COLLEGE BUSINESS MANAGEMENT INSTITUTE

BUDGETING SMALL SCHOOLS

Auxiliary Services

SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

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Budgeting Small Schools

BUD 2242

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COLLEGE BUSINESS MANAGEMENT INSTITUTE

SOUTHERN ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS

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What type of institution are you representing?

DESCRIPTION

This course provides a general overview of different budgeting techniques and concepts with an emphasis on budgeting terminology that will help the participant to make relevant enhancements and recommendations to their own college budgetary process and implementation.

The broad concepts included in the discussion will touch on the following: principals of operating and capital budgets, allocation a decisions and budget cycles.

Various budgeting methodologies will also be covered – incremental, formula driven, zero-based, responsibility-based and performance driven. There will also be a discussion on the linkage of strategic planning and the impact of financials ratio analysis with the budget development process.

Is your institution a 2 or 4 year program

LEARNING OBJECTIVES

- Discuss the Basics of Budgeting
- Explore the Current Budget Myths for Small Schools
- Review Various Types of Budgets
- Explore the Purpose of Capital Budgets
- Explore the Purpose of Operating Budgets
- Discuss and Demonstrate Operating Budget Techniques
- Review Budget Forecasting and Modeling
- Discuss Strategic Planning Initiatives for Small Colleges
- Discuss Financial Reporting and Use of Dashboards

What is your Background / Experience?

WHAT IS BUDGETING?

- Part of a Planning Process
- Method for Allocating Resources
- NOT an EXACT Science
  - Based on Projections and Expectations
  - Based on Real and Accurate Data
  - MUST be FLEXIBLE

So BUDGETING is……

A PROCESS LOOKS TOWARD THE FUTURE AND DEVELOPS A SPENDING PLAN CONSISTENT WITH INSTITUTIONAL GOALS.

How would you describe BUDGETs in ONE WORD

BUDGET MYTH #1

BUDGETING IS JUST ABOUT NUMBERS

FACT:

- Planning is Essential to the Budget Process
- Budget Staff must understand the INSTITUTION as a whole entity and how each unit Interrelates
- Strategic Planning increases the Level of SUCCESS

BUDGET MYTH #2

SMALL SCHOOLS ARE EASIER TO MANAGE

FACT:

- Less Personnel
- Less Resource Flexibility
- Same Report and Compliance Guidelines

What areas of responsibilities do you cover?

BUDGET MYTH #3

SMALL SCHOOLS DO NOT REQUIRE EXPERT STAFFS

FACT:

- Requires Talented, Multidimensional Staff
- Muti-tasking Skills are Essential

BUDGET MYTH #4

THE BUDGETING PROCESS ENDS WITH THE ASSEMBLY AND RATIFICATION OF A BUDGET DOCUMENT

FACT:

- Budget Documents are DYNAMIC
- Commitment and Priorities Change
- Budgeting Requires an On-Going Day-to-Day Management of the Resource Allocations

Which BUDGET Myth is the hardest for others to understand?

MANY TYPES OF BUDGETS

General Overview

- Capital Budget
- Operating Budget
- Restricted Budget
- Auxiliary Enterprise Budget
- Hospital Operations Budget
- Service Center Budget

CAPITAL BUDGET FOCUS

- Planning for expenditures too large and too irregular to be easily made part of the Operational Budgeting Process such as:
  - Major Equipment Purchases
  - New Building or Major Building Renovations
  - Technology Systems
  - Sustainability Projects

CAPITAL BUDGETING PROJECTS

- Like Operational Budgets, it is also a Planning and Control Process
- Projects tracked in a Capital Budget could bring Major Changes to an Institutions' Asset or Expenses Structure
- Projects are typically Multi-year, Life-Long Initiatives that require Special Assistance
- Often Requires Greater Involvement of the Governing Board in the Planning Process

MAJOR PURPOSES OF CAPITAL BUDGETING

- Facilitate Institutional Growth
- Permit Systematic Explorational Growth
- Manage Balance Sheets
  - Maintain healthy ratio between institutional Debt and Assets

Objective of the Capital Plan

- To Integrate uneven Capital need and smooth out over several years

- Plan should include a Prioritized ‘WISHLIST’

- Plan should include cost and other data needed to forecast future financial impact on the Operating Budget

- Plan MUST BE FLEXIBLE / ADJUSTABLE

CAPITAL PLAN SHOULD BE BUILT FROM THE CAMPUS MASTER PLAN

- CMP should identify Projects and Priorities that visibly tie to the Academic Plans and Financial Strategies of the Institution
- CMP should give a Vision of the Physical Campus in the Future

How closely does your institution follow their Campus Master Plan (CMP)?

OPERATING BUDGETS OVERVIEW

- Focuses on:
  - ✓ The Control of Financial Resources
  - ✓ The Evaluation of Financial Performance
  - ✓ The Facilitation of the Institutional Mission
- Developed by calculating and ratifying expectation for Revenues and Expenditures

OPERATING BUDGET CYCLES

- Operating Budgets are typically based on a one-year period of time; although some states require biennial operating budgets.
- No Real Beginning or End– The final stage of one operating year is the first stage of the next year.

OPERATING BUDGET STAGES OVERVIEW

-->LOOK AHEAD, SET BUDGET GOALS

---□ SUBMIT REQUEST (PUBLIC)

----□ EXCHANGE INFORMATION

--------□ PRIORITIZE & BALANCE

----------□ RATIFY

-----------□ IMPLEMENT

---------------□ EVALUATE

LOOK AHEAD & SET BUDGET GOALS

- Examine the Institution’s Fiscal Situation
- Assess External Market and Future Trends
- Assess Internal Strengths /Weakness Trends
- Identify Budget Goals

EXCHANGE INFORMATION

- Work with appropriate units to develop accurate revenue projections
  - Tuition and Fees
  - Housing
  - State and Federal Appropriates, as applicable
  - Auxiliary Components
- Identify Fixed Cost Increases
  - Utilities
  - EE / ER Health Benefits
  - Salary Increases / Union Contracts
  - Service Contracts
  - Liability Insurance
  - Telecommunication / Technology
- Identify Requests for New Funding Initiatives
  - Should Support Strategic Goals / Objectives

PRIORITIZE AND BALANCE

- Clear Budget Goals will help in the Prioritization of New Resource Requests
- Identify other resources available
  - Fund Balance Reserves
  - Internal Reallocations
- Balance Projected Revenues with Expenditures

RATIFY

- The PROPOSED Budget must be…
  - RECOMMENDED by the President
  - ADOPTED by the Governing Board / BOD /Trustees
- UPON RATIFICATION……
  - The BUDGET should be clearly COMMUNICATED to each Operating Unit.

