



2012 Summer Leadership Retreat

Framing a Transparent, Mission-Based Budget Process

July 26 - 27, 2012

Presentation Overview

- Key Outcomes & Questions
- What is VCU?
- Financial Realities
- New Budget Concepts at VCU
 - Case Studies
 - Current Budget Process
 - New Budget Process
- Small Group Discussions

Key Outcomes and Questions

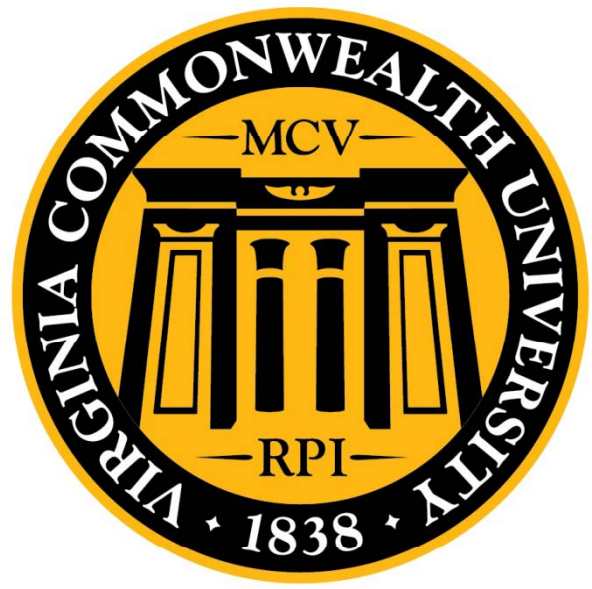
Key Outcomes

1. Develop a common understanding of the high level revenue/expenditure structure of the institution and current budgeting model (Budget 101)
2. Share a dialogue about the importance of transforming VCU's budgeting process given the reality of economic constraints (state and national)
3. Based on feedback received, better understand parameters, principles and goals for a new budget process and planning initiatives in FY13
4. Dialogue about more transparent and accountable budget models through examples of a pilot projects involving two academic units
5. Dialogue about the concept of reallocating resources (human, infrastructure and financial) to meet State requirements and for VCU's future needs
6. Identify strategies for both academic and administrative units to develop unit-based transparent and accountable based budgets

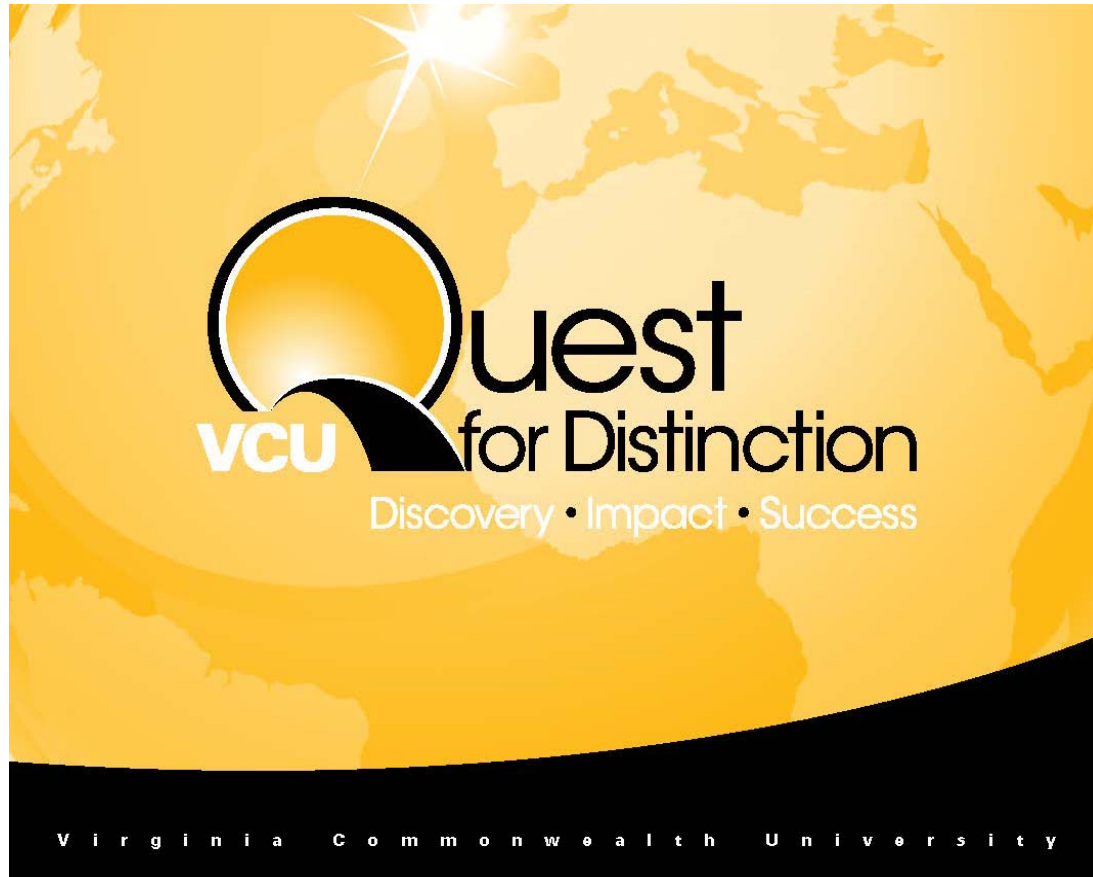
Key Questions

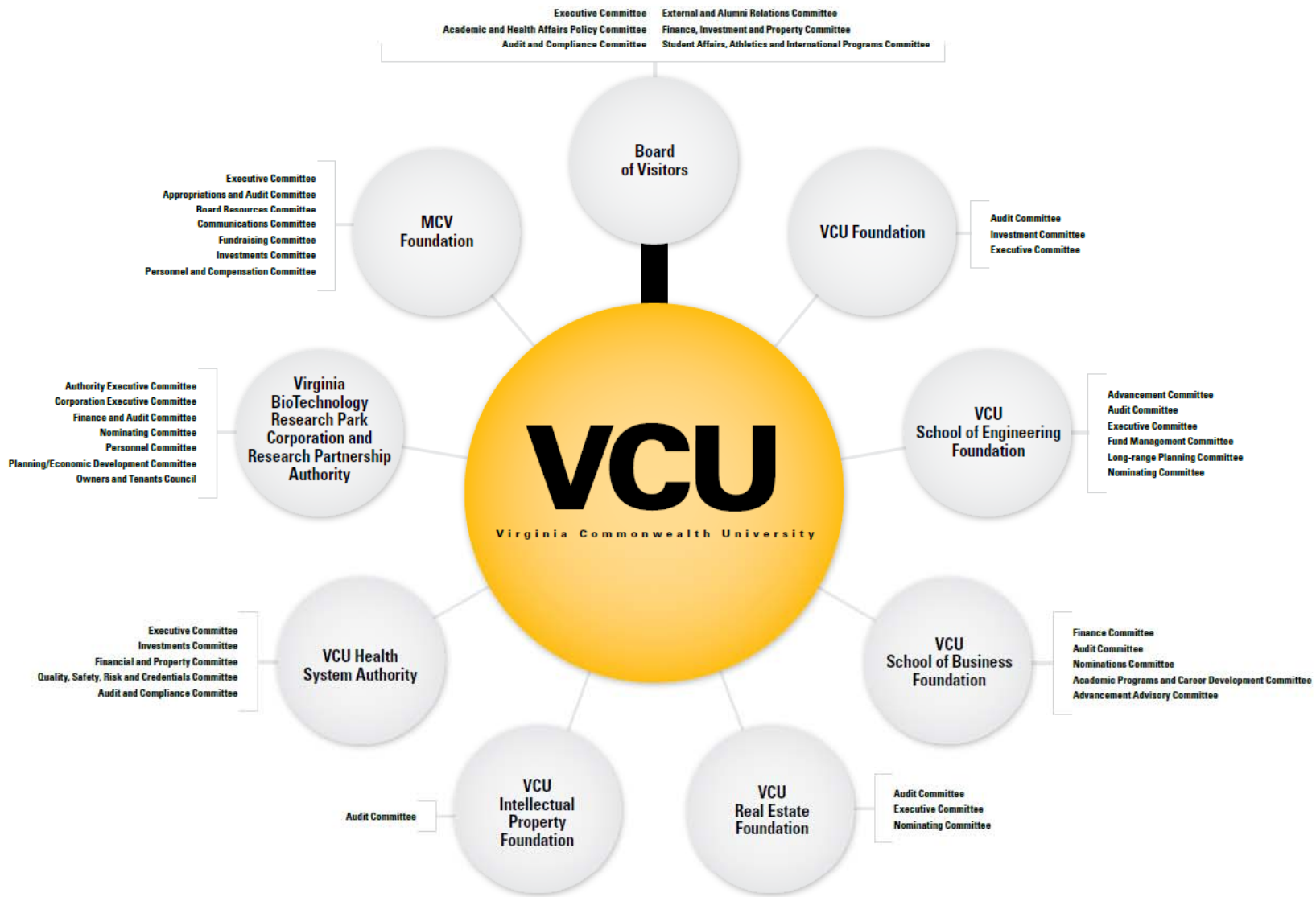
1. Why should we pay attention to the budget process? Why is process important?
2. How does my unit currently engage in its budgeting process and also ensure that priorities and needs are raised to leadership?
3. What criteria should we use at VCU when prioritizing resources?
4. How can we generate faculty involvement, buy-in and ownership in the resource prioritization process going forward?
5. How do we move from looking within our departments to taking on a university-wide view -- what financial mechanisms can the university put in place to assist? What barriers and challenges are in place?
6. How would we go about reallocation? How is reallocating different from cutting budgets? For example, is requiring a unit to pay for a bonus for its faculty and staff the same as a budget cut? How do we create equity if schools/units must fund their own salary increases?
7. What does the landscape look like for tuition increases going forward?

