

Budget Model Initiative (Phase 1)

March 2017

The Budget Model initiative is divided into two phases

Phase 1: Transparency (Fall 2016 / Winter 2017)

Thoroughly **define, describe** and **communicate** the current process in order to **seek necessary feedback** for Redesign phase

Phase 2: Redesign (Q2 2017)

Redesign budget model to provide leaders the **flexibility** to achieve their **strategic goals**

Phase 1: Budget Model Initiative team represented both faculty and staff with a variety of expertise

Initiative sponsors

Mardell Wilson

Dean, Doisy College of Health Sciences

Kent Porterfield

VP of Student Development

Initiative manager

Brianne Burcke

Director, Financial Planning and Budget

Initiative team

Faculty

Jim Fisher - Professor, Cook (Marketing)

Hal Parker - Associate Professor, A&S (History)

Kerry Ryan – Associate Professor (Law)

Staff

Kellisa L. Fiala - Financial Coordinator, Social Work

Kevin Riordan – Director Administrator, Surgery

Cyn Wise – Business Manager, Center for World Health & Medicine

The current budget model is perceived as a source of confusion

WHAT WE'VE HEARD

- There is a high degree of frustration and confusion about the budget model & process as it functions today
 - Lack of understanding about **how budgets are set**
 - Lack of clarity around **how funding decisions are made**
 - **Definition of “budget model”** varies across campus/groups
 - **Layers of approval** required for groups to reallocate budgeted funds
- Limited alignment of incentives and funding allocation with desired behaviors / performance
- Funding decisions are frequently “one off” vs tied to long-term strategic or resource planning
- Shifting funds can be **onerous** and **difficult**

Summary of report

THIS REPORT DOES...

- Define and describe the budget model at SLU as it exists today
- Provide information on key aspects how **SLU develops its annual budget** and how it **manages changes to spending** throughout the year
- Summarize SLU's **capital budget**
- Detail **elements of the decision-making** process associated with resource allocations within the University
- Provide **transparency on major pain-points/myths** associated with the budget process



THIS REPORT DOES NOT...

- Diagnose SLU's **financial challenges**
 - For more detail on SLU's financial/operating challenges and initiatives being developed, see the MOE website
www.slu.edu/operational-excellence
- Provide a **set of evaluations** or **recommendations** on what should be changed within the current process
 - This will be included in Phase 2: Redesign

The goal is to provide accurate facts to clear up as much confusion and frustration as possible related to the current budget model

Budget definition

THIS SECTION WILL...

- Clarify the **differences** between **Budget and Budget Model**
- Describe the **4 most commonly used fund types** of the 9 total that comprise the budget model
- Explain the **different methods** that SLU uses to **estimate revenues and expenses** depending on fund type

Definition: Budget and budget model are separate but related concepts

BUDGET MODEL

- The Budget Model refers to the **process/tools by which the budget** is created (i.e., method for estimating revenue and expenditures for a fiscal year)
- This method differs across SLU's 4 major fund types
 - Unrestricted
 - SLUCare / Center for Advanced Dental Education
 - Designated / Restricted
 - Sponsored Programs

BUDGET

- SLU prepares an annual operating budget to **estimate revenue** and reflect the **spending plan** of our expenses
- A **capital budget** is also determined to evaluate new and ongoing investments and improvements
- **Key reference point** used throughout the year to compare whether our revenues and costs are **above or below** what was **budgeted**
- Also contains a **multi-year analysis** developed centrally that is used to ensure that our financial projections allow us to achieve future goals

Definition: SLU's approach to estimating revenue and expenses depends on the fund type

Unrestricted	SLUCare / CADE	Designated / Restricted	Sponsored Programs
<p>FORECAST REVENUE AND MAKE INCREMENTAL CHANGES TO EXPENSES</p>	<p>START FROM ZERO AND BUILD REVENUE AND EXPENSES</p>	<p>CARRY FORWARD FUNDING FROM PREVIOUS YEAR</p>	<p>EXTERNALLY FUNDED PROGRAMS</p>
<ul style="list-style-type: none"> • Business & Finance collaborates with relevant administrative divisions and Provost to develop a view of revenue based on projected tuition, room and board, etc. and expenses based on the previous year's budget 	<ul style="list-style-type: none"> • Business & Finance estimates revenue and expenses based on expected business activity in the upcoming year 	<ul style="list-style-type: none"> • Funds roll over year-to-year and are used to fund designated/restricted activity 	<ul style="list-style-type: none"> • Awards fund multi-year projects • Year-to-year budgeting is based on expenses reimbursed by outside funder

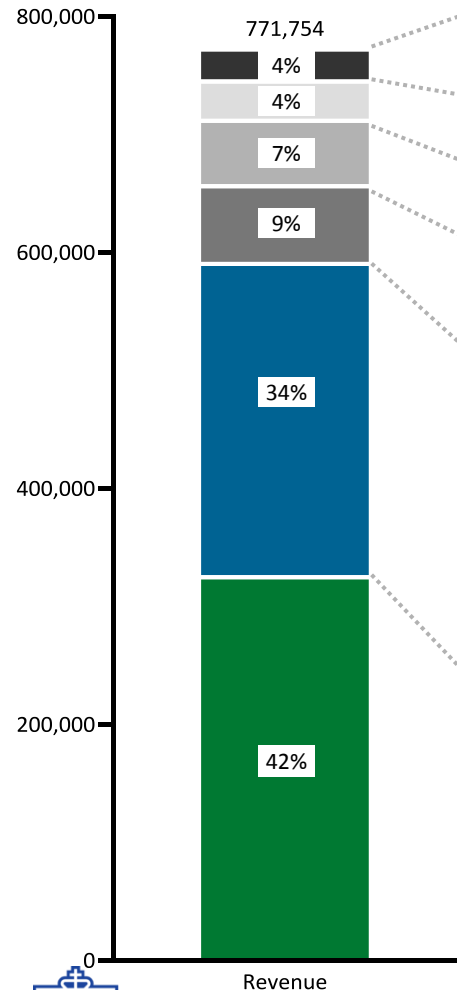
Budget development

THIS SECTION WILL...

- Provide a detailed analysis of **various revenue sources and expenses** including **methodology for forecasting**
- Detail the **process** by which **tuition revenue is calculated**
- Map the **process** and key **stakeholders for setting the expense budget baseline**
- Explain the criteria used to **make funding decisions** and what roles each stakeholder plays
- Define **overhead** and describe how it affects individual units
- Summarize the **capital budget** and how it interacts with departments

Method for deriving revenue projections varies by type

FY 2016 Revenue (\$000s)

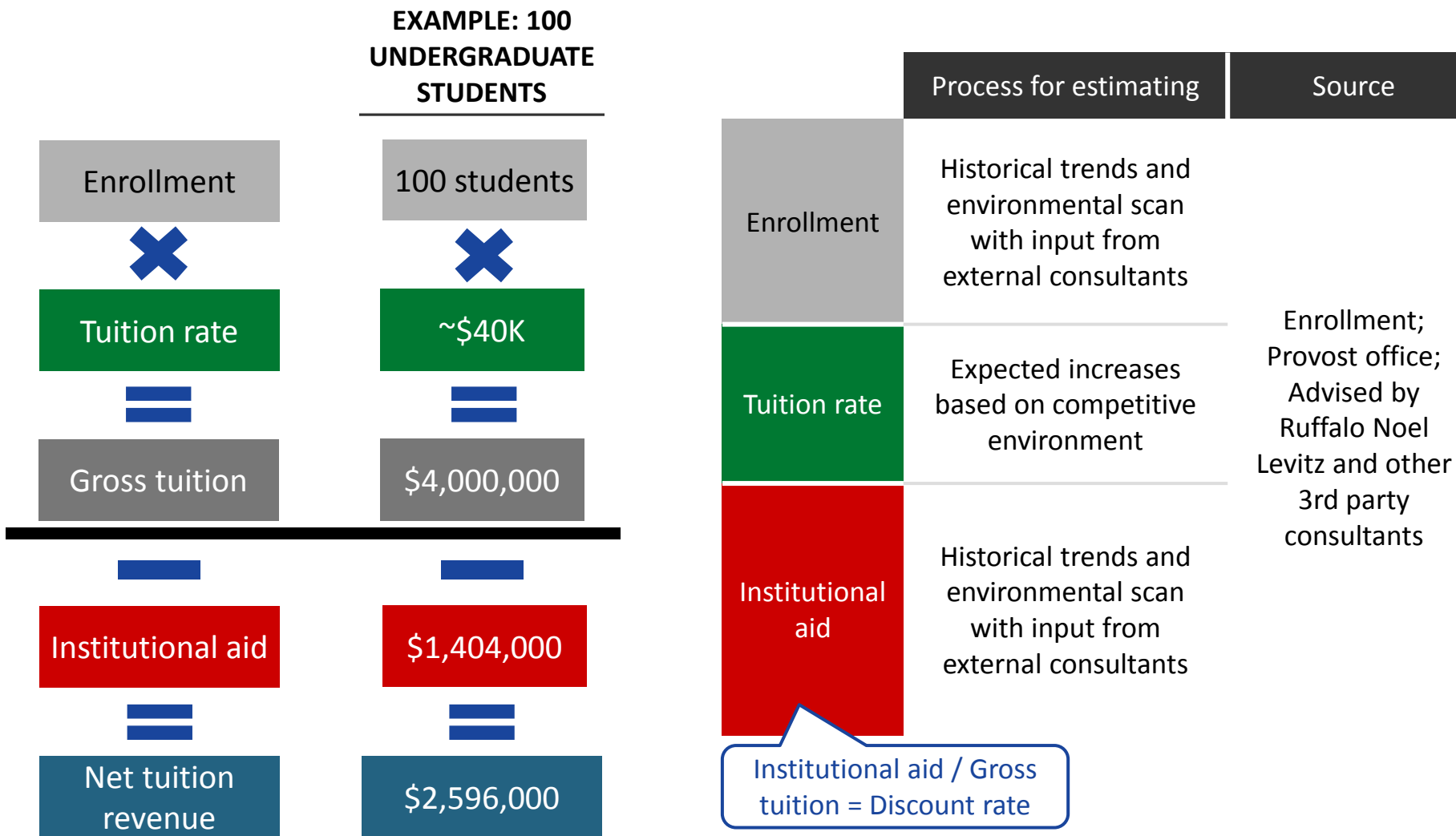


	DEFINITION	METHODOLOGY FOR ESTIMATING	SOURCE OF DATA	
Government grants and contracts	Revenue received from the government for various projects and studies	Historical trends and known info for upcoming fiscal year	VP of Research	
Contributions and private grants	Revenue donated by individuals or orgs.		VP of Development	
Endowment and other income	Income from investment gains	Estimated returns	Business & Finance	
Auxiliary enterprises	Room and board, athletics, retail and dining, parking services, etc.	Projected housing occupancy for upcoming year and historical trends	VP of Student Development and Director of Housing and Residence Life	
Tuition & fees	Gross tuition and mandatory fees	Revenue billed by SLU to students based on tuition rate	Historical trends and projection of enrollment change	VP of Enrollment then Provost sets College goals
	Financial aid	Any student assistance to help meet financial obligations related to their education	Historical trends, merit, gov't mandates	VP of Enrollment
Patient care	SLUCare patient fees	Historical trends and known info for upcoming fiscal year		



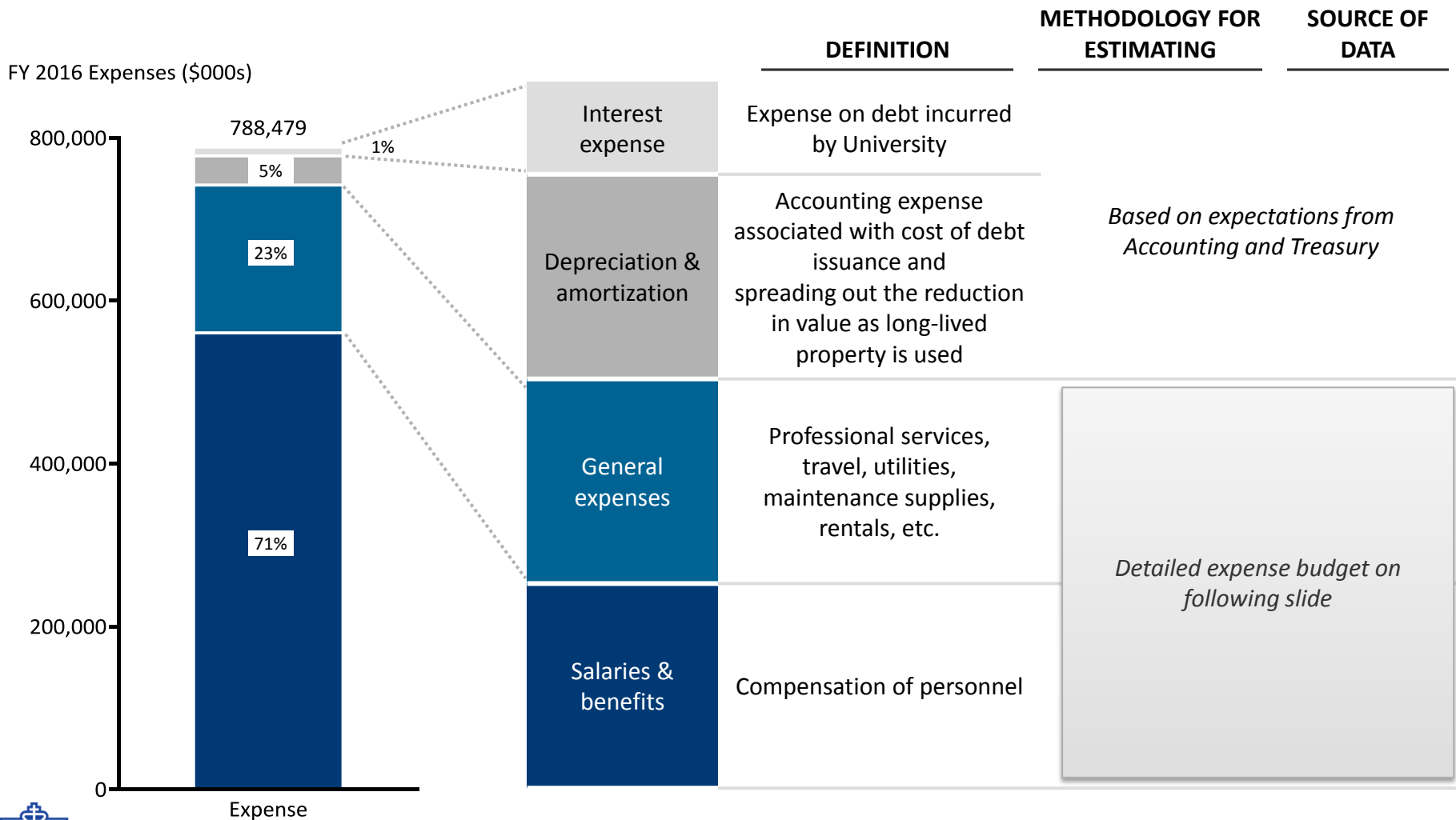
Source: Audited financial statements; "Other" category included in "Auxiliary enterprises"

Development: Estimating net undergraduate tuition revenue requires inter-departmental coordination



Note: Approved by Board of Trustees; Graduate enrollment estimate is more College/School driven than undergraduate with institutional aid determined locally; Tuition rate includes fees; Institutional aid is both University funded (forgone revenue by the University (~90%)) or externally funded (covered by outside funds excluding Pell Grants (~10%)); Discount rate assumed to be 35.1% (Actual FY16)

Development: General expense and compensation estimates are largely based on previous year's budget

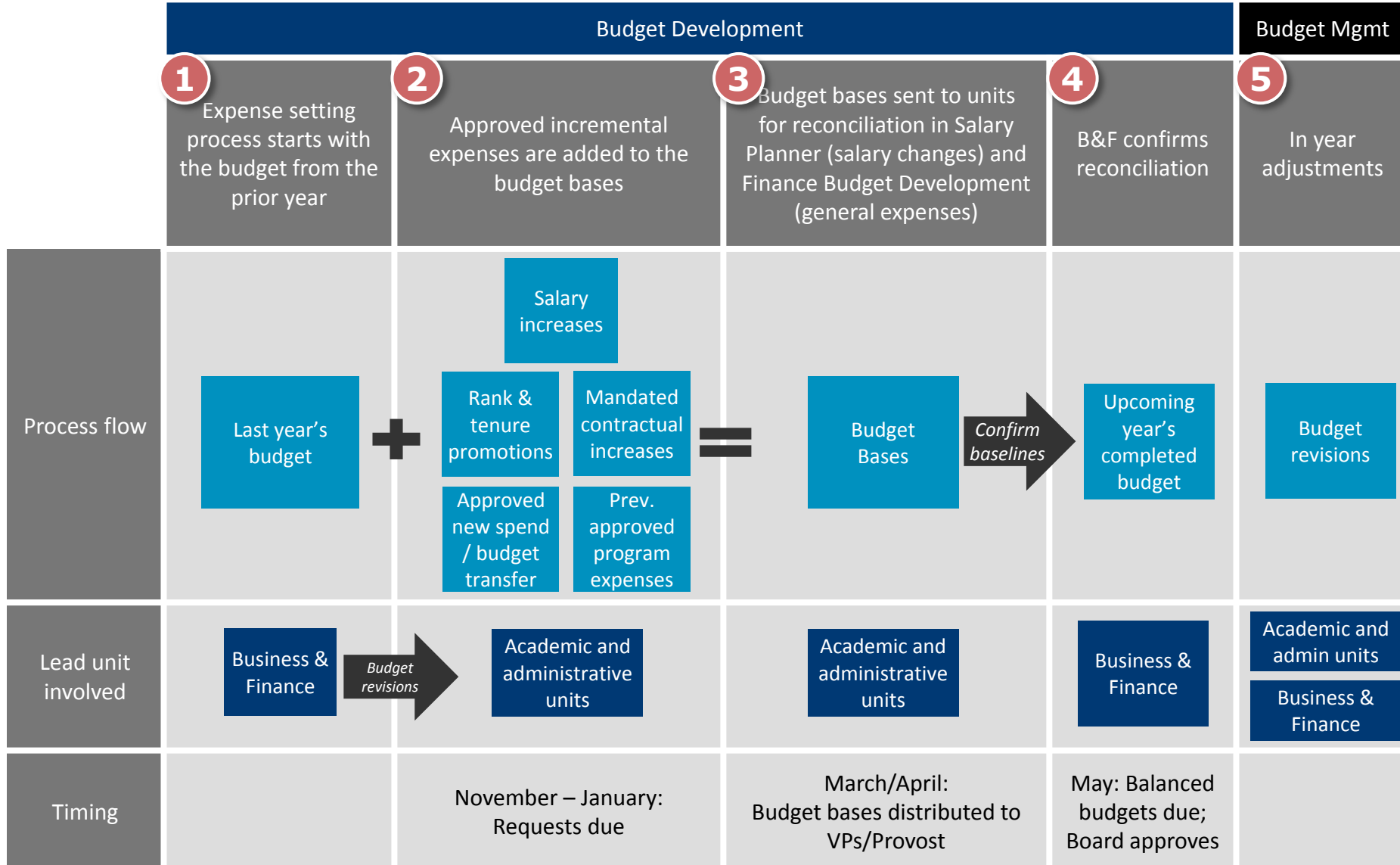


Source: Audited financial statements

Development: The decision-maker and criteria vary depending on the type of funding decision that is being made

	Decision criteria	Key decision-maker	Ultimate approver
Salary increases	<ul style="list-style-type: none"> • Performance evaluations • SLU's ability to fund • Equity considerations 	Immediate supervisor, Dean, and VP/Provost	President
Rank and tenure promotions	<ul style="list-style-type: none"> • Rank and Tenure criteria <ul style="list-style-type: none"> - Varies by College 	Rank and Tenure Committees, immediate supervisor and Dean	Provost
Approved short term new spend / budget transfer	<ul style="list-style-type: none"> • Needs of the unit / business case of new spend 	VP/Provost	President
Mandated contractual increases	<ul style="list-style-type: none"> • Obligations/agreements that are in place 	Approved as part of the initial contract	
Permanent budget revisions (within a unit)	<ul style="list-style-type: none"> • Alignment of spend adjustments to SLU's strategic goals 	VP/Dean	

Development: Summary of operating expense baseline process (Unrestricted)



Development: Overhead is necessary to operate the university

Definition	<ul style="list-style-type: none">• Ongoing business expenses that SLU incurs in order to operate the University
Key Components	<ul style="list-style-type: none">• Depreciation• Interest expense related to debt• Utilities• Facilities• Human Resources• Provost Office• President's Office• Enrollment• Security• Athletics• General Counsel• Technology• Libraries• Business and Finance• Research Office / Sponsored Programs Office• Student Services
Current Process	<ul style="list-style-type: none">• Only direct expenses are allocated to units• Overhead expenses are not charged to units, and revenue is not retained by them
How is overhead calculated?	<ul style="list-style-type: none">• Total Administrative expenses / Total revenue from all units

Development: Summary of capital budget

What it funds

- Major capital (eg. new dorms)
- Property / Deferred maintenance
- IT
- Equipment
- Construction projects

How it's set

- VPs and Provost review, prioritize and submit dept. requests to Business and Finance
- Business and Finance and Controller evaluate proposals and suggest amount to be approved by CFO and President
- Once approved, funding allocated to VPs/Provost by end of fiscal year

How it interacts with departments

- VPs and Provost prioritize projects based on how much funding was approved
- VPs and Provost submit plan to Business and Finance so that funding can be set up and projects can begin
- Business and Finance manages funds on an ongoing basis throughout the year
- Capital Budget Committee reviews/tracks projects throughout the year

Budget management

THIS SECTION WILL...

- Clarify the concept of **lapsing** as it exists today
- Demonstrate the **flexibility** that VPs and Deans **do and do not have** in reallocating spend
- Explain how **surplus** dollars are spent and how **deficits** are managed

Management: Historically, SLU's budgeting process created a mismatch between budgeted vs. actual personnel spend

Budget is set and spending occurs	Unexpected changes occur, creating more budget than actual spending	Excess budgeted dollars accumulate over time	These dollars are hard to quantify at unit level
<ul style="list-style-type: none">• SLU sets a budget for various staff and faculty positions• As those positions are filled, spending occurs based on the budget for those positions	<ul style="list-style-type: none">• If an employee leaves SLU, the spending goes down• However, the dollars budgeted for that position remain• This creates excess funds budgeted vs. dollars spent	<ul style="list-style-type: none">• Over time, these excess budgeted dollars remain in the budget, year-to-year, if a position remains vacant• The difference between the annual budget for a position and the amount actually paid for that position is referred to as lapsed dollars	<ul style="list-style-type: none">• Lapsed dollars remain in the budget but are not applied to each individual unit• This limits the flexibility of Deans/VPs around their personnel spend

Management: Reallocation of budgeted funds

Reallocation of funds *within* a division/College

Description

General expenses
(books, travel,
supplies, etc.)



Personnel
(salaries & benefits)

While funding reallocations can be made within each expense category, funds cannot be moved across buckets. This is to ensure that permanent year-to-year costs are contained

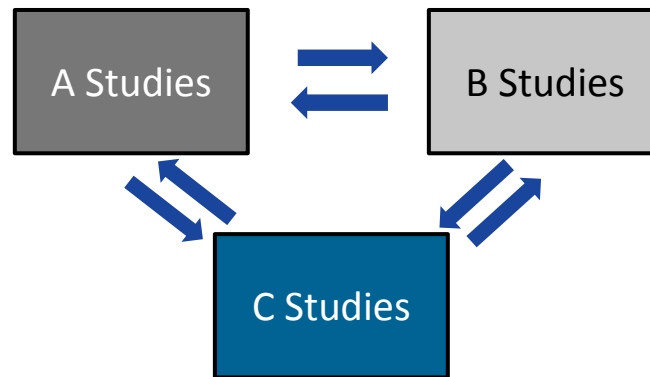
Decision makers

Typically, permanent budget revisions are initiated at department level, approved by Deans/VPs, and submitted to Business and Finance for review and processing

Management: Reallocation of budgeted funds

Reallocation of funds *across* departments within a College

Description



VPs and Deans have flexibility to reallocate budget for expenses between areas, Schools/Colleges, and depts.; Provost can reallocate funds across Colleges

Decision makers

VPs and Provost can reallocate funds without additional layers of approval providing more flexibility to manage units/Colleges as a whole

Management: Surpluses are managed centrally to ensure University-wide strategic initiatives are prioritized

	SURPLUS	DEFICIT
Definition	<p>Excess revenue that remains after all expenses have been paid</p> <p style="text-align: center;">Expenses < Revenue</p>	<p>Excess expense above the actual revenue</p> <p style="text-align: center;">Expenses > Revenue</p>
Process	Retained centrally; not at unit level	Paid by reserve funds at a central level
Management	Used to fund overhead, University-wide strategic initiatives, and capital projects, subsidize academic programs, build reserves, etc.	<p>Not sustainable long-term; prevents growth; depletes reserves</p> <p>Eliminated through cost savings or new revenue sources/opportunities</p>

Phase 2 will focus on budget model redesign

Phase 1: Transparency
(Fall 2016 / Winter 2017)

Thoroughly **define, describe** and **communicate** the current process in order to **seek necessary feedback** for Redesign phase

Phase 2: Redesign
(Spring 2017)

Redesign budget model to provide leaders the **flexibility** to achieve their **strategic goals**

North Campus Forum:

**Thursday March 30th, 2:30 – 4:00 PM
Busch Student Center Wool Ballroom**

South Campus Forum:

**Tuesday April 4th, 9:30 - 11 AM
LRC Auditorium A**

North Campus Forum:

**Friday April 21st, 3:00 - 4:30 PM
Location TBD**

Appendix

Transparency: FAQs

QUESTION	ANSWER
What is the budget and how is that different from the budget model?	SLU's operating <u>budget</u> estimates revenue and reflects the spending plan of expenses. The <u>Budget Model</u> refers to the process/tools by which the budget is created (i.e., method for estimating revenue and expenditures for a fiscal year)
How are Unrestricted expense budgets set?	Business & Finance collaborates with relevant administrative divisions and the Provost to develop a view of revenue based on modeling and expenses based on the previous year's budget levels.
What components are added or subtracted to last year's budget to get this year's budget?	Salary increases, rank & tenure promotions, approved new spend / budget transfer, mandated contractual increases, previously approved program expenses
What are SLU's largest revenue and expense components? (FY16 Actuals)	Revenue: Patient care (42%), Tuition and fees (34%) Expenses: Salaries and benefits (71%), General expenses (23%)
Who are the key decision makers for my new budget/spend requests?	Most decisions receive intermediate approval from the division VP/Provost before final approval from the President. Business and Finance processes new spend after final approval is granted.
What is overhead and why is my unit responsible for it?	Overhead is ongoing business expenses that SLU incurs in order to operate the University. It is not charged to units except for SLUCARE.
What happens to the surplus funds that my College generates?	Surplus funds are used to fund University-wide strategic initiatives, overhead, and capital projects, subsidize academic programs, build reserves, etc.
Is SLU's budget model more centrally or unit-level controlled	Due to lack of revenue distribution and overhead allocation, centralized surplus retention, and incremental budget setting, SLU would be described as having a central budget model



Please submit any additional questions / comments to www.slu.edu/operational-excellence