IMPLEMENT AND EVALUATE

- Implementation occurs during the ENTIRE period of time covered by the BUDGET
- Regular scheduled assessments of Revenues and Expenditures are completed and compared with Budget Goals
- Adjustments are made, if necessary, to maintain the Overall Integrity of the Budget Goals

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When does your budget process start?

OPERATING BUDGET TECHNIQUES OVERVIEW

- ROLL OVER BUDGET
- LINE ITEM
- INCREMENTAL BUDGETING
- ZERO-BASED BUDGETING
- FORMULA-BASED BUDGETING

ROLL OVER OPERATING BUDGET

PRACTICE OF TAKING PRIOR YEAR BUDGET, ROLLING FORWARD

ADVANTAGES

- Predictable
- Generally, NOT controversial

DISADVANTAGES

- Does not allow for environmental changes
- Does not reward or penalize performance
- No incentive – tends to encourage stagnation

LINE-ITEM OPERATING BUDGET

ALLOCATES FUNDS TO SPECIFIC EXPENDITURE LINES

ADVANTAGES

- Expenditures are easy to control
- Seamless annual rollover
- Easy to understand and administer

DISADVANTAGES

- One Dimensional
- Narrow Focus

INCREMENTAL BUDGETING

FOCUSES PRIMARILY ON INCREASES AND DECREASES RATHER THAN ON THE BUDGET BASE

ADVANTAGES

- Simple, easy to apply and understand
- Flexible
- Minimizes conflict

DISADVANTAGES

- Assumes base budget is effectively distributed
- Narrow focused
- Politically-driven over analytical assessment-driven

ZERO BASED OPERATING BUDGETING "STARTING FROM SCRATCH"

ADVANTAGES

- New Programs stand equal chance of funding
- Management articulates initiatives
- Encourages greater understanding of Institution

DISADVANTAGES

- Time Consuming
- Managers spend time reselling star programs
- Does not recognize continuing commitments

FORMULA BUDGETING

ESTIMATES RESOURCE REQUIREMENTS THROUGH THE RELATIONSHIPS BETWEEN PROGRAM DEMAND AND PROGRAM COST

ADVANTAGES

- Reduces conflict
- Predictable
- Can be simple
- Focus on outcomes
- More effective eon Statewide or System Budgets

DISADVANTAGES

- Can be complex
- Difficult to modify once in place
- One size doesn't always fit all
- Some outcomes are difficult to measure

What type of Budget technique is used at your institution?

BUDGET CHOICES

- How Decentralized will the process be?
- How much authority will people be given at each level of the process?
- How integrated will the Budget process be with other Management Systems?
- How can the Budget Process be Explained?
- Choices depend heavily on:
  - Type – Public or Independent
  - Management Style - Institutions Leadership
  - Openness – Participation and Communication

BUDGET TECHNIQUES

- Many institutions will select a Combination or hybrid of these or other budget techniques
- An Institution may Roll-over salaries and other Fixed costs but implement Zero-based budgeting for Discretionary expenditures
- An Institution may use a Roll-over Technique with incremental budgeting for new needs

REGARDLESS OF THE BUDGET TECHNIQUE SELECTED…

- Forecasting and Modeling should be used to guide Budget Recommendations

- Clear Guidelines and Schedules should be used to Communicate the Budget Process

MODELING / FORECASTING

- Information collected through Forecasting Models is critical to the Budget Development Process
- Projections are Developed throughout the year (12-15 months) prior to the start of the Fiscal Period and adjusted as Data gets finalized.

FORECASTING ANALYSIS INCLUDES

- Enrollments based on changes in admission policies, recruitment efforts, program offerings, availability of financial aid, market competition, etc.
- Revenues from tuition, housing athletics, investment income, gifts, grants, appropriations, auxiliary services, etc.
- Fixed and unavoidable expense increases (or decreases) such as utilities, insurance, benefits, library materials / subscriptions, salaries, CPI on cost of goods and services, etc

FORECASTING ANALYSIS INCLUDES:

- Impact of mandated programs or other compliance issues
- Analysis of current financial strength
  - Ability to absorb budget reduction
  - Ability to reallocate for new priorities
- Market Issues
  - Tuition rates and local institutions
  - Local and state economy

COMPUTER-BASED MODELING

- Efficient / easy to Manipulate
- Easy to forecast out several years
- Link several models together
- Build from Basic Assumptions that are easily changed for "What if Scenarios"
- Off-the-Shelf Applications
- Microsoft Excel / Access / Data Warehousing / Dashboards

EXAMPLE – BUDGET SCENARIOS

.. Line items constants

- modify tuition,
- modify fees

.. Impact on enrollments

- increases and decreases

.. Impact on housing

- rate changes (room types)
- capacity modifications

EXAMPLE – REDUCTION SCENARIOS

- Use strategic WISHLIST items as a priority linting
- Prepare schedule based on enrollment changes, both increases and decreases

Where do you find the Institutional Strategic Plan?

STRATEGIC PLANNING

- A University's Vision and Mission set the Foundation for the Strategic Plan
- Strategic Plan defines the long-term (5-10 year) direction
- Aligns the institution to produce outcomes and contribute to the state or system-wide goals and objectives
- Strategic Plan is a 'LIVING' Document

WHO MAINTAINS THE STRATEGIC PLAN?

