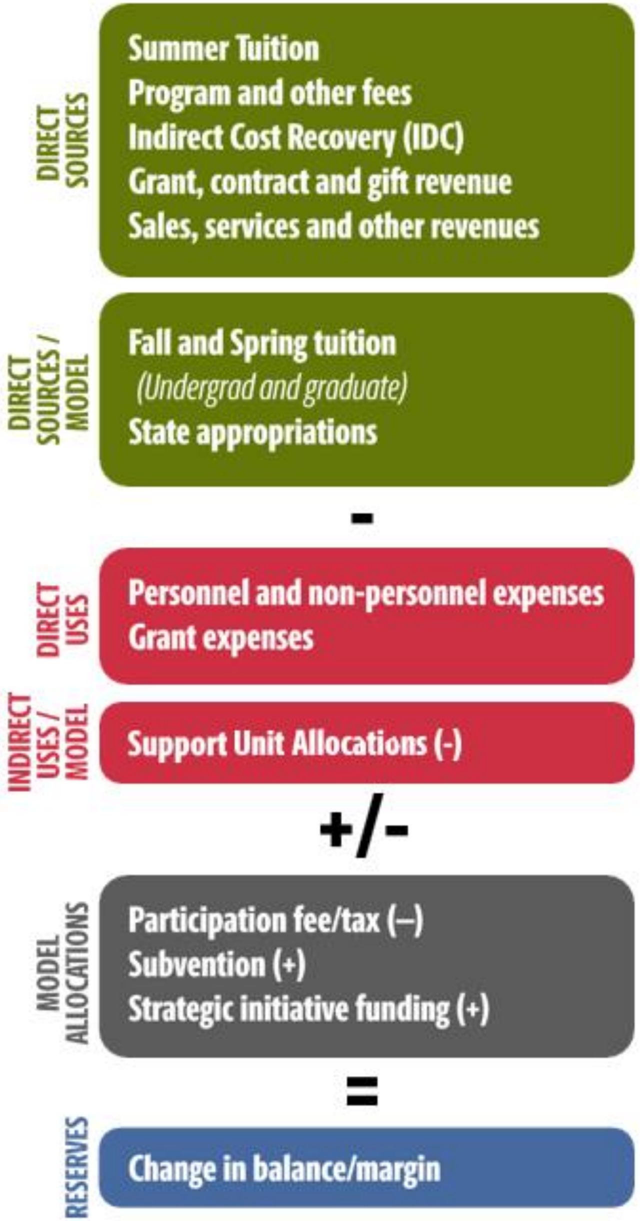
USC RCM Budget Model

USC's Budget Model uses a responsibility-centered management (RCM) approach — linking college revenues and expenses to performance and activity.

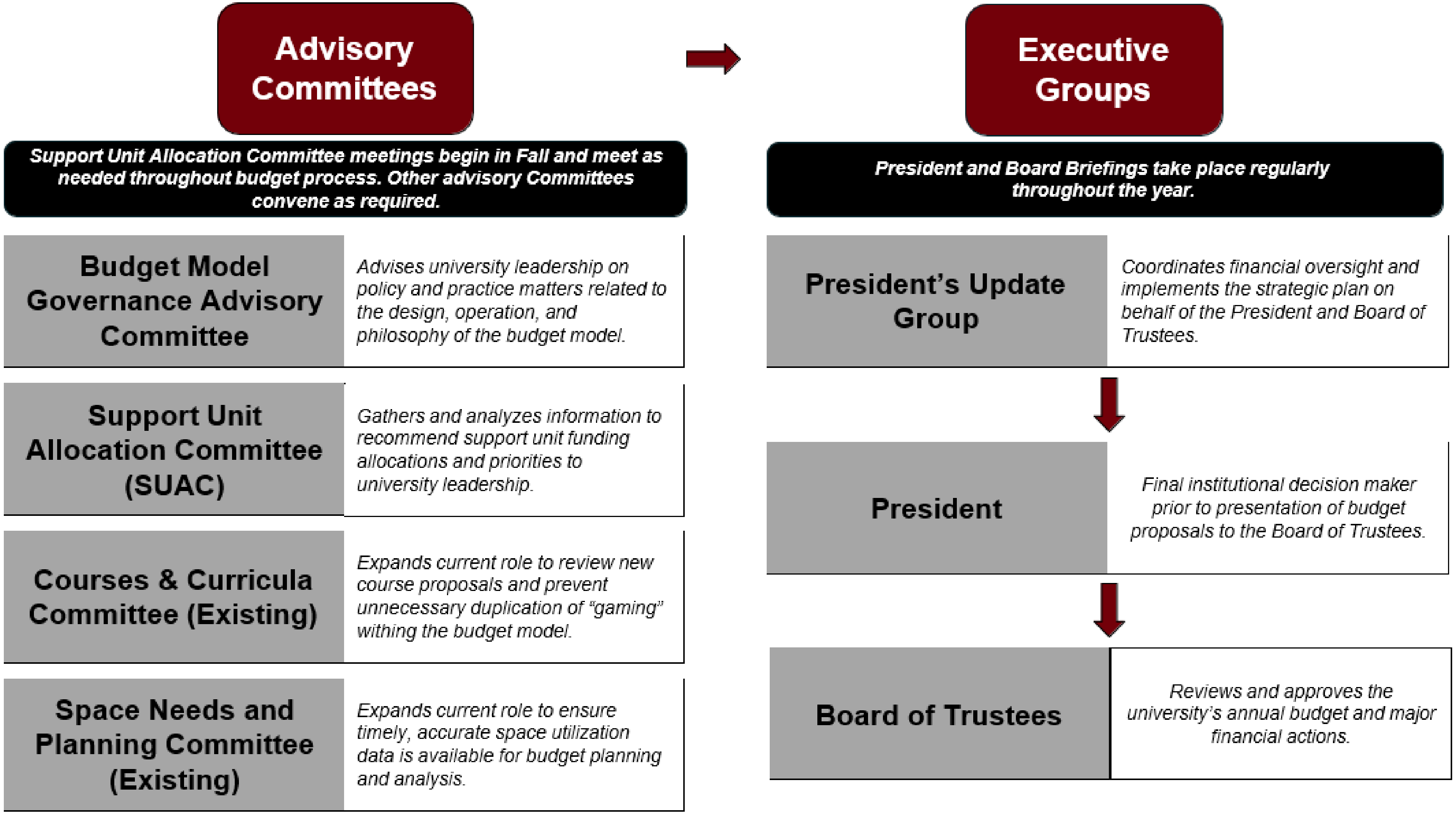
This model was designed to increase transparency, strengthen local accountability, and encourage data-driven planning.

