

Strategic Budgeting: 10 Critical Policy Decisions

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Introduction

Budget policies are integral to strategic resource allocation:

- Create incentives that drive decisions
- Formalize expectations that influence institutional culture

Today's panel will:

- Discuss 10 critical budget policies and the range of options within each
- Explain the decision criteria used to rationalize each policy at their institution

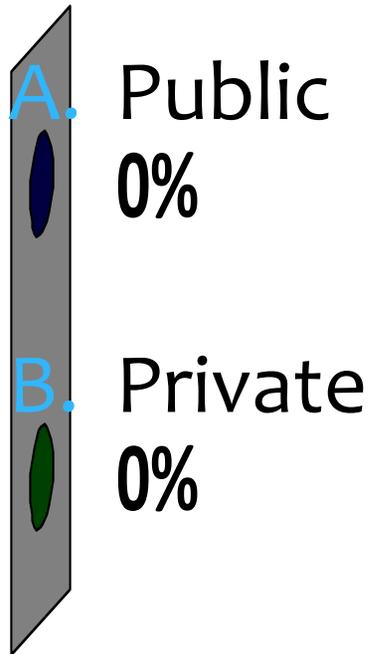
Session Objectives

- Better understand alternative policy options and how associated implications (cultural, financial, etc.) might impact your institution.
- Learn from the experience of other institutions that have conducted policy reviews and changes.
- Gain insights into changing the existing culture to make way for a more efficient budget approach that is better aligned with institutional priorities.

Budget Policy Topics

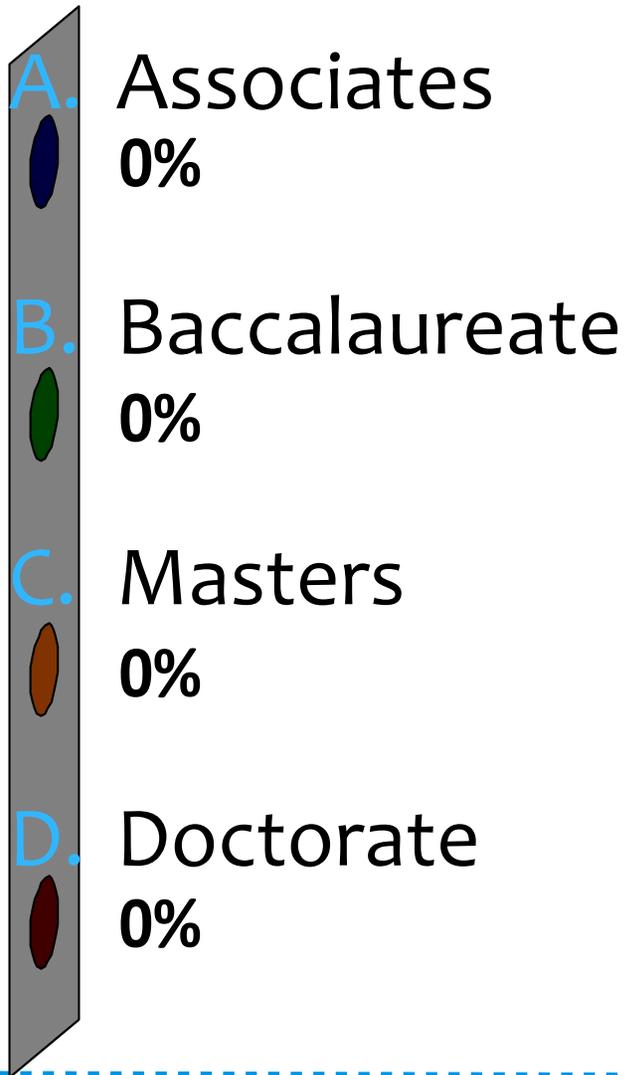
1. Budget Model Type
2. Restricted Funds Budgeting
3. Salary Budgeting
4. Tuition and Fee Revenue Distribution
5. Indirect Cost Recovery Revenue Distribution
6. Facilities and Space Cost Allocations
7. Administrative Cost Allocations
8. Gift Taxation
9. Carryforwards
10. Reserves Management