A Strategic Plan must have broad-based input from all campus constituents:

FACULTY

STAFF

STUDENTS

ADMINISTRATION

GOVERNING BOARD

COMMUNITY

IMPLEMENTING A STRATEGIC PLAN

- Unit plans identify how each operating unit within the institution will contribute to the Goals and Objectives defined in the Strategic Plan
- Unit plans focus on Short-term (1 year) initiatives
- Unit plans should include:
  - .. Mission / vision or statement of purpose
  - .. Goals
  - .. Specific objectives and initiatives to be changed
  - .. Measurable assessment criteria for each objective

ASSESSMENT

- Assessment at the unit plan level should facilitate continuous improvements to be implemented within the unit and provide a basis for changes to the unit plan
- Unit assessment results should flow up to assist with the assessment of progress of strategic objectives included in the Plan

HOW DOES THE PLAN AFFECT THE BUDGET?

- Institutional assessment results can help Identify Priority Budget areas for the upcoming Fiscal Period

- Funding can be clearly justified for initiatives and processes that will enable the Institution to Progress toward the Strategic Goals.

SETTING A BUDGET TIMELINE

- Effective Planning & Budgeting requires orchestrated input and collaboration at all levels
- Developing and communicating the timeline for all steps within the process is critical for successful implementation.

ACCOUNTING AND STANDARDS

- A Key characteristic of an operating budget as a management system is its strong tie to the institutional accounting system

  .. FASB

  .. GASB

FINANCIAL REPORTING

- PROVIDES INFORMATION…
  - About sources and uses of financial resources
  - About hot it finances its activities and meets its cash requirements
  - Necessary to determine whether its financial position improves or deteriorates as a result of the year's operations

DASHBOARD REPORTING

- DETERMINE what needs to be measured
- IDENTIFY key performance indicators
- PARTNER with IT / IR and Finance
- CREATE a prototype
- TEST functionality and get feedback
- DETERMINE update frequency
- DISPLAY the right amount of DATA

DASHBOARD DECISIONS

- Audience
- Timeframe
- Level of drill down
  - Clickable links
  - Sortable / Filters
- Target
- Data sources
- Dashboard look and feel

What type of DASHBOARD program do you use?

DASHBOARD SUGGESTIONS

- Summary Financials
- State reporting Financials
- Academic success
- Board Summary
- Operational Data

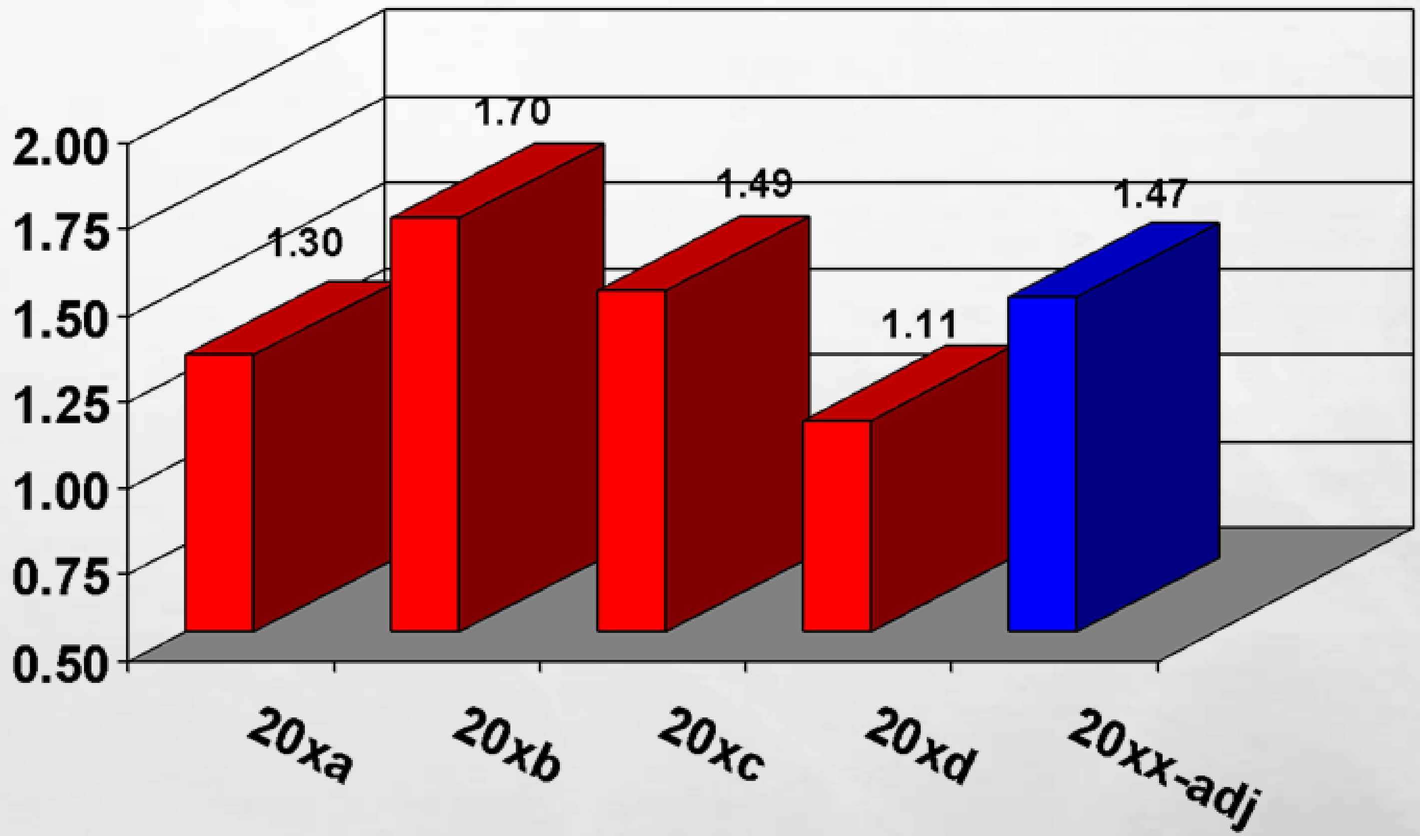
FINANCIAL RATIO ANALYSIS

- Current Ratio
- Accounts Receivable Ratio
- Long Term Debt Ratio
- Leverage Ratio
- Composite Financial Index(CFI)
  - 4 Components