Key principles:

- Revenues and costs flow directly to the units that generate or manage them.
- Net contributors and consumers are clearly defined and measurable.
- Central funding is aligned with institutional goals and priorities.

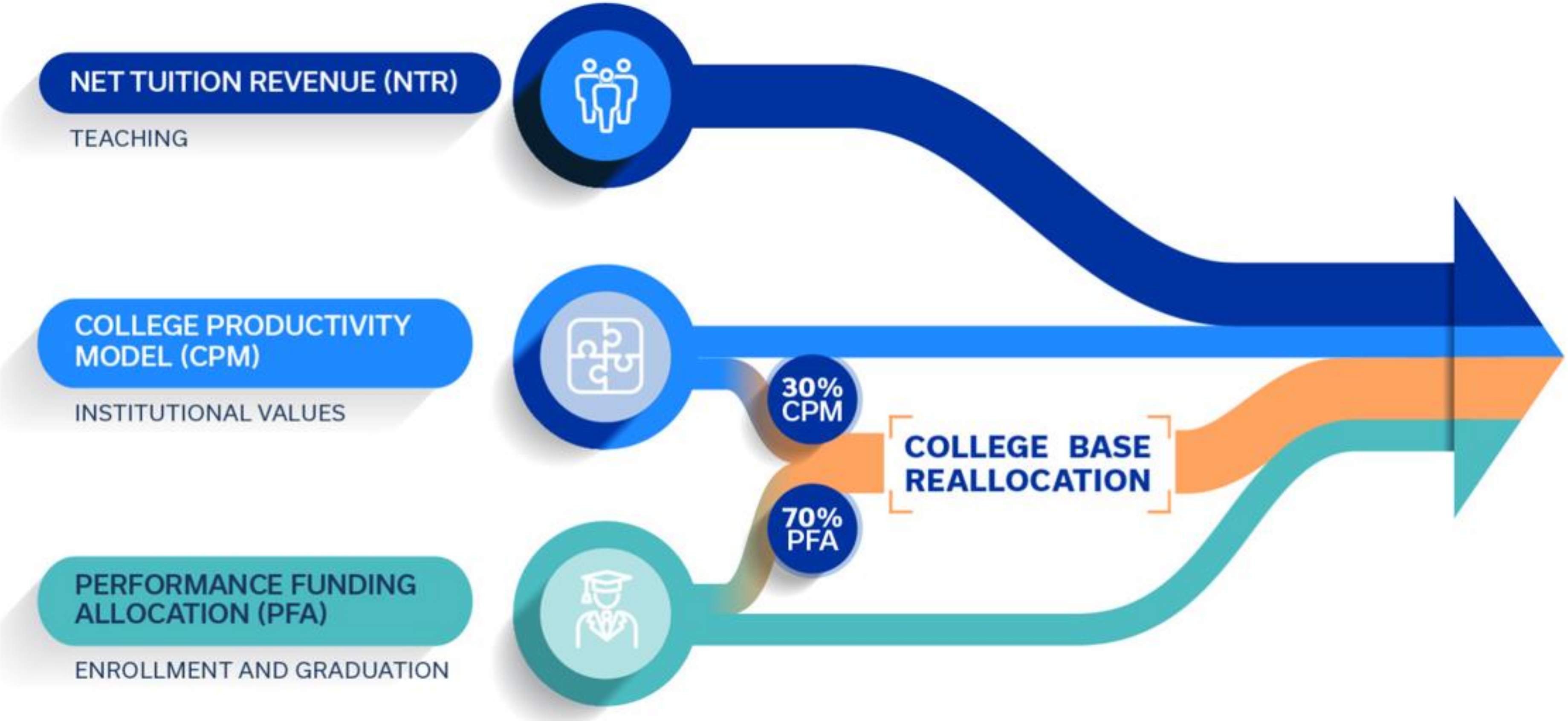


USC RCM Budget Model Governance



UK Performance Budget Model

Fueling Our Success: Financial Allocation Models



UK Financial Allocation Model

NET TUITION REVENUE (NTR)

Incentivize enrollment growth by sharing increase in net tuition revenue

Per FY 2023-24 review of model, percent of net tuition revenue shared increased to at least 50% effective with FY26 distributions.

COLLEGE PRODUCTIVITY MODEL (CPM)

Incentivize institutional values

Colleges awarded funds if performance is above the mean for metrics:

- Degrees awarded per faculty
- Percent of funded research compensation / total research compensation
- Percent of attempted student credit hours taught by tenured and/or full-time faculty
- Work Life survey results

CPM reviewed during FY 2024-25 with modifications to the funding model implemented with FY26 distributions.

PERFORMANCE FUNDING ALLOCATION (PFA)

Incentivize enrolling and graduating more students and in-person instruction

Colleges awarded funds based on proportionate share of:

- Degree production
- Enrollment of new students
- Increase percent of courses with traditional modality

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State Budget Development Process

1

Request Phase (Fall)

- USC submits operating and capital requests to the Executive Budget Office.
- Requests often include tuition mitigation, capital renewal, and program support.

2

Legislative Phase (Spring)

- House and Senate debate and amend the Governor's proposed budget.
- Universities provide data and respond to information requests throughout the process.

3

Finalization Phase (Summer)

- House and Senate Conference Committee reconcile differences and finalize the Budget.
- Appropriations are issued to USC, and internal budgets are adjusted accordingly.

State timelines are slightly different than internal timelines but run parallel and inform inputs into the internal budget process.