What is VCU?



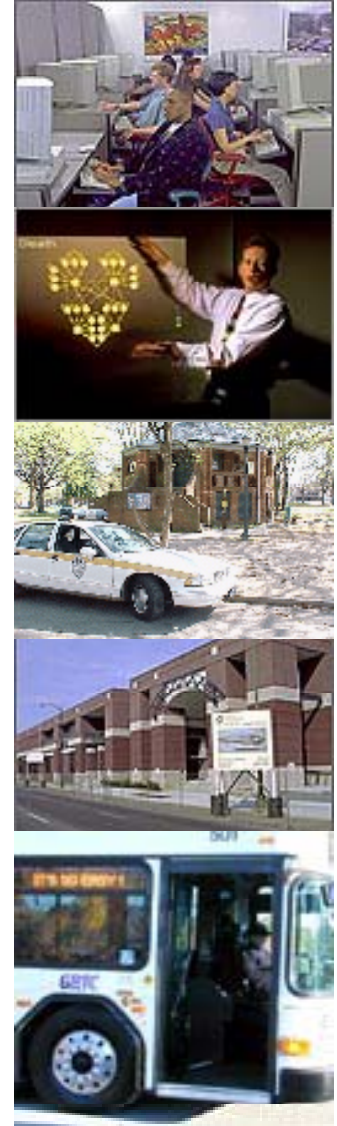
VCU





VCU is a vast and complex organization . . .

- 6 Affiliated Foundations (\$4.3M to operate)
- 32,000 students
- 11,000 employees (19,000 with VCUHS)
- \$2.7 billion combined revenue (with VCUHS)
- \$1.9 billion combined holdings (all entities)
- Housing for 5,242 students (soon 6,000)
- Security (92 officers; 200 security officers)
- 25,000 personal computers; 4,079 servers and network devices
- 1.57 million meals annually in VCU dining facilities
- Parking for 16,443 faculty, staff, and students
- 11,914 owned and leased spaces
- 1M+ student, faculty and staff transit trips
- 208 VCU campus buildings (capital replacement \$2.44B)



Financial Realities: Revenues and Expenses

Revenue Sources

- State Funding
- Tuition & Fees
- Sales & Services
- Grants & Contracts
- Other Sources

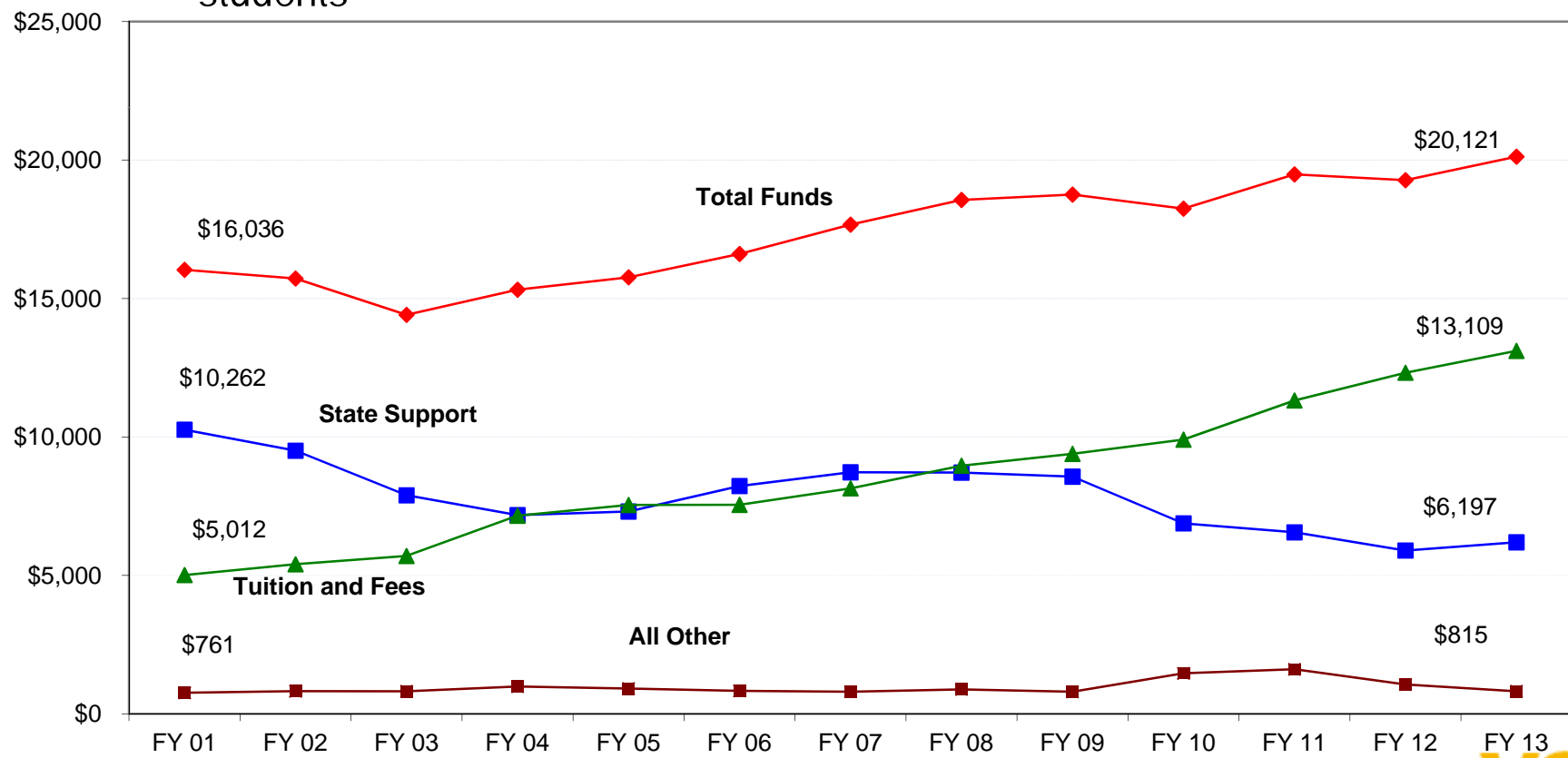


State Funding

- Virginia is not a high spending state
 - State tax burden (revenue as % of personal income) consistently ranks in the lowest quartile among all states
- State budget structure means higher education is a discretionary budget expense
 - Virginia ranked 43rd for higher education support per \$1,000 of personal income (State Higher Education Finance, SHEEO, 2011)
 - VCU lost net \$63.5 million in state E&G operating support between FY 2008 and FY 2012
 - FY2013 will show a partial restoration of state funding