Do you prepare CFI Ratio for your Management Team

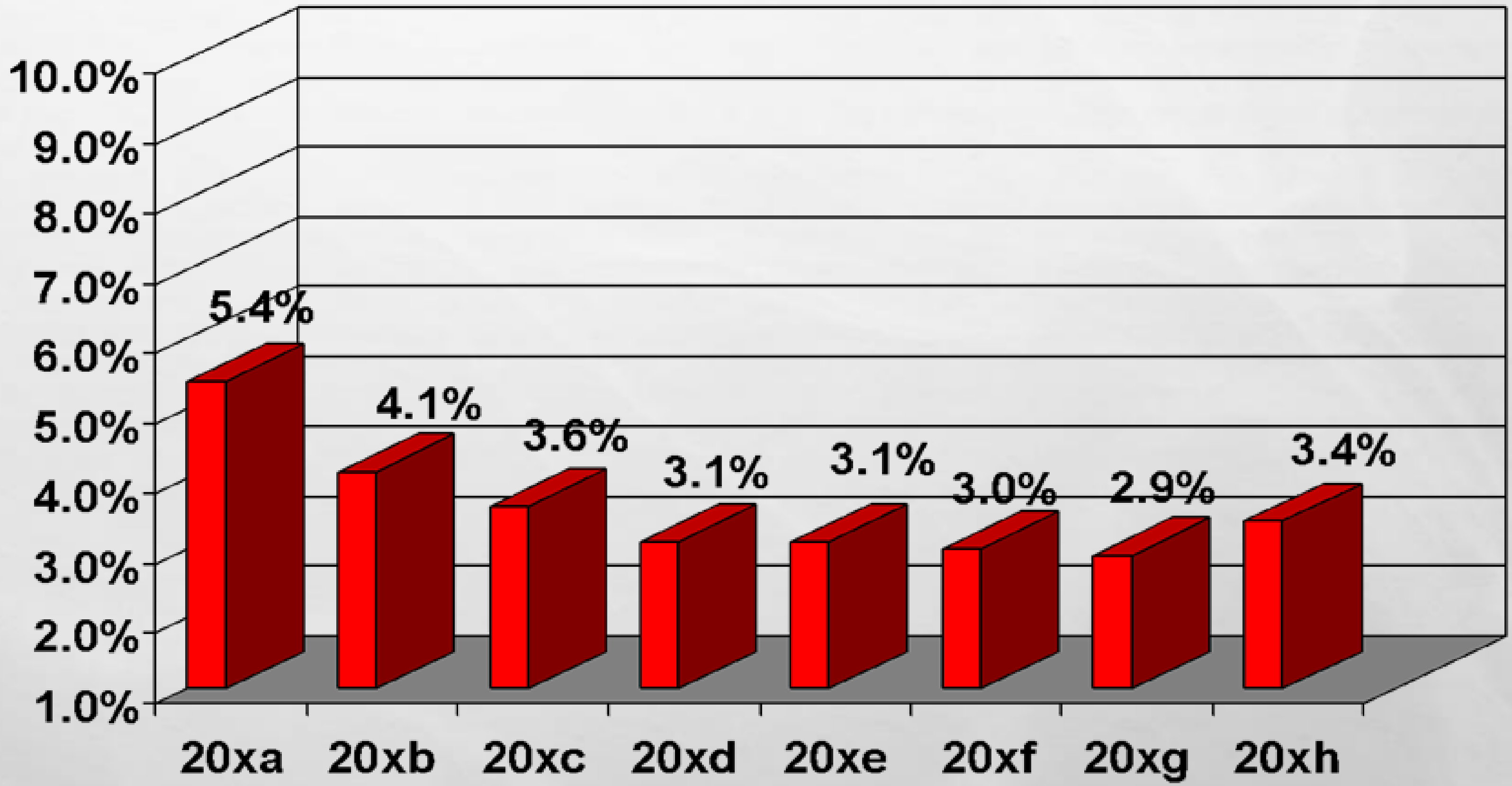
Current Ratio

Current assets/ Current liabilities

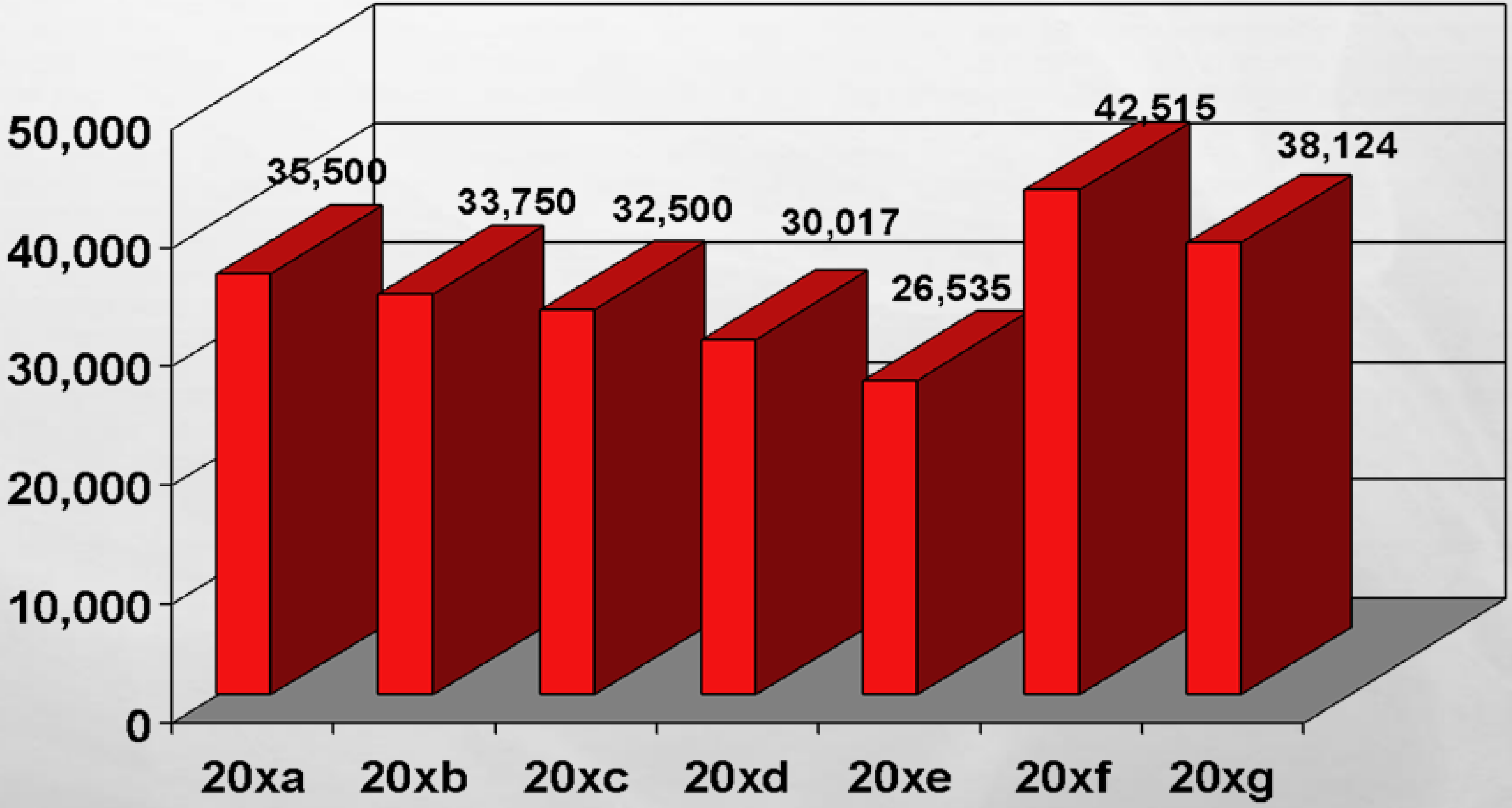