Internal Budget Development Process

South Carolina:

- Budget Calendar (September to June)
- Support Unit Initiative Requests
- Budget Model Metrics Review
- User Fees
- Tuition and Fees Solicitation
- Budget Development
- Academic Reviews
- Support Unit Decisions
- Leadership and Board Approvals

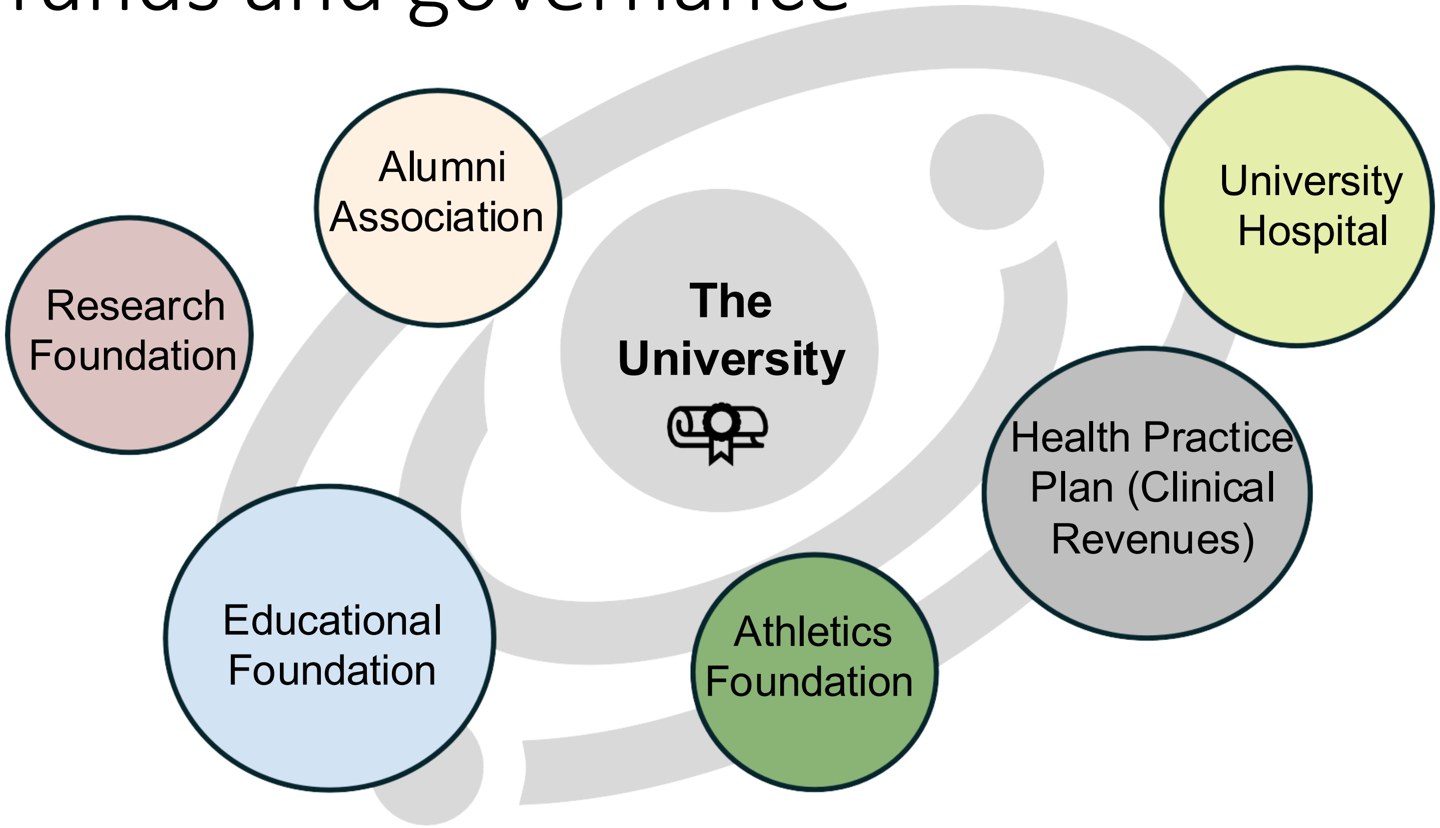
Kentucky:

- Budget Calendar (December to June)
- Operating budget process memo
- Internal review
- Revenue estimates
- Needs assessments and requests for resources
- Review and analysis of submissions
- Decisions
- Leadership and Board Approvals

Organization

Independent entities orbit a university but maintain separate funds and governance

Funds cannot freely flow between these entities.



Each supports a university's mission through distinct, regulated channels.

Budget Hierarchy

University of South Carolina

- Operating Budget
  - Operating Unit
    - Department or Division
      - Fund
        - Project (when applicable)

University of Kentucky

- Operating Budget
  - Campus or Business Unit
    - Area
      - College or Unit
        - Department
          - Funds Center

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University Units

Board → President

1 Academic Units*

Reporting to the Provost:

Schools
Colleges
Academic Centers

2 Support Units*

Provost office
Central administration
Information technology
Research office
Development
Student affairs

3 Auxiliary Units*

Athletics
Housing
Parking services
Student health center

Auxiliary units are typically self-supporting through ticket sales/fees. They pay a tax or fee for the central services used.