State Funding: A shift from state to students

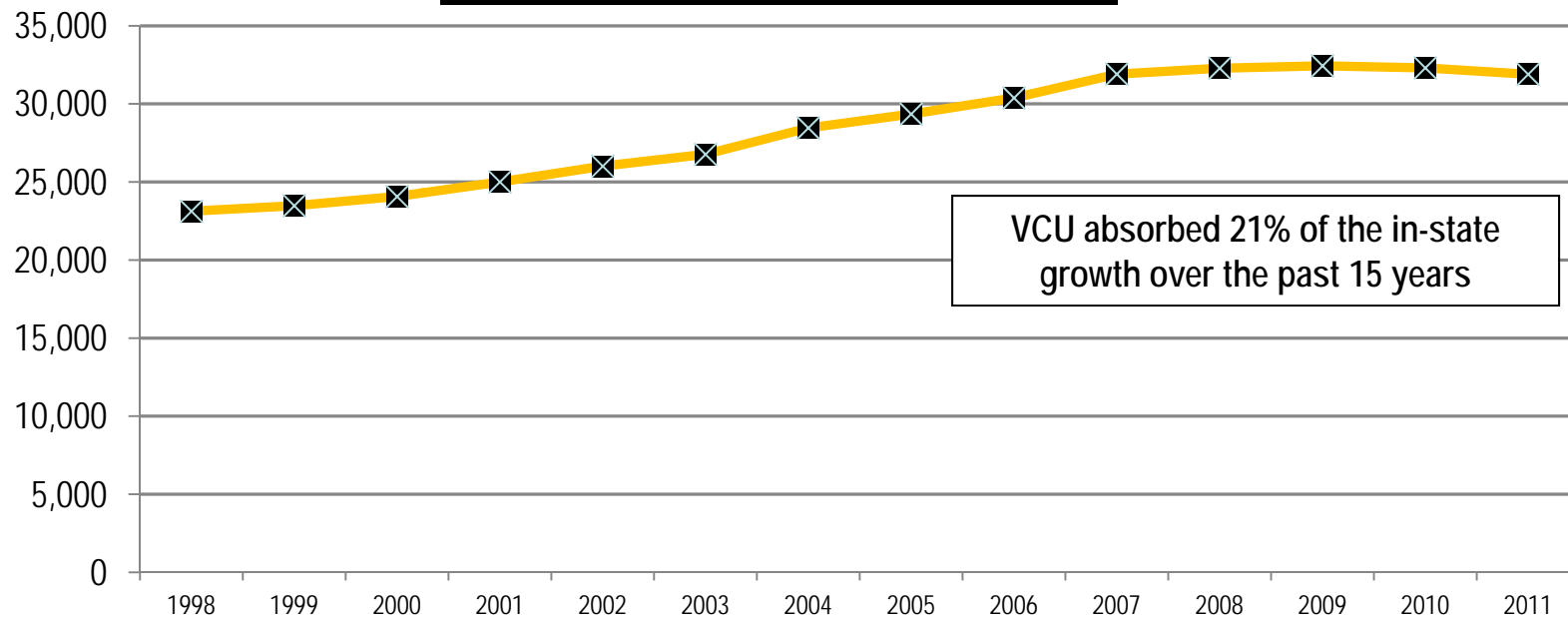
- Reductions in state support over the past decade are evident – although that finally halted with the 2012 – 2014 biennial budget
- Per student funding trends show a clear shift in cost from the state to students



Enrollment: largest # of in-state students (27,000+)

Among 4-year public institutions, VCU accounts for 15% of total enrollment

VCU's Total Enrollment, 1998 - 2011

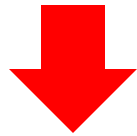


Total Enrollment for Virginia's 4-Year Institutions, 2011

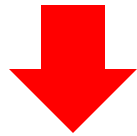
GMU	VCU	VT	ODU	UVA	JMU	RU	W&M	NSU	VSU	UMW	CNU	LU	UVA-W	VMI
32,320	31,899	30,936	24,753	24,297	19,722	9,370	8,200	7,091	5,890	5,170	4,990	4,860	2,067	1,605

Tuition & Fee Trends

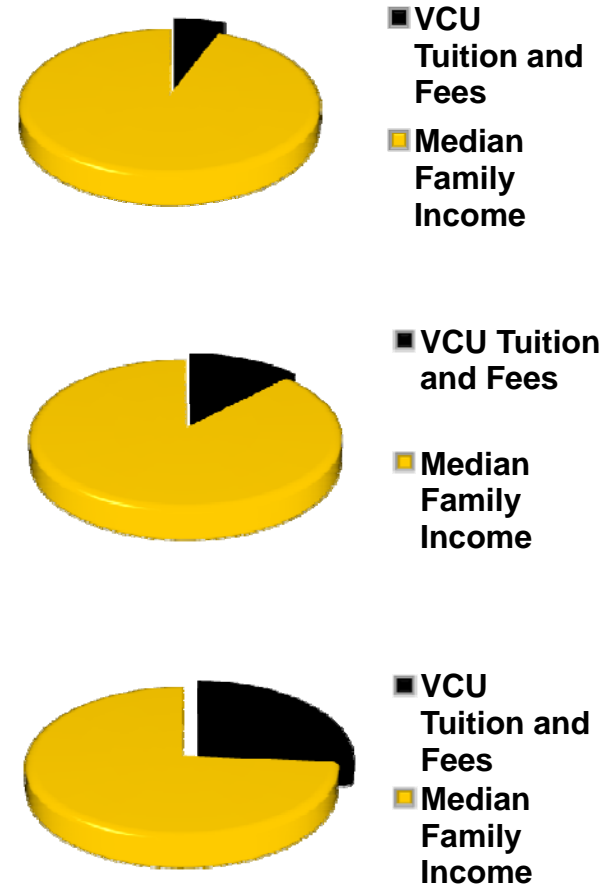
In 2001-02, VCU tuition & fees comprised **5.9%** of the median family of four income



In 2011-12, VCU tuition & fees are **12.3%** of the median family of four income



By 2021-22, if trends continued as over the past 10 years, tuition and fees would be **26.2%** of median family income of four



Sources:

VCU Tuition and Fees Approved Budget Plans

U. S. Census Bureau-Size of Household by Median Income

Tuition and Fees Assumption: FY 2013-2022 projected tuition increase is based on the average tuition and fee increase over the prior 10 years (2001-2012)



Tuition and Fees

- For FY 2011, BOV adopted tuition and fee rates that, while remaining slightly below average among the 15 four-year institutions, were in line with the mission and breadth of disciplines provided at VCU

	Tuition and Mandatory E&G Fees	Mandatory Non-E&G Fees	FY 2010 Total	FY 2011 Total
VMI	\$ 5,500	\$ 5,690	\$ 11,190	\$ 12,328
W&M	6,483	4,317	11,100	12,188
UVa.	7,873	1,799	9,672	10,628
LU	4,725	4,200	9,135	9,855
Va. Tech	7,240	1,365	8,605	9,459
CNU	4,414	3,636	8,250	9,250
VCU	5,253	1,864	7,117	8,817
GMU	5,840	2,184	8,024	8,684
UMW	4,946	2,166	7,312	7,862
JMU	3,734	3,510	7,244	7,860
ODU	4,412	2,905	7,317	7,708
RU	4,396	2,508	6,904	7,694
UVa-Wise	3,596	3,052	6,648	7,194
VSU	3,584	2,590	6,174	6,570
NSU	2,952	2,920	5,872	6,227