Demographics Poll: Governance

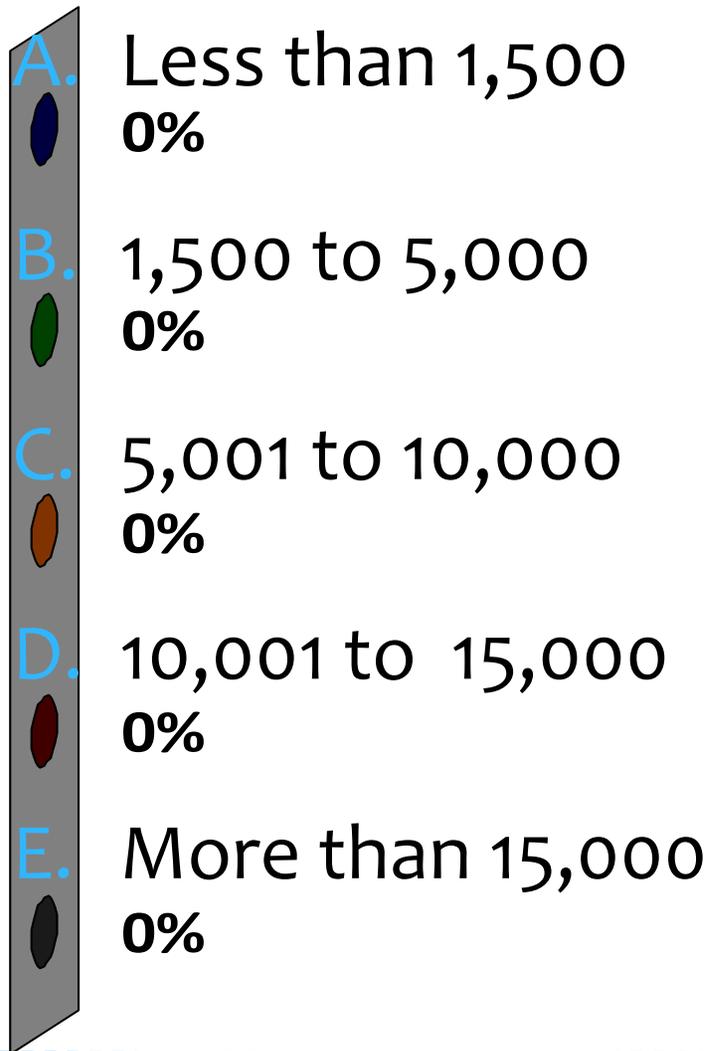


Demographics Poll:

Institution Type



Demographics Poll: Student Enrollment



Demographics Poll: Annual Expenditures



Budget Model

**The approach used for resource management,
allocation and planning.**

- Approach typically dictates level of central vs. local control.
- Many models are used to formulaically incentivize activities.
- Model should align with campus culture and leadership team's vision.

Policy Poll: Budget Model

3 years ago

Note: Multiple responses may be entered

Response Options	Explanation	
A. Incremental	Base budgets with annual increments	0%
B. Formula Funded	Activity levels on inputs	0%
C. Performance Funded	Activity levels on outputs	0%
D. Incentive-Based	Revenue and cost allocation with central funds for support	0%
E. Market-Based	Revenue and cost allocation with little or no central funds	0%

Policy Poll: Budget Model

Today

Note: Multiple responses may be entered

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Restricted Funds Budgeting

The practice of budgeting restricted funds.

- As more universities employ an “all funds” budgeting approach, they must develop policies related to the planning and management of restricted funds.
- Policies for restricted funds should consider overhead, restrictions, authority, time horizons, etc.

Policy Poll:

Restricted Funds Budgeting

Response Options	Explanation	
A. Not Budgeted	Excludes restricted funds from annual budget	0%
C. Budgeted	Includes restricted funds in annual budget, but not administrative costs associated with maintaining funds	0%
E. Budgeted with Full Costs	Includes restricted funds in annual budget, and associated administrative and distribution costs	0%

Salary Budgeting

The process for calculating the overall unit or institution's salary budget.

- The level of salary budgeting can impact the accuracy and complexity of salary budgets.
- Policy decisions may be driven by treatment of vacancies and use of merit-based salary increases.