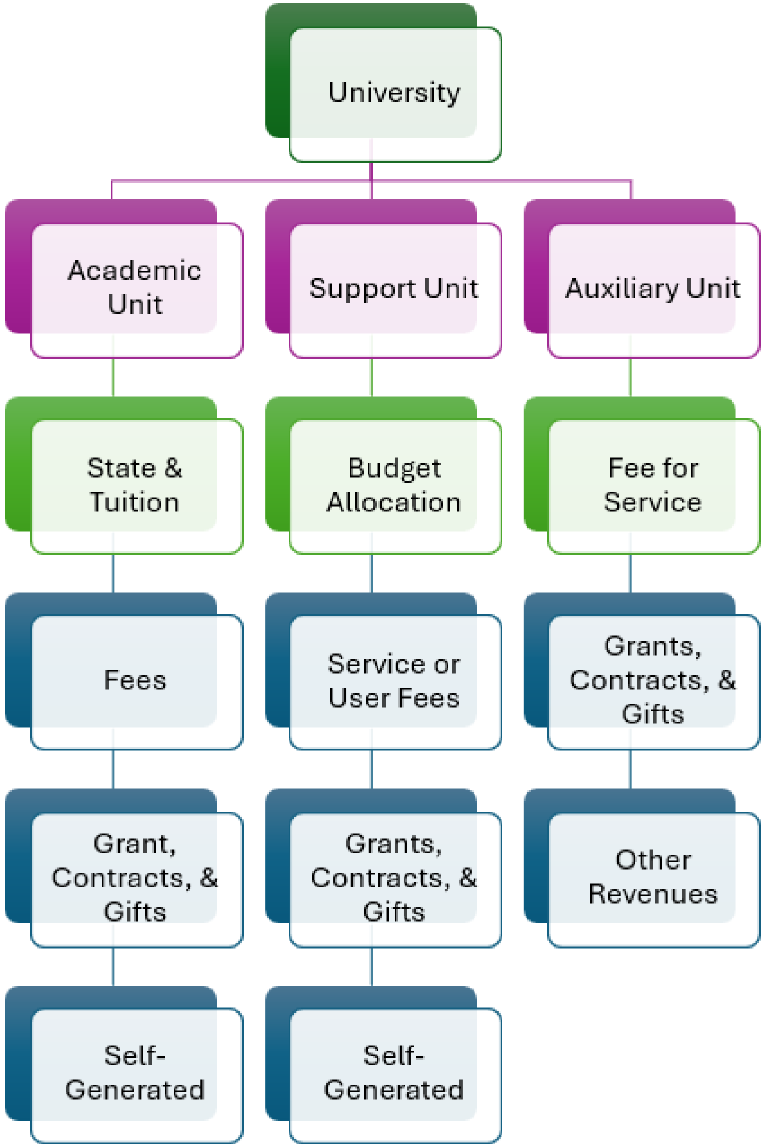
* Unit classifications could differ by institution.

Academic units perform teaching, research and service. Support units assist with infrastructure.

USC Budget Model

1 Academic Units	2 Support Units	3 Auxiliary Units
RCM Based: Revenues are allocated based on an allocation model Direct Expenses are charged and indirect support unit costs are applied through costing models	Incremental Based: Requests are considered centrally to increase a budget. Expenses are directly charged by the unit with little indirect costs associated with these units.	Many have an incremental or zero-based model. Self-Supported units typically raise the funding needed to match expenses

Establish Revenue Estimates and Drivers



- General Fund Estimates:
  - State Appropriations
  - Tuition Revenue
    - Enrollment and/or Rate Increases
    - Residency Mix changes
  - Other increases are typically small in comparison
    - Short-term investment income
    - Certain Fees
- Other Revenue Estimates

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Centralized versus Decentralized Estimates

- Centralized:
  - Better standardization
  - Forecasting accuracy
  - Economies of scale
- Decentralized:
  - Greater agility to local market changes
  - Responsiveness to trends

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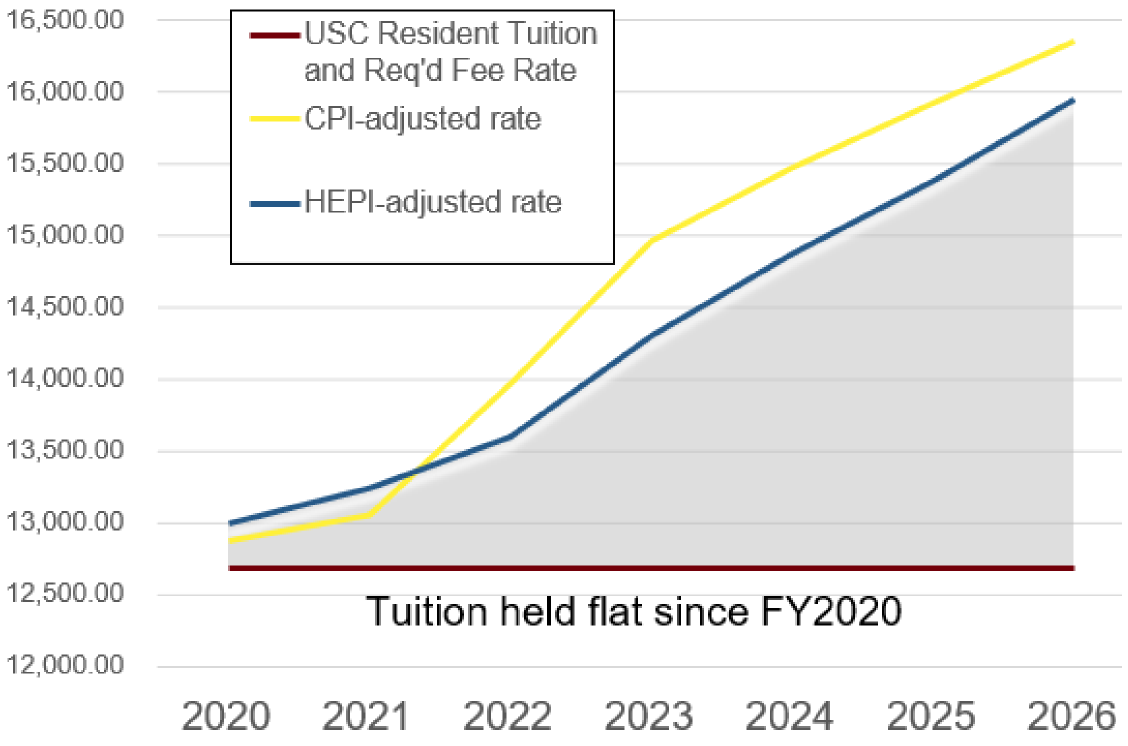
Protecting Affordability for Students and Families in Columbia

This chart compares USC's resident undergraduate tuition rates to what they *could have reached* if adjusted by HEPI or CPI.