Accounts Receivable Ratio

Net Student Accounts Receivable/Net Tuition

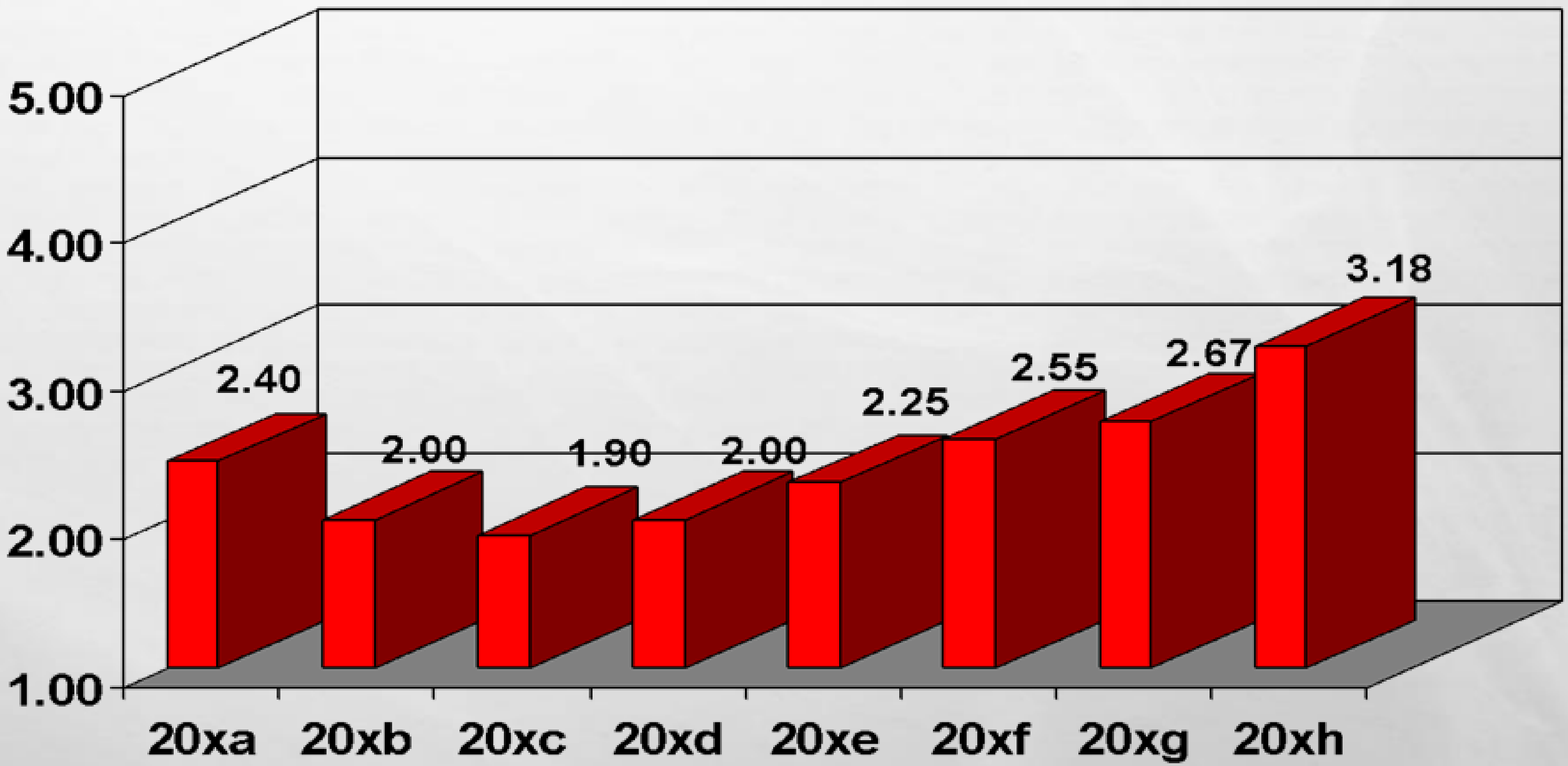


Long-term Debt (in thousands)



Leverage Ratio

Unrestricted and Temporarily Restricted Net Assets/Long-term Debt



Industry threshold is not less than 2:1

EXAMPLE HISTORICAL FINANCIAL RATIOS

Primary Reserve Ratio	Measures Financial Strength. How Long Can the College Operate Without Additional Net Assets from Operations	0.40	0.76	1.18	0.73	0.62	0.82	0.76	0.51	0.58	0.65	0.55	0.58
Viability Ratio	Measures Ability to Cover Debt from Net Assets	1.25 - 2.00	1.77	3.21	2.24	2.16	3.47	3.86	3.28	4.49	1.95	1.09	1.20
Return on Net Assets Ratio	Measures Total Economic Return	3% + Inflation	-3.63%	2.55%	-1.37%	-2.82%	13.07%	0.72%	-10.43%	8.79%	12.20%	1.18%	3.70%
Net Operating Revenues Ratio	Measures Surplus from Unrestricted Operating Activities	2% to 4%	0.56%	-0.13%	-6.29%	-13.17%	14.54%	4.16%	7.64%	6.36%	3.95%	7.66%	2.80%
Composite Financial Index	Measures Overall Financial Health of the Institution	3	3.16	6.05	3.19	2.16	7.51	5.65	3.64	6.66	4.88	3.08	3.10

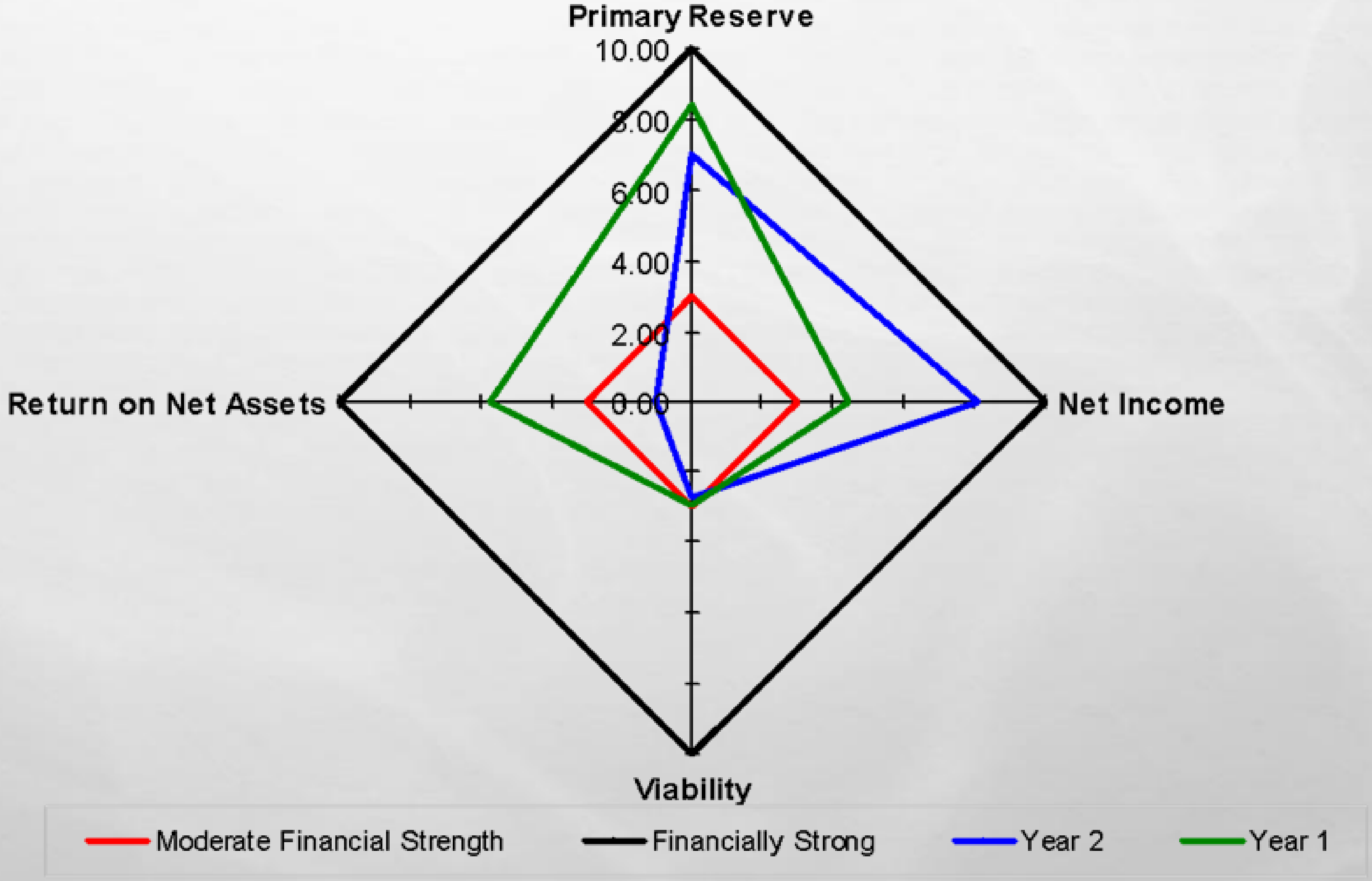
Additional Ratios													
Age of Facilities Ratio	Measures Average Age of Total Plant Facilities	14 Years	20.22	21.76	23.79	24.31	25.30	27.33	29.09	27.72	25.09	24.15	15.95
Debt Burden Ratio	Measures Cost of Borrowing to Overall Expenditures	7% or Less	9.79%	31.53%	0.87%	2.11%	3.32%	1.87%	2.23%	1.06%	0.99%	1.59%	4.13%
Capitalization Ratio	Measures Accumulated Resources	50% to 85%	75.53%	87.36%	86.50%	85.48%	87.56%	88.07%	86.75%	87.51%	78.50%	72.93%	73.64%

COMPOSITE FINANCIAL INDEX (CFI)

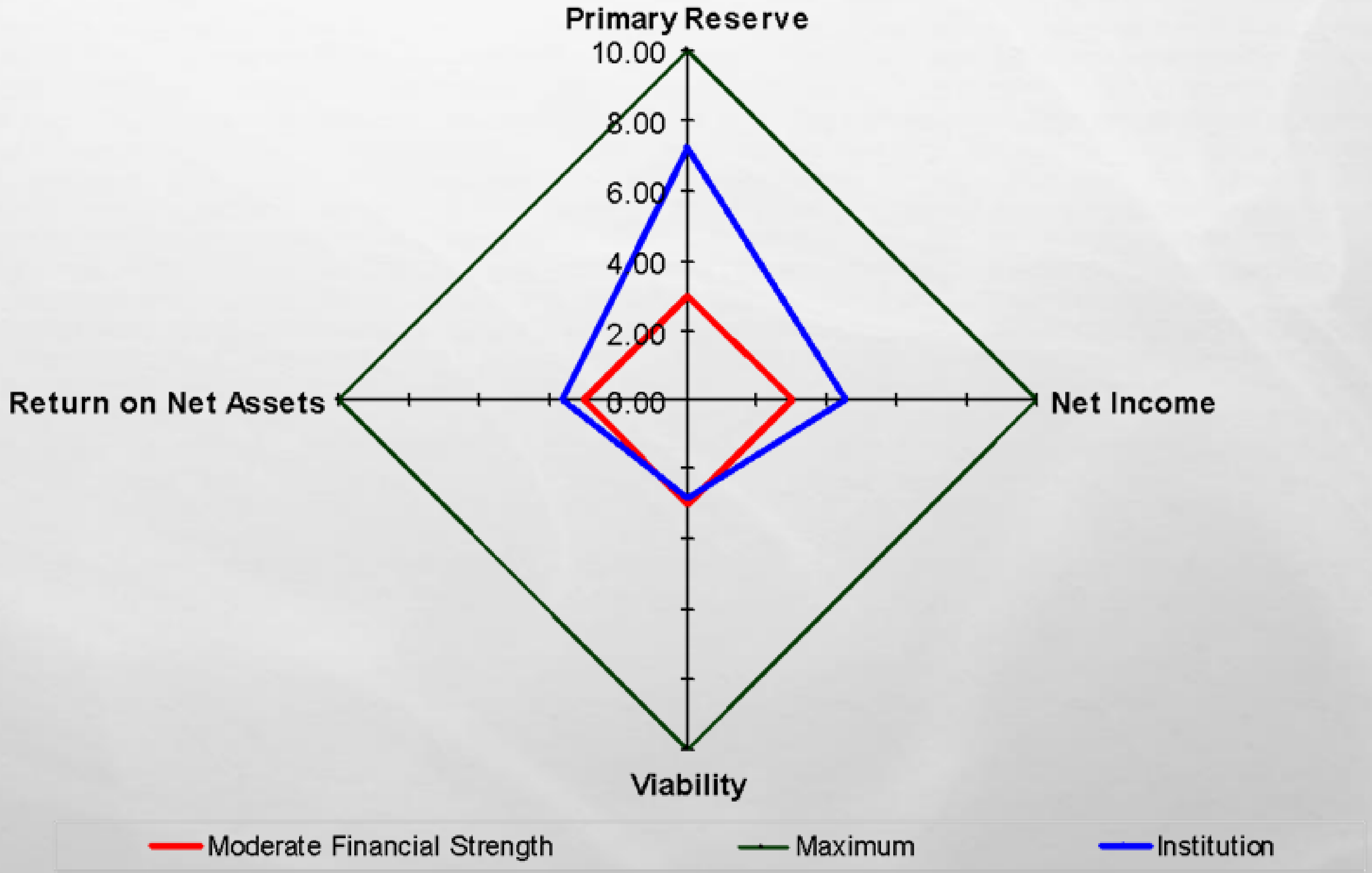
- COMBINATION OF FINANCIAL RATIOS USED TO ASSESS THE FINANCIAL HEALTH OF AN INSTITUTION.

- FINANCIAL RATIOS:
  - PRIMARY RESERVE
  - VIABILITY
  - RETURN ON NET ASSETS
  - NET INCOME (NET OPERATING REVENUES)

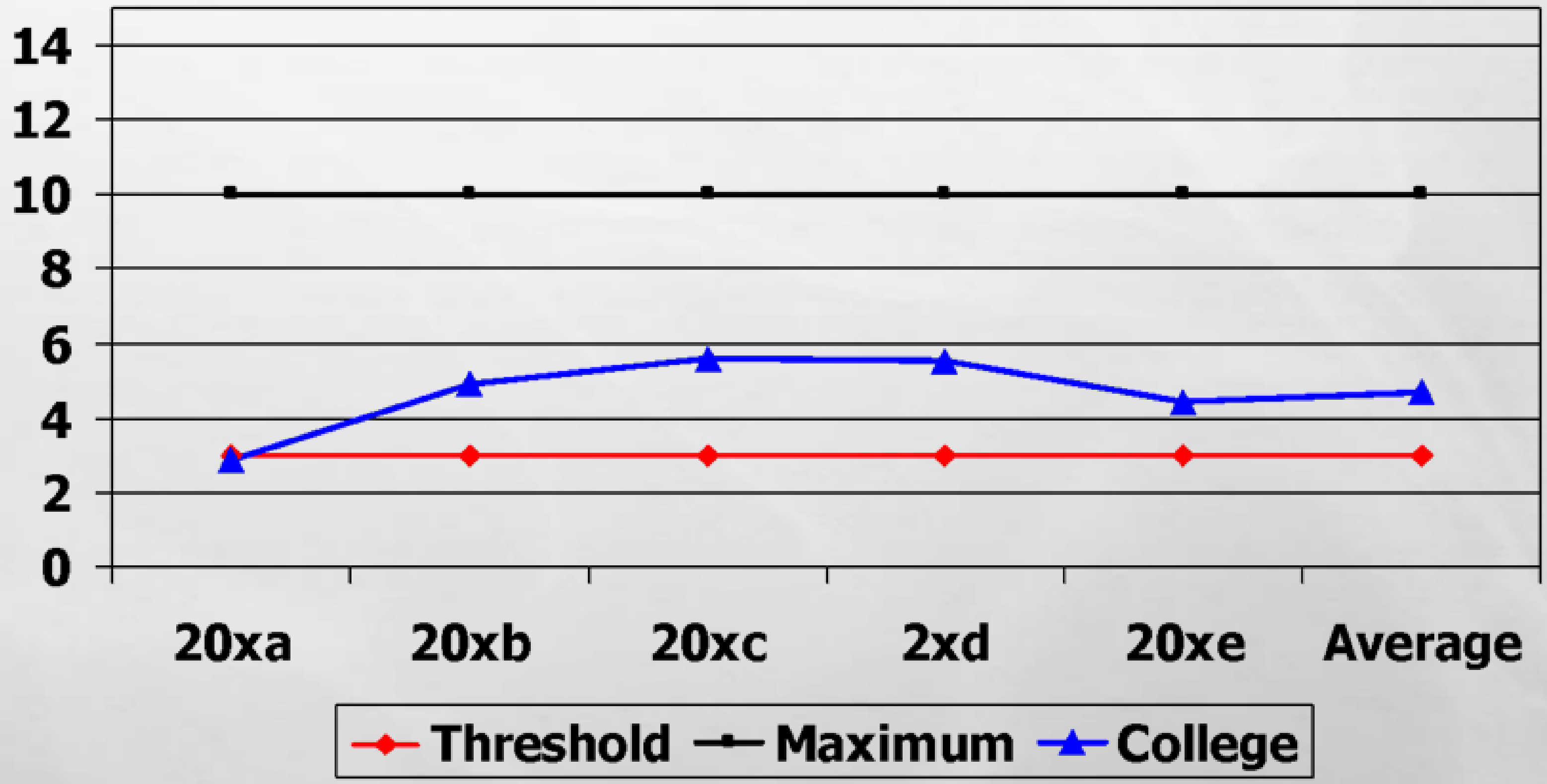
COMPOSITE FINANCIAL INDEX



COMPOSITE FINANCIAL INDEX
FIVE YEAR AVERAGE



COMPOSITE FINANCIAL INDEX
5 Year Threashold / College



COMPOSITE FINANCIAL INDEX (CFI)
Primary Reserve

- PRIMARY RESERVE
  - EXPENDABLE NET ASSETS / TOTAL EXPENSES
    - RESULTS SHOW HOW LONG AN INSTITUTION COULD FUNCTION WITHOUT ADDITIONAL NET ASSETS FROM OPERATIONS
    - 50% RATIO = 6 MONTHS OF EXPENSES
      - BENCHMARK => 40%
    - HISTORICAL INFORMATION SHOWS IF THE INSTITUTION INCREASED NET WORTH IN PROPORTION TO RATE OF GROWTH

COMPOSITE FINANCIAL INDEX (CFI)
Viability

- VIABILITY
  - EXPENDABLE NET ASSETS / TOTAL DEBT
    - RESULTS INDICATE AN INSTITUTION'S ABILITY TO BORROW
    - 1:1 RATIO INDICATES AN INSTITUTION COULD SETTLE IT'S OBLIGATIONS, IF FORCED.
    - INCLUDES ALL DEBT INCURRED FOR PLANT PURPOSES

COMPOSITE FINANCIAL INDEX (CFI)
Return on Assets

- RETURN ON NET ASSETS
  - CHANGE IN NET ASSETS / BEGINNING NET ASSETS
    - BETTER VIEWED OVER LONG PERIODS OF TIME
    - SIGNIFICANTLY IMPACTED BY INVESTMENT ACTIVITY AND NON-RECURRING GAINS
    - INSTITUTIONS SHOULD DEVELOP A REAL RATE OF RETURN TARGET (RECOMMENDED 3-4%) OVER A LONG PERIOD OF TIME

COMPOSITE FINANCIAL INDEX (CFI)
Net Income

- NET INCOME (NET OPERATING REVENUES)
  - CHANGE IN URNA FROM OPERATIONS / UNRESTRICTED REVENUES
    - IMPACTS THE OTHER RATIOS BY ADDING OR REDUCING TO NET ASSETS
    - RECOMMENDED RATIO AT LEAST 2-4% OVER EXTENDED PERIOD OF TIME (5-10 YEARS)
    - INSTITUTIONAL GOALS SHOULD INCORPORATE EXPECTED GROWTH IN TOTAL EXPENSES (INCLUDING DEPRECIATION)

Which mission was the first to successfully land a rover on Mars?

QUESTIONS & DISCUSSIONS

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RESOURCES

- *COLLEGE AND UNIVERSITY BUDGETING: AN INTRODUCTION FOR FACULTY AND ACADEMIC ADMINISTRATORS*, 3RD EDITION, LARRY GOLDSTEIN, NACUBO, 2005
  - ISBN 1-56972-031-2

- *THE SMALL COLLEGE GUIDE TO FINANCIAL HEALTH: BEATING THE ODDS*, *MICHAEL K. TOWNSLEY, PH.D., NACUBO, 2002*
  - ISBN 1-56972-023-1