Policy Poll: Salary Budgeting

Response Options	Explanation	
A. Employee Level	Forecast salaries for specific individuals and rolls-up for overall budget	0%
C. Job Code Level	Budget at position level to allow for changes by job family	0%
E. General Ledger Level	Salary budgets developed at rolled-up level for simplicity	0%

Tuition & Fee Revenue Distribution

The practice of distributing tuition and fee revenue to academic units.

- Several methods exist for the distribution (or retention) of tuition and fee revenue.
- Certain methodologies allow academic units to recover the costs of doing business and serve to reward unit behavior aligned with institutional goals.
- Allocation methods may vary between different types of tuition and fees (e.g. summer, online, graduate, etc.).

Policy Poll:

Tuition & Fee Revenue Distribution

Response Options	Explanation	
A. Central Retention	Central Administration keeps 100% of tuition and fees	0%
B. Allocation of Fees Only	Fees allocated directly to generating units; Tuition retained centrally	0%
C. Allocation of Fees and Select Tuition Types	Fees allocated to generating units; Select tuition (e.g. differential, special program tuition) allocated	0%
D. Pooled and Allocated by Formula	All tuition and fees allocated based on activity levels (e.g. credit hours, headcount)	0%
E. Allocated as Generated	Unit keeps 100% of tuition and fees	0%

Indirect Cost Recovery Distribution

The approach taken after receiving indirect cost recovery (ICR) revenues from sponsoring agencies.

- ICR revenues are determined using well-defined equations and calculations following sponsoring agency negotiations.
- ICR revenues are intended to cover operational expenses related to facilities and administration (F&A) in support of sponsored activities.
- Institutions may elect to reinvest these resources to stimulate further sponsored programs activity, although rarely is this a contractual requirement.

Policy Poll:

Indirect Cost Recovery Distribution

Response Options	Explanation	
A. 100% Central Retention	All ICR is retained in a central fund for general use purposes	0%
B. Share Between Central and PI/College	ICR is shared between a general central fund and PI/College	0%
C. Share Among Central, PI/College, and Research	ICR is shared among a general central fund, PI/College, and a research oriented fund or unit	0%
D. Option C but Limited Due to Voluntary College Cost-Share	ICR shared like Option C, but PI/College amount is limited due to voluntary cost-share by College (waived or reduced F&A rate)	0%
E. 100% Allocation to PI/College	All ICR allocated to PI/College	0%

Facilities & Space Cost Allocations

The process of assessing a portion of space costs to units.

- Generally, institutions do not recognize space costs.
- Allocating costs provides transparency into investments and true operating costs.
- Increases accountability in service levels provided.
- Wide array of space cost methodologies with a multitude of considerations (e.g. depreciation, type of space, quality of space, etc.).

Policy Poll:

Facilities & Space Cost Allocations

Response Options	Explanation	
A. No Allocations or Recharges	Facilities and space fully funded using central funds	0%
B. Work Orders Charged; <u>No Base Charge</u>	Facilities and space centrally funded; work order costs charged directly to units	0%
C. Work Orders Charged; <u>Base Charge to Auxiliaries</u>	Facilities and space centrally funded; Work order costs charged directly to units; Annual auxiliary 'base charge	0%
D. Work Orders Charged; <u>Base Charge to All Units</u>	Work order costs are charged directly to units, and a base charge is also levied on all units	0%
E. Charge for all services rendered as <u>consumed</u>	Consumption of services is charged to all units	0%

Administrative Cost Allocations

The process of assessing a portion of an administrative unit's budget to other units.

- Provides transparency into investments that may be misaligned with institution's mission and priorities.
- Often result in a call for increased accountability in service levels being provided and costs incurred.
- An appropriate methodology requires careful consideration of unit selection, budget philosophy, and product/service mix.