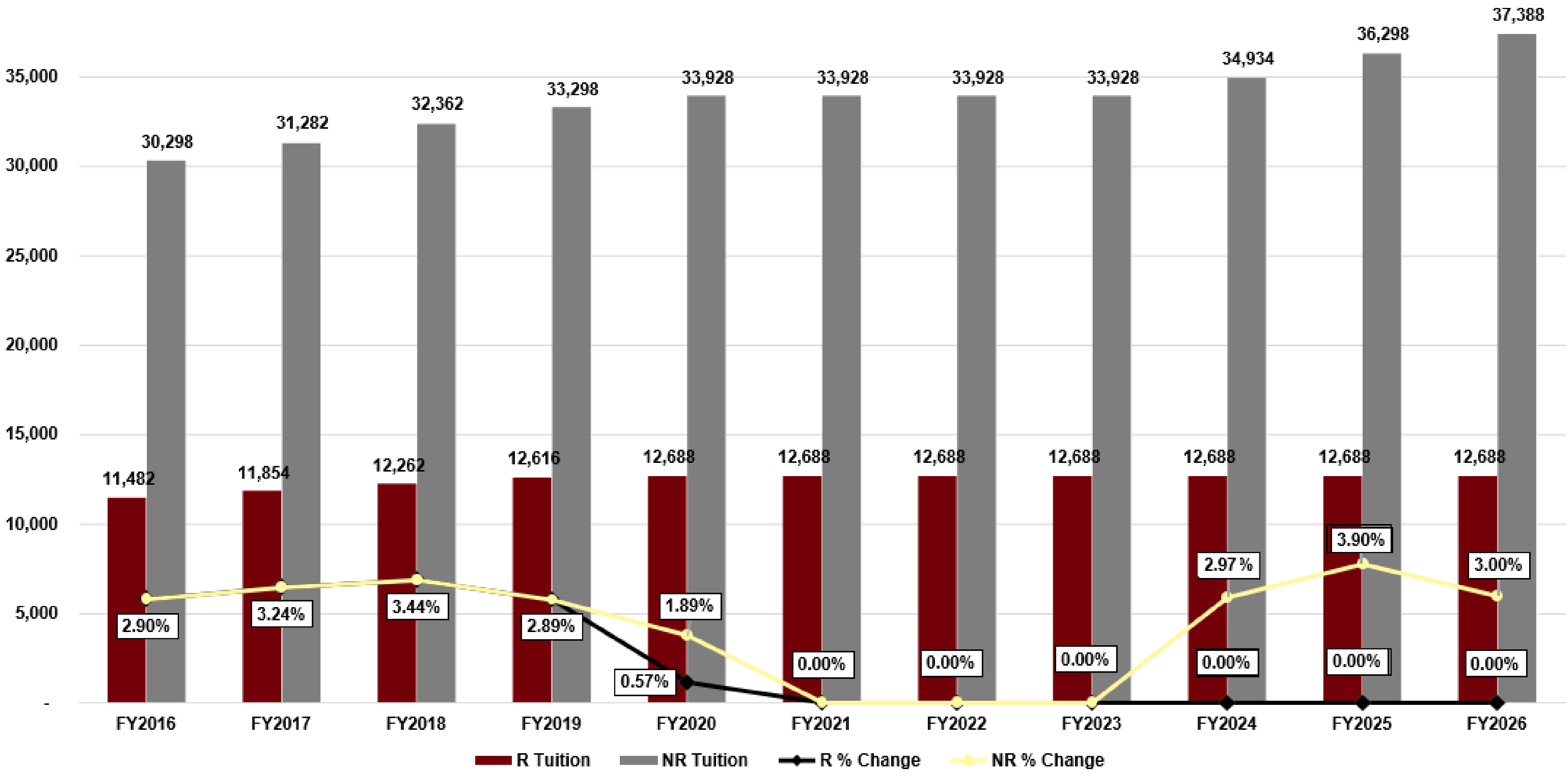
Through a combination of **state support** and **institutional cost containment***, USC has held tuition flat since 2020—protecting affordability for South Carolina students and families despite historic inflation.

The University will continue to align resources with workforce needs by sunsetting less viable programs, expanding high-demand areas, and prioritizing efficiency in every division.



* USC regularly examines how USC Columbia's administrative costs compared to 3 groups: 1) other public colleges in SC, 2) SEC schools, and 3) public member institutions of the American Association of Universities (AAU). The study found that on a per-student basis, USC's admin costs fell below all 3 benchmark groups for 3 straight years, 2020, 2021, and 2022. On average, USC is more administratively efficient than public 4-year colleges in SC, SEC schools, and 65 AAU member institutions.

Undergraduate Tuition & Required Fees



Drivers for Tuition Estimates

UNDERGRADUATE SCENARIO VARIABLES:	Fall 2024 Actual	Fall 2025 Proj.
Fall Retention Rate Changes	86.82%	0.00%
Fall FT Cohort Budget Target	6,500	6,850
Fall UG FT Cohort Percent Resident	60.35%	64.00%
Fall UG Transfer Cohort	1,141	1,000
Fall Resident Rate Increase	2.20%	3.00%
Fall Non-Resident Rate Increase	2.20%	3.00%
Spring Revenue as a Percent of Fall UG Only	95.11%	92.00%
Projected Tuition Shortfall		
UNDERGRADUATE ENROLLMENT	25,586	26,608

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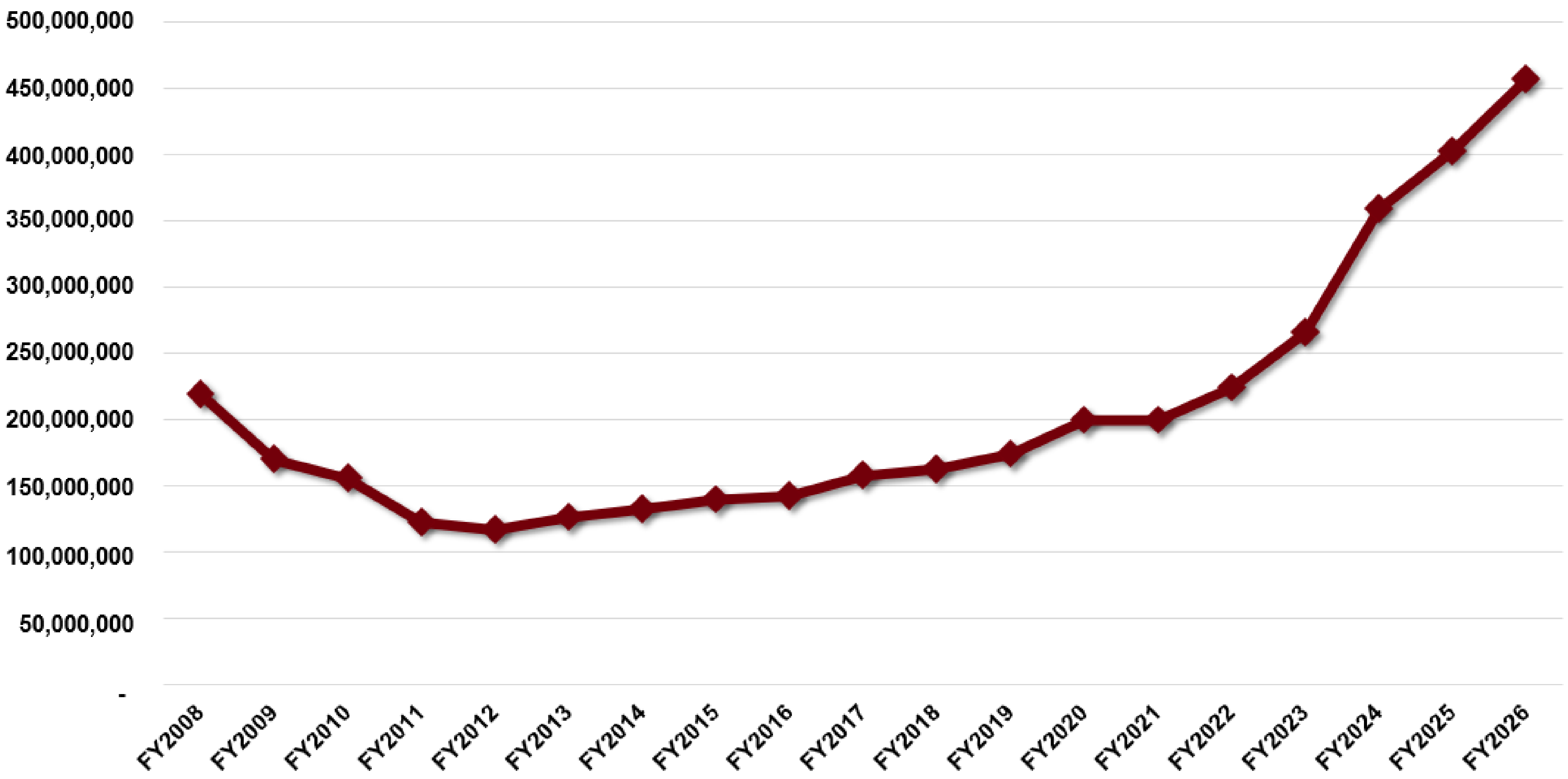
State Appropriations History



USC Revenues

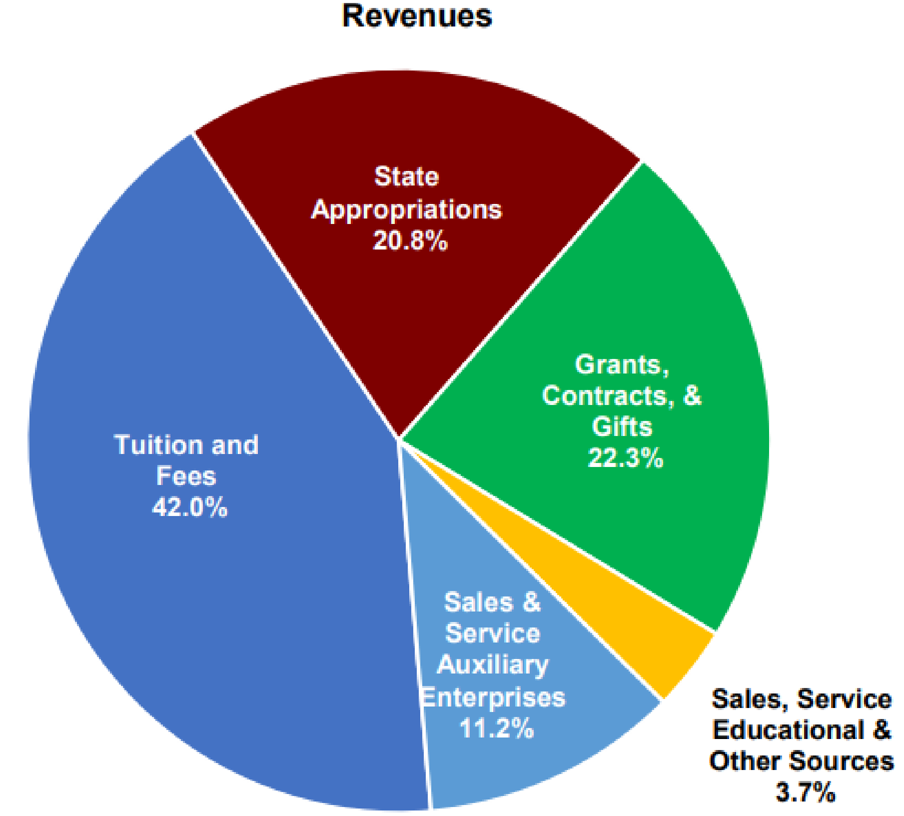
Proposed Budget FY 2025-2026 Revenues	
Revenues	
Tuition and Fees	969,432,277
State Appropriations	480,215,166
Grants, Contracts, & Gifts	513,156,278
Sales, Service Educational & Other Sources	83,900,555
Sales & Service Auxiliary Enterprises	259,142,927
Total Revenues	2,305,847,203

Fall 2024 Headcount Enrollment

Includes undergraduate, graduate and professional students

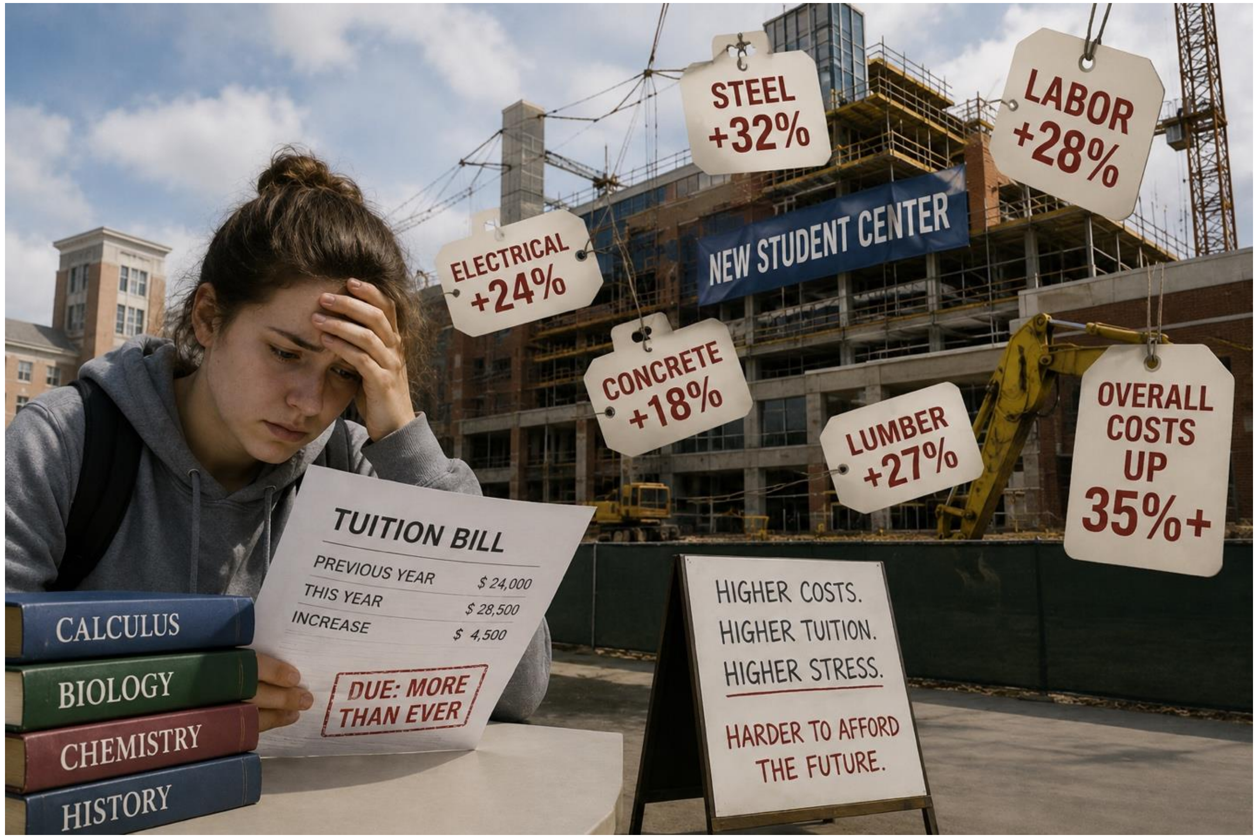
USC Columbia	38,503
USC Aiken	4,018
USC Beaufort	2,204
USC Upstate	4,907
USC Lancaster	2,591
USC Salkehatchie	787
USC Sumter	1,804
USC Union	1,353
TOTAL	**56,167**

Proposed Budget
FY 2025-2026 Total Current Funds



Expense Estimates and Cost Increases

- Salary Increases and Pay Plans
- Utility Increases
- Subscription and Licensing Increases
- Building/Equipment Maintenance and Operational Cost Increases
- Increased Insurance Premiums
- Scholarship Increases due to enrollment initiatives or rate increases
- Allocation of costs



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USC Cost Allocations

Cost Pool	Support Units Included	Allocation Metric
University Services & Operations	Admin & Finance, Business Affairs, Development, Communications, Division of Information Technology, etc.	Total Direct Expenses
Facilities	Facility Services, Utilities, Facilities Projects	Net Assignable Square Footage
Student Services & Undergraduate Affairs	University 101, Residential Learning Centers, Student Affairs – Admin, Academic Support Services, Honors College, etc.	UG Student FTE
Academic Affairs	Provost, University Libraries, Graduate School, University Press, International Programs, etc.	Student FTE + Faculty FTE
Research	Office of Research / Research Administration	Contract and Grant Revenue
Executive Affairs	Board of Trustees, President, Legal, Economic Engagement, Audit & Advisory, etc.	Student FTE + Employee FTE
Employee Services	Finance, Human Resources, Staff Senate	Employee FTE Total

Cost Pools, Service Assessments, etc.

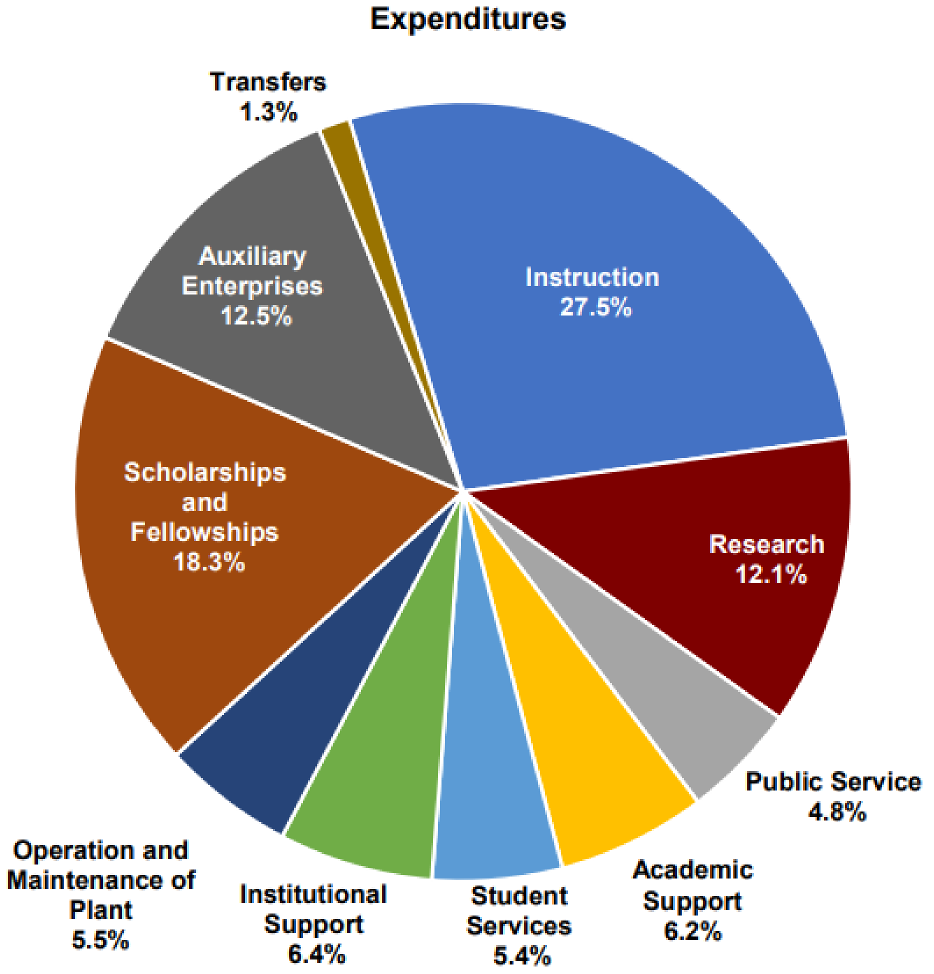
- USC uses cost pools to allocate central costs to revenue-generating units
- UK uses a service assessment model – bill to auxiliary units for using central services

- All are overhead recharge operations to recoup costs from revenue-generating units – when budget allocations from a certain source of funding doesn't keep pace with the need

USC Expenses

Proposed Budget FY 2025-2026 Expenditures	
Expenditures	
Instruction	632,116,033
Research	277,302,529
Public Service	111,220,067
Academic Support	143,406,250
Student Services	123,737,893
Institutional Support	147,076,778
Operation and Maintenance of Plant	125,562,741
Scholarships and Fellowships	421,279,031
Auxiliary Enterprises	287,539,744
Transfers	30,405,466
Total Expenditures	2,299,646,531

FTE Positions - FY2026	
President	1
Classified (authorized)	3,959
Unclassified (authorized)	2,907
TOTAL	**6,866**



Net Results

FY2025 (year ended June 30, 2025)

- Academic units finished FY25 **$10.2M (2%) ahead of budget**, meaning revenues exceeded expenses.
- **Reserves were used for one-time projects**, not for ongoing operating costs.

FY2026 (year beginning July 1, 2025)

- Academic units will receive **$22.0M in additional general funds** from increased tuition and state appropriations.
- Support unit budgets include **$10.9M in recurring increases**, equal to roughly **1.1% of academic budgets** and **1.4% of support budgets.**
    - $2.6M – Required cost increases (resident scholarships, utilities, library subscriptions, ERP contracts)
    - $3.7M – SUAC priorities ranked 4–10 (facility upkeep, Honors, research)
    - $4.6M – SUAC priorities ranked 1–3:
        - $2.9M Development (not eligible for campaign or donor funding)
        - $1.2M Brand Collaborative (multi-year marketing initiative approved by Administration)

Overall, FY26 continues modest but steady investment in academic growth and core infrastructure — guided by SUAC rankings and focused on sustainable priorities.

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Audience Survey

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What kind of Budgeting model do you use?

Do not edit
How to change the design

What are the top financial pressures your institution faces right now?

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How to change the design

How well-positioned do you believe your institution is to face mounting pressures in enrollment, AI, hiring, retention, etc?

BUDGETING: LARGE SCHOOLS

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- Budgetary best practices and budget models
- South Carolina Operating Budget
- **Budget communications**

Budget Communications

- Updates throughout the budget process
  - Key constituencies have more frequent updates
- Key initiatives:
  - Salary and Play Plan changes
  - Benefit changes
  - Hiring initiatives
  - High Visibility Program Updates (SEC Schools – Athletics)
- Final Published Budget Document
  - https://sc.edu/about/offices_and_divisions/budget/budget_documents/index.php

Note: Political environment – internal versus external communications

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Common Questions to Consider

- Board Questions:
  - What is the incremental increase from 10 years ago?
  - What percent of carryforward rests with the Academic Enterprise versus Support Units?
  - What is the per-student cost of central administration?

- Faculty/Staff/Internal Questions:
  - Why do we have different funds and not one pot of money?
  - How does the distribution of tuition come back to my unit?
  - What have been the average merit or pay increase percentages over the last 5 years?

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Budget Presentation

- Takes a lot of information – typically hundreds of pages of tables and funnels it to the nuggets of interesting information for board members or unit leadership
- Focuses on the changes from the prior year
- Initiatives and ties the funding priorities to the strategic plan or mission
- Cites accomplishments from the prior year
- States goals for the upcoming year(s)

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Quiz

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A financial plan over a set period of time usually 12-months

What does a financial report show?

What are the various types of central budgeting methods?

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What is the most common budgeting method?

The Slido app must be installed on every computer you're presenting from

slido

What has been the best class at CBMI so far?

Recap and Summary

- Accounting for financial reporting – historical
- Accounting for budgeting – future
- Key fund accounting fundamentals
- Budgetary best practices and budget models
- USC Operating Budget
- Communicating Budgets

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Questions?

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