

**Drake University**  
**New 3-Year (FY06, FY07, FY08) Budget Approach**  
***Discussion Draft Summary for the Business, Finance & Investment Committee***  
***of the***  
***Drake University Board of Trustees***

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**Introduction**

With the approval of a balanced budget for FY05 in April 2004, it appears that the University's deficit spending has been corrected and our existing 5-Year Budget Plan is complete. It is now time to develop a new strategic, multi-year model to guide the University's budget planning for the next several years. I am proposing a 3-year model, covering FY06, 07 and 08, which would be developed over the next several months and would take effect in June 2005.

The development of a new 3-Year Budget Plan provides the University with an opportunity to rethink its overall budget process and to ensure that resources are directed toward institutional priorities in fulfillment of the Mission and the Strategic Plan. The new 3-Year Budget Plan should bring together the five goals of the Strategic Plan into a realistic and comprehensive financial projection which focuses on academic quality and fiscal sustainability.

Over the past couple of years, I have received frequent requests from the academic deans for more autonomy over both their revenue and their expenditure budgets. Similarly, I believe that it is time for more individual accountability with respect to budget management and budget results. It is also becoming increasingly clear that our historical budget funding may not be an accurate reflection of current institutional priorities or strategic planning. A new 3-year budget plan offers Drake University a tremendous opportunity to rethink processes and to rebuild funding allocations so that the budget of the University is an accurate reflection of the strategic plan translated into fiscal terms.

This draft document proposes a general direction for the new 3-Year Budget Plan, which incorporates those elements of opportunity and accountability that will guide Drake through the FY08 accreditation timeframe.

**Budget Plan Goals**

- To align budget resources with strategic planning and institutional priorities;
- To encourage revenue generation;
- To ensure good stewardship of institutional resources;
- To improve the fiscal health of the institution for the longer term.

### **Strategic Plan Focus**

Resource allocation should be a quantitative reflection of the strategic plan and institutional priorities. Budget allocations should not be based on where we've been, but rather on where we are going.

### **Strategic Improvement Plans**

Each College/School Dean will be asked to submit a three-to-five year Strategic Improvement Plan (SIP) based upon the individual College/School strategic plan. Directors of the major administrative budget units will also be asked to prepare SIPs. These SIPs should be reviewed and prioritized on an institutional basis. As part of the budget process, these SIPs would receive priority funding over and above any other requests (excluding compensation plans, employee benefit increases, uncontrollable utilities, insurance, critical contract increases, and required life safety costs).

### **Multi-year Resource Commitments**

Budget commitments to SIPs could be made up to 3 years in advance with the understanding that emergencies or unexpected circumstances might affect the University's ability to fulfill the future commitment (e.g., significant enrollment or endowment decline). It is also possible that unexpected gifts might accelerate the implementation of a future year commitment.

### **Gain Sharing Opportunity**

Each Budget Unit will have an opportunity to share a portion (50%) of the University's total net operating revenues in excess of the budget target ***when the overall institutional goals are exceeded***. Gain sharing opportunities would arise from budgetary expenditure savings for non-revenue producing units and from certain excess net revenues for revenue-producing units. See below for more details related to gain sharing.

### **Potential Reallocation of Budget Funds**

In addition to the submission of SIPs and various other budget requests, each Dean and Director would be required to provide a recommendation for *potential* funding reallocation (1 to 5% of the total) from his/her own budget into the University's Strategic Improvement Plan fund. The Budget Committee would discuss the consequences of recommended reallocations and would be authorized to reduce some/all unit budgets to better align strategic priorities and funding.

### **Elimination of Incentive and/or Revenue Sharing Plans**

To provide consistency and fairness throughout the institution, the new gain sharing opportunity will replace various unit incentive or revenue sharing plans. Also, any grant sharing plans will be eliminated for FY05. A potential new incentive model for grants is currently under discussion for implementation in FY05.

## **Budgetary Guidelines and Policies**

Included in this new budget plan will be a summary of budgetary/expenditure policies that will apply universally. The Cabinet will approve these accounting policies.

### **Budget Committee**

An institutional budget committee will be needed to prioritize strategic initiatives and recommend budget allocations. Currently, the budget decisions are made by the Cabinet in consultation with the Business, Finance and Investment Committee of the Board of Trustees.

### **Public Accountability**

Budget Management will be used as a significant performance measure for determining the individual Dean's/ Director's annual salary increase. Moreover, unit budget results will be shared with the campus community and the Board of Trustees annually.

### **Gain Sharing**

#### **General guidelines:**

The University budget will need to be established with a **bottom-line surplus target** (e.g., a percent of operating revenues). The targeted surplus will be phased in over the 3-year budget so that the ultimate goal is met by FY08. The University target needs to include some provision for contingency. Mandatory contingency budgets from each unit will continue.

Some **baseline for enrollment** (e.g. FY04 results) would be established for both undergraduate and graduate students in each college/school. To be eligible for gain sharing, there must be enrollment growth (i.e., increase in the # of FT students and in the # of credit hours for PT students) over the baseline. In other words, revenue growth which results purely from rate increases will not be part of the gain sharing, but will be part of the equation for setting the unit's base net revenue budget for each year.

**Budget overages** will be deleted first from unit's restricted gifts (if any) and may result in budget reduction in future years. If a **gain sharing opportunity** is anticipated, each dean or director will be asked to decide if the unit's gain share should 1.) be deposited into a quasi-endowment fund to help enhance the unit's operations in the future or 2.) be used for bonuses or for some non-recurring improvement (to be defined by the unit) in the following year. *The remainder of the gain (the other 50%) reverts to the University to be used for such things as: bonuses, capital improvements, one-time only SIP requests, or other non-recurring institutional priorities.*

#### **Specific Guidelines:**

**Each cost center** is expected to meet the expenditure budget defined without overspending (benefits might be the only potential exception). All miscellaneous

revenues will be managed at the institutional level. Any expenditure savings will be subject to gain sharing rules.

**Each revenue-producing unit and auxiliary operation** would be expected to provide either a percent of revenues or a net dollar amount toward the University enterprise to offset central administration and other indirect costs. All direct costs would be charged to the unit. Each unit would have a bottom line target to meet annually for both revenues and expenses.

**Each college/school** would be eligible for gain sharing on graduate and/or other special programs revenue only. Institutional financial aid (if any) will be allocated against the graduate tuition on an aggregated basis (vs. by individual student). All direct expenses associated with undergraduate programs would be separated from graduate and/or other special programs. Each college/school would be expected to provide a percentage of net graduate/special program revenues or a net dollar amount toward the University enterprise annually. To avoid, undue focus on graduate programs, gain sharing would be contingent upon first meeting an undergraduate and graduate enrollment baseline in each college/school.

#### **Some Advantages and Challenges of the Gain Sharing Approach:**

- Accountability for budget management is dispersed as is responsibility
- Involves entire campus more directly in strategic thinking and planning
- Units may be more likely to over-estimate revenues in an attempt to increase expenditure budgets
- Should provide incentives for developing new revenues and being more creative and efficient regarding expenditures
- May shift focus to graduate programs at the expense of undergraduate education
- Creates more recognition of inter-relatedness; if the University goals are not met—no one benefits from gain sharing
- May encourage silo mentality as opposed to institution-wide focus
- Resources will eventually shift to those units with greater “profits”-- philosophically and strategically is that the direction we want to go?
- Salary increases (especially, bonus opportunities) may begin to vary between those units producing additional revenue and those who are not—this could seriously impact pay equity between units
- Some units which are absolutely fundamental to the University may not be in a position to generate additional revenues and thus, could suffer (e.g, academic programs as well as administrative cost centers) as resource allocations shift
- May create emphasis on quantity vs. quality—do we need quality indicators/baselines in the budget as well as the quantity indicator?
- The track record for budget management in some units is not good; with revenues in the mix, the problem could be magnified.
- Requires more administrative oversight centrally to monitor each Unit