Policy Poll:

Administrative Cost Allocations

Response Options	Explanation	
A. No Allocations	Centrally fund all administrative units	0%
B. Allocation of Select Units	Costs are allocated only for some administrative units	0%
C. Overhead is Pooled and Allocated	Administrative costs are pooled and allocated using an overhead rate	0%
D. Full Allocation to Revenue Units	Allocate overhead but only to Revenue producing units	0%
E. Full Allocation With Step-downs	All units bear their share of costs, regardless of business model	0%

Gift Taxation

The practice of applying a tax to donations.

- Gift tax is different from a management fee.
- Often used to recover the costs of fund-raising and endowment management, as well as to redistribute funds to more strategic priorities.
- Developing a gift tax policy requires consideration of gift charters, restrictions, and anticipated uses.

Policy Poll: Gift Taxation

Response Options	Explanation	
A. No Assessment Applied	No tax on new or existing gifts	0%
C. Assessment Applied to Gift Revenues	Tax assessed on all incoming gift-related revenues	0%
E. Assessment Applied on Distribution	Tax assessed on all gift-related payouts	0%

Carryforwards (CF)

The practice of reallocating unexpended fund balances from one fiscal year for use in the next fiscal year.

- Often consider strategic in light of historical prevalence of “use it or lose it” policies.
- Often used to build up (reserve) funding for equipment replacement or unexpected events.
- Levels recently have been placed under greater scrutiny.

Policy Poll: Carryforwards (CF)

Response Options	Explanation	
A. Use It or Lose It	Central Admin retains 100% of revenues in excess of expenses	0%
B. Select Funds Carryforward	Central Admin allows CF for compensation or non-compensation	0%
C. Only Committed Funds Carryforward	Central Admin reviews annual unit request	0%
D. Partial Carryforward (taxation)	CF is permitted after a tax is assessed, and/or CF is capped at a specific dollar amount	0%
E. Keep It All	Unit retains 100% of revenues in excess of expenses	0%

Reserves Management

The practice of managing reserves or fund balances.

- Reserves serve as a resource for non-recurring strategic and capital investments.
- Operating, capital, and investment activities influence changes in a university's total reserves, which impact the strength of the balance sheet.

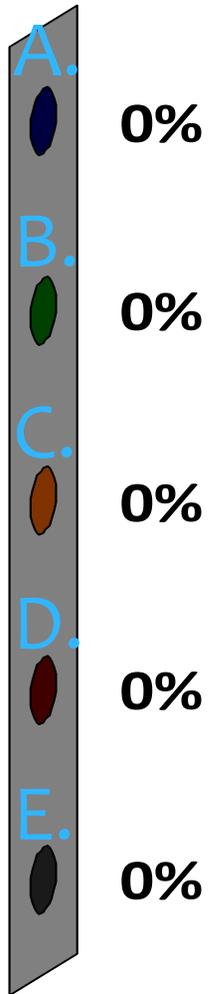
Policy Poll:

Reserves Management

Response Options	Explanation	
A. Focus on Consolidated Reserve Levels	Reserves managed centrally; Units use only budgeted amounts	0%
B. Promote Reserves at Unit Level	Reserves tracked at unit level, savings coordinated via central oversight	0%
C. Incentivize Reserves via CF and/or Interest	Unit level management of reserves with incentives from CF and/or interest	0%
D. Use a Portfolio Approach for Reserves	Utilize portfolio concept and university-wide budgeting	0%
E. Fully Integrate Reserves with Financial Management	Integrated central bank and capital bank linked to balance sheet management	0%

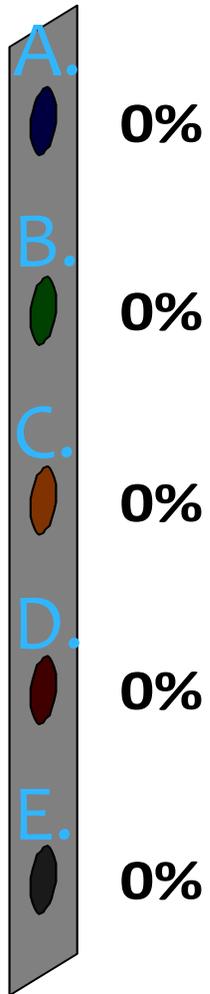
Participant Polling Request (1):

Question:



Participant Polling Request (2):

Question:



Participant Polling Request (3):

Question:

