Operational Budgeting

Jerry Farley
Washburn University

1

Budgeting Participants

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

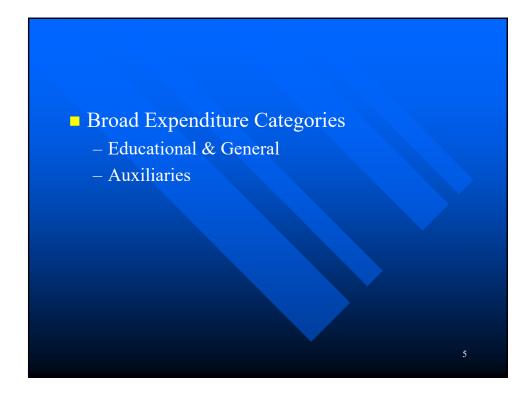
Budget Process

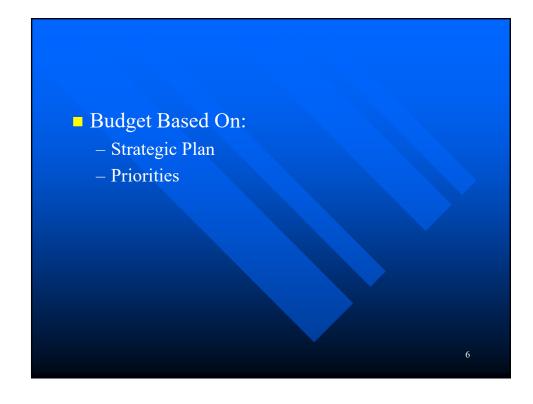
- Internal Review
- Estimate Revenue
- "Needs" Budget
- Alternatives
- Guidelines
- Salary Determination
- Redistributions/Reductions
- Implementation

3

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





Salary Program

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

7

Other Expenditures

- Employee Benefits
 - Allocate to Departments
 - Centralize
- Utilities

RESERVES

- Year End Carryforwards
- Size of Reserves
- Reserves vs/ Fund Balance

9

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

19

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

21

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

23

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

25

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