Tuition and Fees

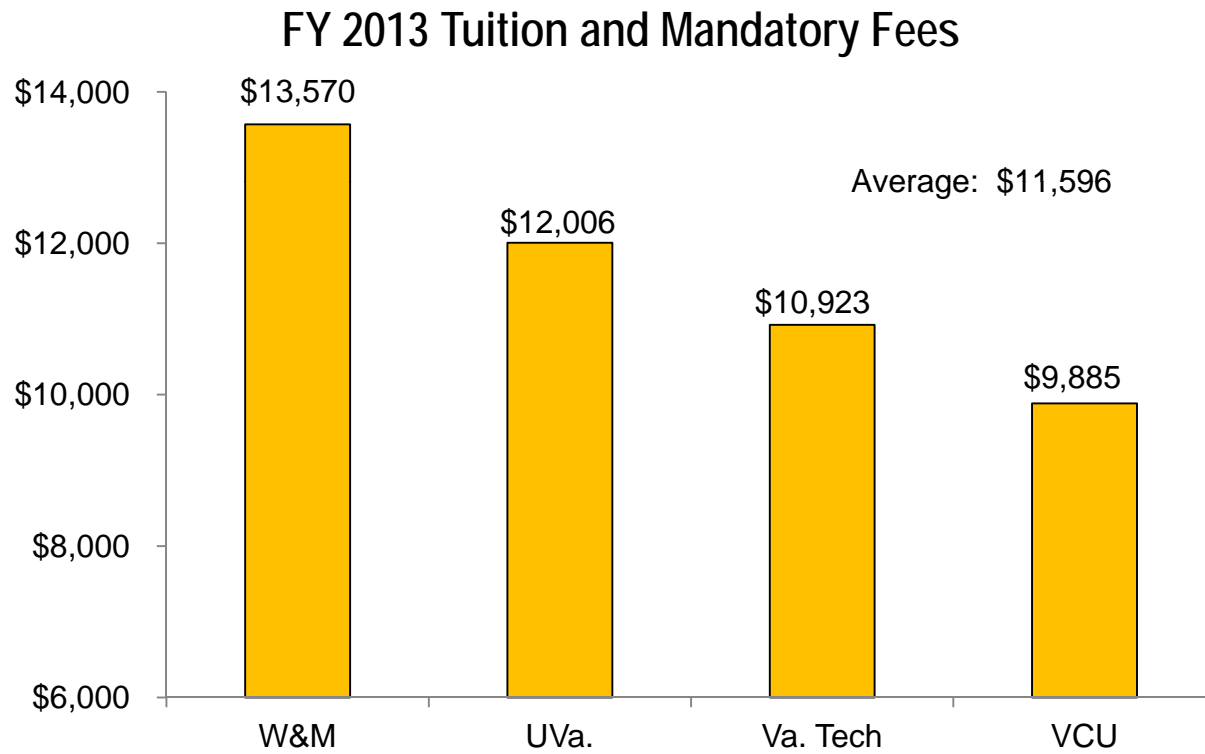
- For FY 2013, VCU increased total tuition and fees only 3.7%
- VCU is slightly below average among four year institutions

	FY 2012 Tuition & Mandatory Fees	FY 2013 Tuition & Mandatory Fees	% Change
W&M	\$13,132	\$13,570	3.2%
VMI	13,184	13,835	4.7%
UVa.	11,576	12,006	3.6%
LU	10,530	10,890	3.3%
Va. Tech	10,509	10,923	3.8%
CNU	10,084	10,572	4.6%
VCU	9,517	9,885	3.7%
GMU	9,266	9,620	3.7%
UMW	8,806	9,246	4.8%
JMU	8,448	8,808	4.1%
RU	8,320	8,590	3.1%
ODU	8,144	8,450	3.6%
UVa-Wise	7,721	8,107	4.8%
VSU	7,090	7,420	4.4%
NSU	6,690	6,760	1.0%

Source: FY 2012 from SCHEV Tuition & Fee Report; FY 2013 from SCHEV report to House Appropriations Committee, June 18, 2012

Tuition and Fees

- VCU remains below the other Tier III institutions



Tuition and Fees

- Revenue from nonresidents effectively insulates many institutions from state budget cuts
- VCU does not enjoy that insulation

Projected Non-resident Enrollment and Tuition Revenue, FY 2012

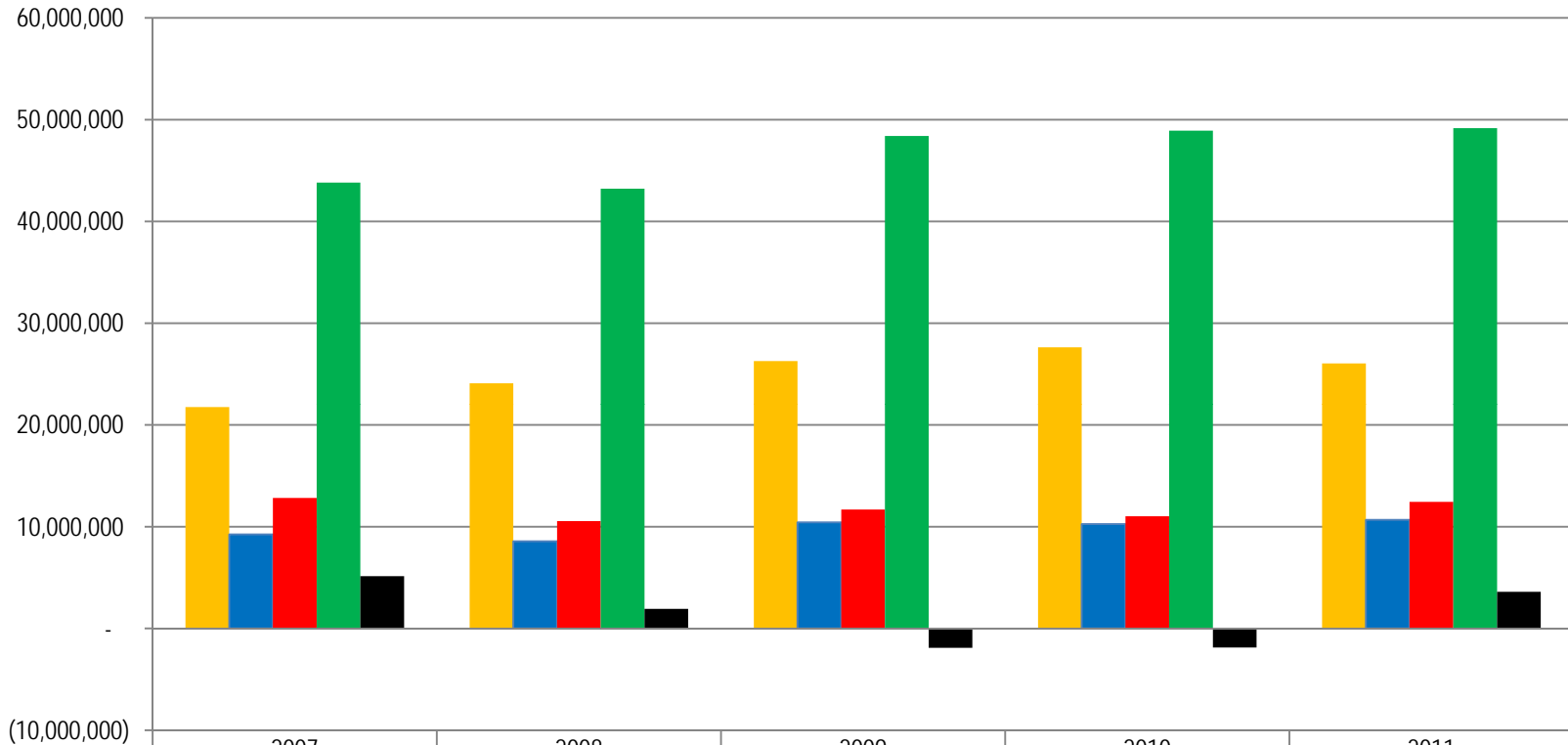
	<u>% Non-resident Undergrads</u>	<u>% of Undergraduate Tuition from Non-Resident Undergrads</u>	<u>% of Total Tuition from Non-Resident Undergrads</u>
JMU	27.4%	60.0%	53.8%
W&M	33.4%	65.7%	56.8%
VT	26.4%	45.5%	39.2%
UVA	32.8%	64.5%	48.5%
GMU	14.0%	34.2%	25.0%
ODU	8.5%	16.7%	13.5%
VCU	10.3%	20.1%	16.1%

Source: SCHEV. Fall 2011 Headcount Enrollment. SCHEV NGF Survey, May 2011.

Excludes revenue from First professionals, Unused tuition, Other.

Percentages reflect estimates provided by institutions for SCHEV NGF Survey, May 2011. Some estimates may have changed based on submitted Six-Year Plans.

VCU Business Services Auxiliary Sales ⁽¹⁾ and Margin ⁽²⁾



	2007	2008	2009	2010	2011
Dining Services Sales	21,761,522	24,097,984	26,280,305	27,628,802	26,041,852
Parking Sales	9,238,358	8,567,172	10,430,729	10,253,245	10,678,774
Retail Sales	12,823,837	10,546,777	11,693,268	11,032,322	12,439,651
Total Sales	43,823,717	43,211,933	48,404,302	48,914,369	49,160,277
Total Margin	5,132,089	1,923,488	(1,909,756)	(1,865,294)	3,606,327

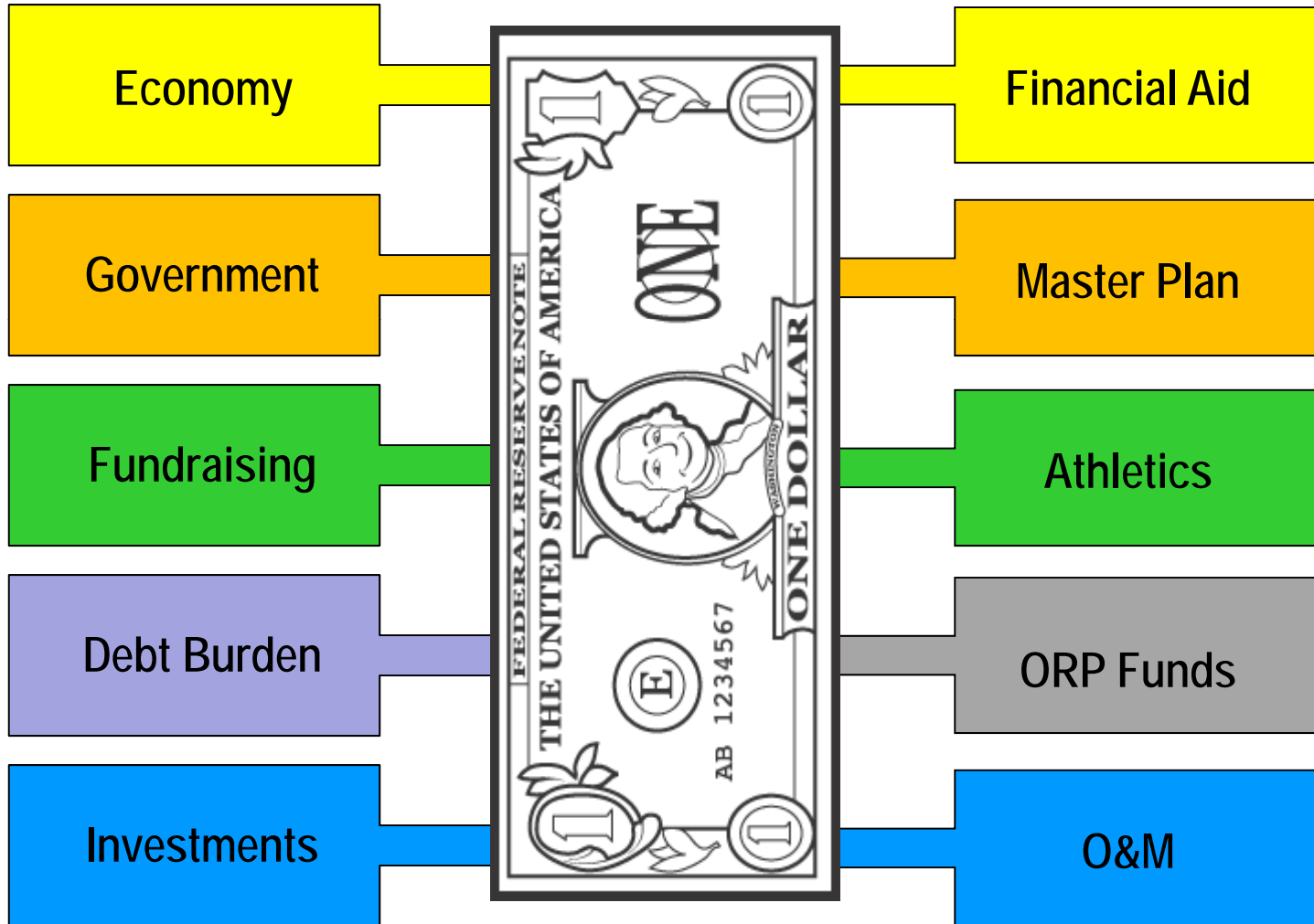
Footnotes:

⁽¹⁾ Sales data includes VCU collected sales and VCU contractor reported sales. Other revenue relating to royalties and fee support are not included.

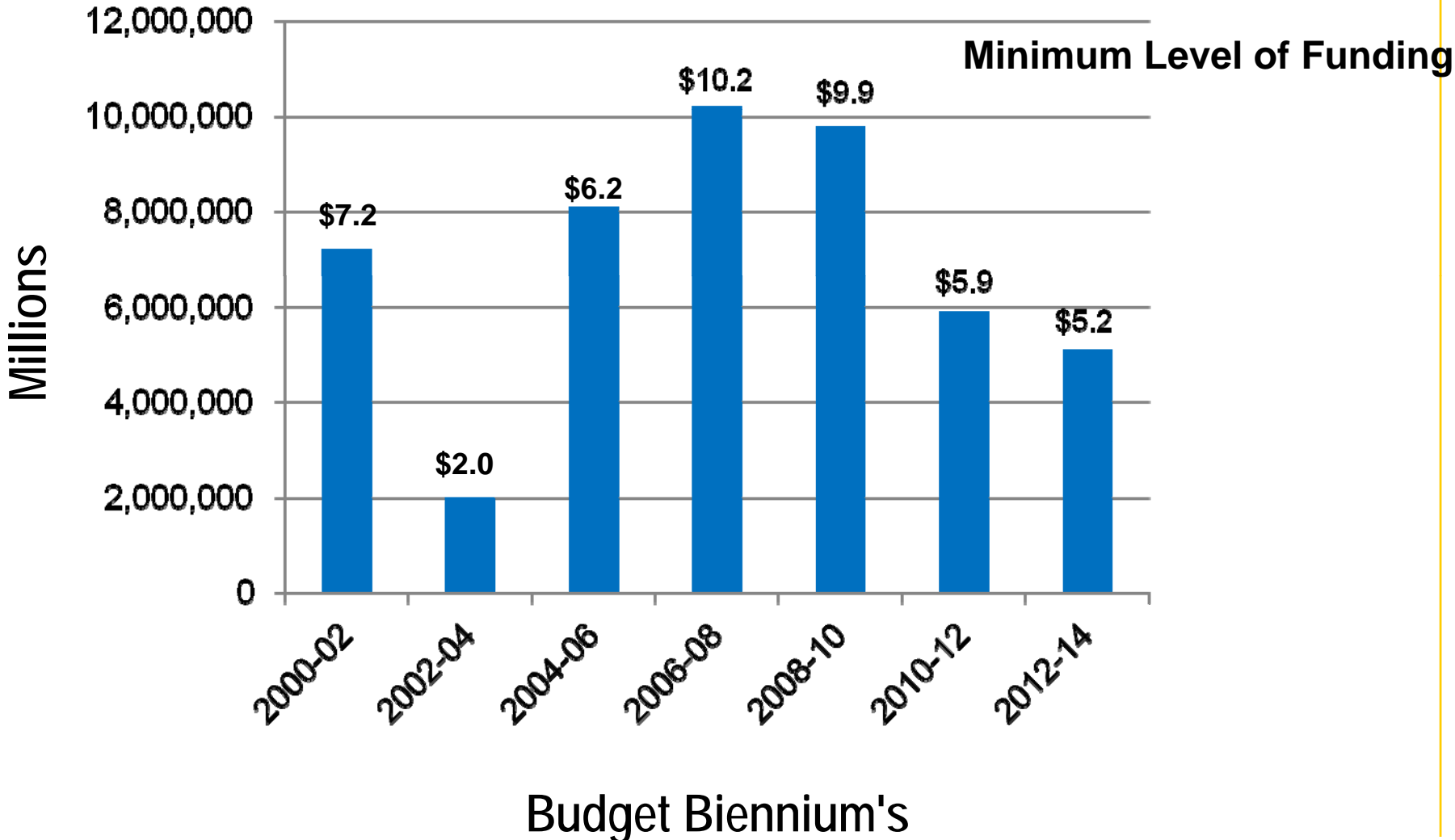
⁽²⁾ Total Margin includes all Business Services Auxiliaries and represents the bottom line after all operating costs, debt service, and capital investments in these auxiliaries.



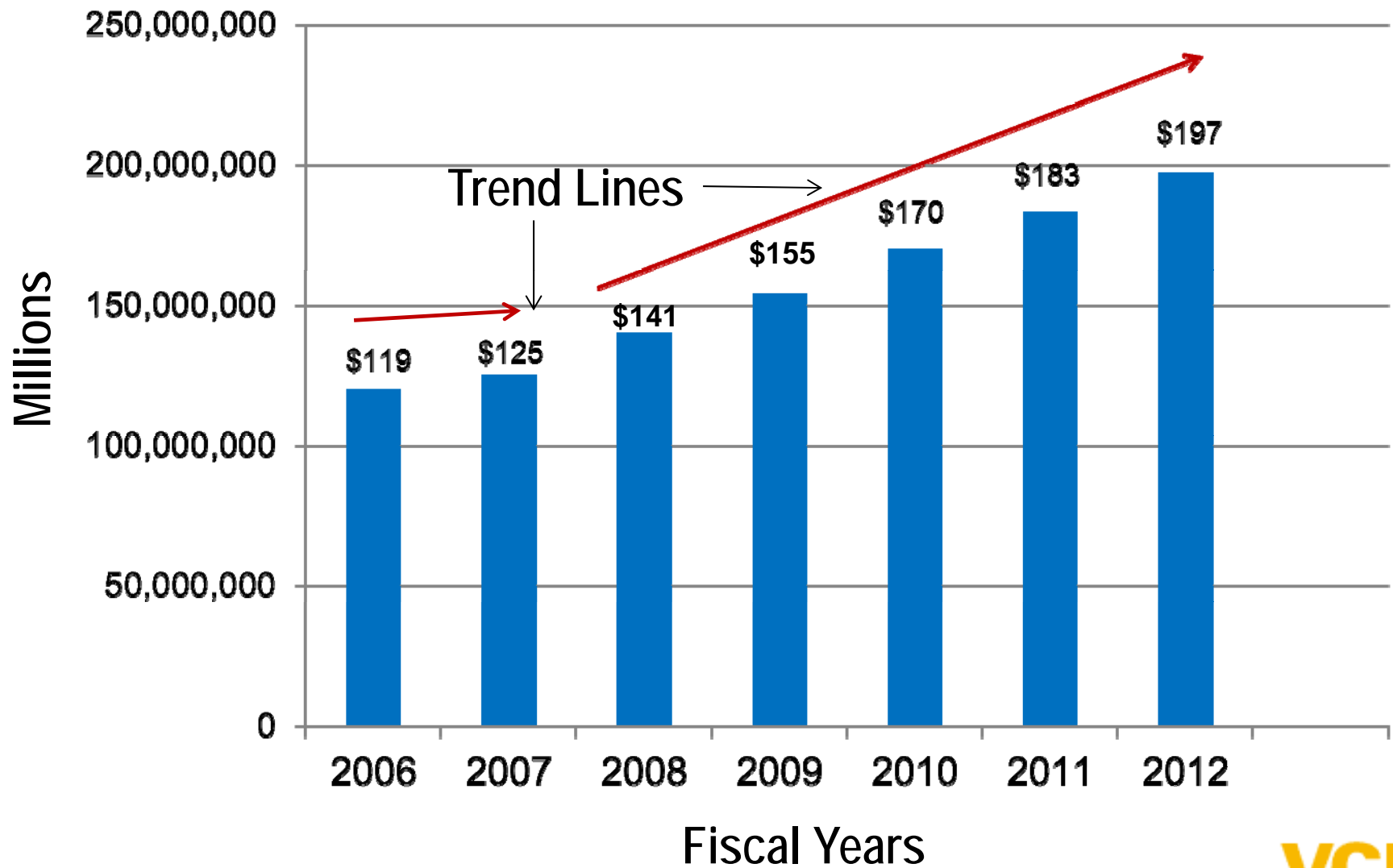
Other VCU Realities



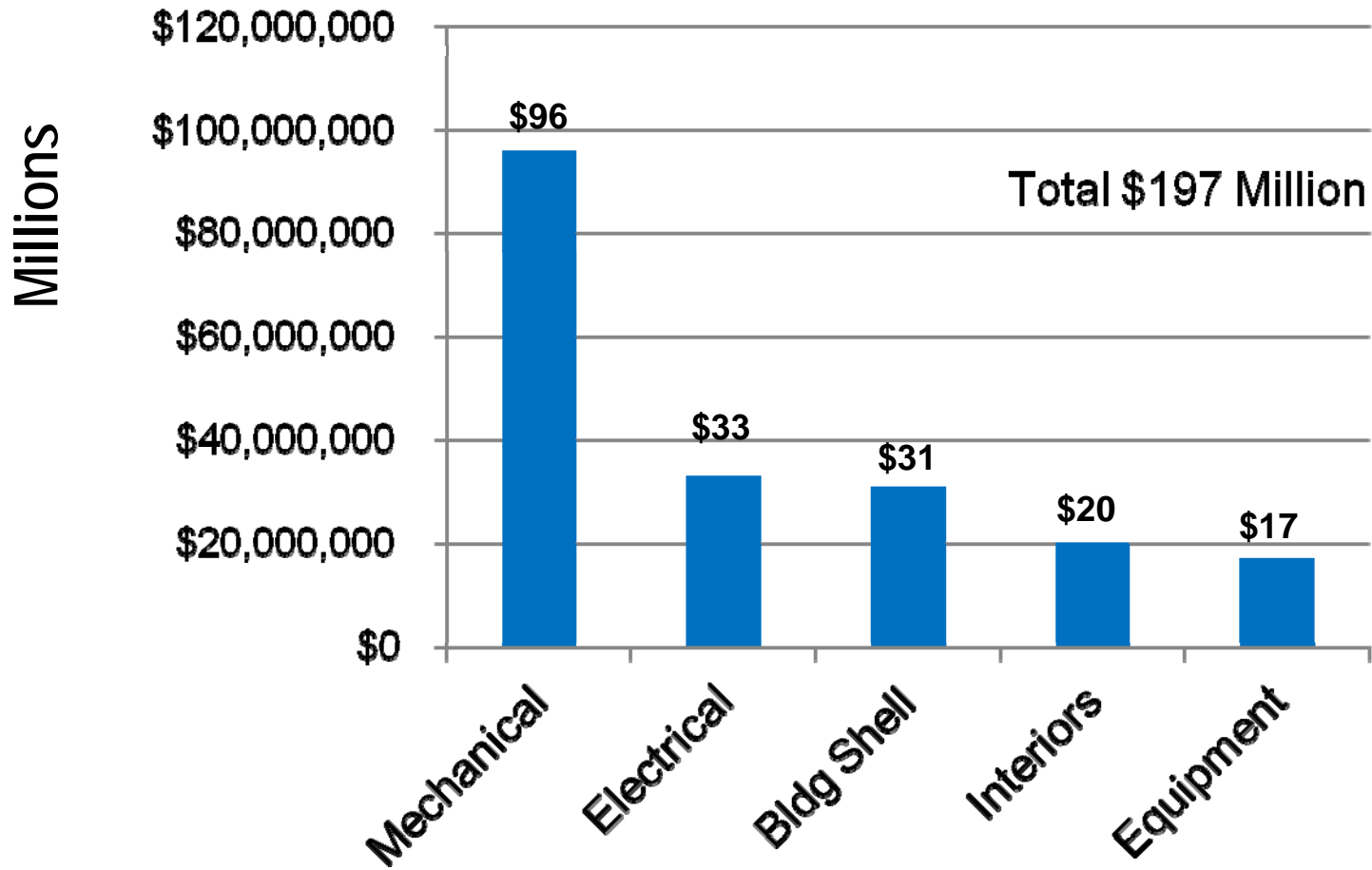
Maintenance Reserve Funding



Backlog of Deferred Maintenance



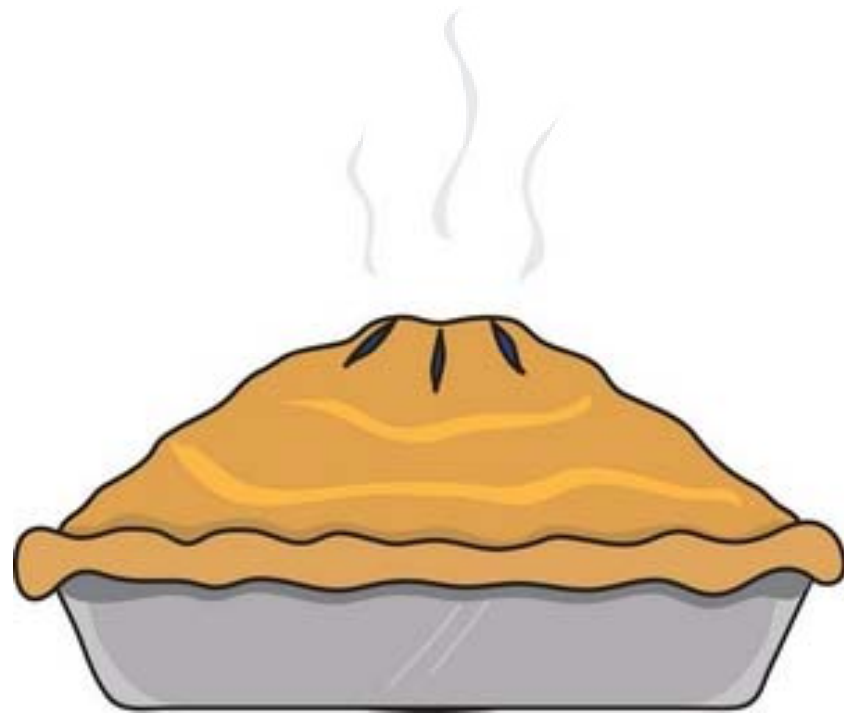
Deferred Maintenance by Category



Other Sources



Financial Realities: FY 2013





Factors Defining VCU's Operating Budget Outlook

- VCU Mission
- *Quest for Distinction* Strategic Plan
- Six-Year Plan
- Fiduciary responsibility to VCU's students
- Fiduciary responsibility to Virginia families
- Trust relationship balancing competing objectives

FY13 - Sources of E&G budget (\$000s)

Central E & G Sources of Funding

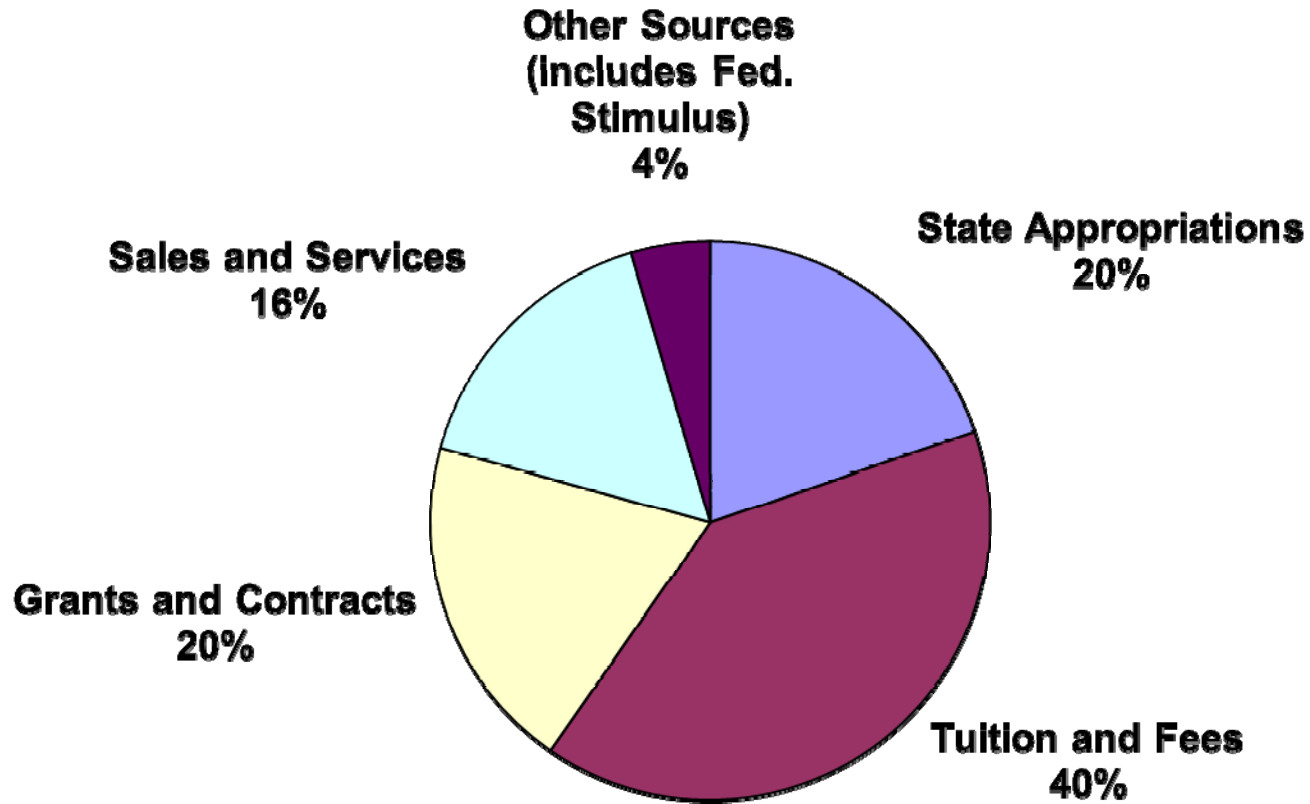
	(\$ in millions)	
	<u>FY 2012</u>	<u>FY 2013</u>
State General Fund E&G Support	\$142,212	\$150,550
Federal Stimulus	7,773	0
E&G Tuition prior to rate changes *	<u>308,011</u>	<u>321,784</u>
Total	\$457,996	\$472,334
Difference in Revenues compared to FY 2012		\$14,338
Increased Revenues due to Tuition Increase		<u>\$8,866</u>
Additional Revenue Available FY 2013		<u>\$23,204</u>

* Enrollment changes, increased summer participation and lower bad debt

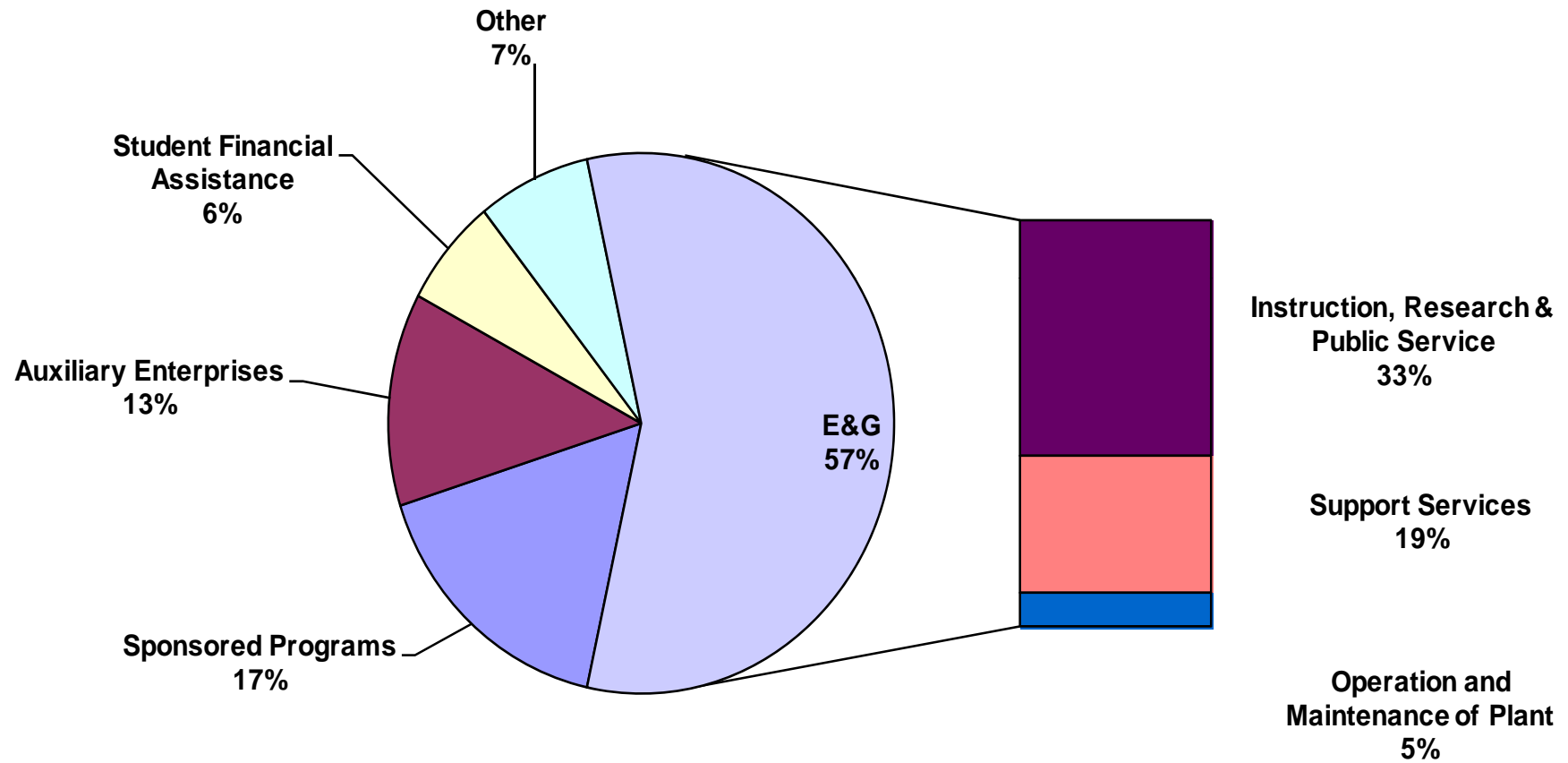
FY13 - Uses for E&G budget (\$000s)

Central E&G Uses	<u>(\$ in millions)</u> <u>FY 2013</u>
Unavoidable Costs	6,620
New Faculty	5,923
Recruitment and retention of students	3,430
Scholarships and Assistantships	2,124
Research	1,561
Library and Technology Enhancements	1,406
Campus Safety	484
Legal, Audit, and Finance	783
Faculty Promotion and Retention	264
Subtotal	<u>\$22,595</u>
Partial Restoration of E&G Contingency	\$609
Total	<u>\$23,204</u>

In FY 2013, VCU is projected to collect \$920.3 million



In FY 2013, VCU is budgeted to spend \$914.5 million



Ultimate Goal






Why New Budget Concepts for VCU?











Why is budgeting important?

“Many CFOs feel comfortable with a top down approach in which the administration and board prepare the budget. Yet, members of a **campus community** are more likely to understand – and accept – a budget they helped develop.”

Kent John Chabotar, “Orchestrating Change,” Business Officer Magazine (July/August 2012), p. 84

Risk Indicators for VCU




 = risk
 = healthy
 = unclear











Risk Factors	Yes	No
1 Tuition Discounting > 35%		
2 Tuition Dependency > 85%		
3 Student Default Rate > 5%		
4 Debt Service > 10% of Annual Operating Budget		
5 Ratio of endowment to operating budget is < 1:3		
6 Average Annual Tuition increase has been > than 8% for 5 years		
7 Deferred Maintenance is about 40% (unfinanced)		
8 ST bridge financing is regularly required in final 1/4 each FY		
9 < 10% of Operating Budget is dedicated to IT		
10 Average Alumni Gift < \$75 and < 20% of alumni give annually		

Excerpted from "Turnaround: Leading Stressed Colleges and Universities to Excellence," edited by James Martin and James E. Samels, Johns Hopkins University Press (2009).



Risk Indicators for VCU

 = risk
 = healthy
 = unclear

Risk Factors	Yes	No
11 Enrollment of 1,000 or fewer		
12 Conversion yield is 20% lower than primary competitors		
13 Student retention is 10% behind primary competitors		
14 Institution is on probation with regional accreditor		
15 Majority of faculty members without terminal degrees		
16 Average full-time faculty = 58 or >58		
17 Leadership team averages > 12 years or < 3 years of service		
18 No complete online program developed		
19 No new degree/certificate program developed for at least 2 years		
20 Takes > 1 year to approve new degree program		

Excerpted from "Turnaround: Leading Stressed Colleges and Universities to Excellence," edited by James Martin and James E. Samels, Johns Hopkins University Press (2009).

Case Study: School of Social Work

The School of Social Work recently implemented a set of procedures along a prescribed timeline that guided budget decisions for FY 2012. Timeline was set to occur between April and September 2011 to address the following goals:

- Institute a more rational, systematic process;
- Introduce line-item budgeting as the foundation for program-based (mission-based) budgeting;
- Align with BANNER categories;
- Link to stated goals (SSW and VCU);
- Establish the “true costs” of running programs;
- Remove the “annual expenses” category;
- Centralize supplies into a single index

Case Study: School of Social Work

- Process was presented to Dean's Cabinet in April 2011
- Deadlines were assigned with mid-year review to examine spending patterns
- Reallocation of funds based on established set of rules
- From May-August 2011, scheduled meetings provided guidance and technical assistance with budget development planning
- SSW created an internal *Program Expenditure Request Form*
- FY 2013 budget timeline was established in September 2011
- Monthly meetings to monitor budget and strategize for future
- Mid-year review in January 2012 to reassess budget
- SSW leadership has identified need to define "mission-based" budgeting that aligns resources with measurable outcomes to *Quest*
- SSW noted that transparency in budget process and increased involvement from program directors is of high importance
- SSW recognizes that changing the paradigm is a significant challenge, but noted that fiscal and technical training for Deans and Program Directors proved valuable

Case Study: School of Nursing

- Current financial reality
 - Faculty FTEs: T&R 36, A&P 8 and Adjunct 6.62
 - Staff FTEs: Classified 25.6, Hourly 11.60
 - E & G = \$8.5M and All Funds = \$14M
 - 63% of All funds = Personnel (85% E&G)
 - \$3.5M Research
- Goals of Budget Pilot Process
 - Forward the Mission of the SoN
 - Simplicity
 - Quest-Alignment
 - "Active" Construction
 - Customized to school
 - Creates a "Pool"
 - Thoughtful approach

Case Study: College of Humanities & Sciences

- Benchmarking, Delaware Study, reasonable assumptions
- Total E&G funding is \$52M
- Direct Cost Data
 - 400,000 credit hours taught in AY 2011
 - Direct instructional cost/credit hour = \$180-\$320
 - Assume \$250/credit hour cost (average) = \$100M
 - Or, assume 16,000 FTE at \$6,900 each in cost = \$110.4M
 - Assume student faculty ratio at 25:1 (not 40:1) need 240 faculty
 - Normalized salaries and improved ratios
- Base funding to cover expense is underfunded
 - Data shows need of \$30M to \$50M

Notes: Direct instructional cost assumption of \$250/credit hour cost (average) is based on USC and peer results in 2010 Delaware Study for similar degree programs; FTE at \$6,900 each is based on peer programs in similar units ranging between \$5,000 and \$9,500 per FTE depending on field

Case Study: Undergraduate Medical Education

- Benchmarking, Base Budget Adequacy Model (BBA), Joint Subcommittee on Higher Education Funding, guidelines adopted January 2004
- Analysis last done based on SCHEV's 2010 update of BBA
 - Funding guideline of 67% GF / 33% tuition in-state; 100% tuition nonresident
- Cost and Revenue Data
 - Per BBA, cost of medical education/student = \$115,259
 - Full funding using BBA formula would require resident tuition of \$38,035 and GF contribution of \$77,223 per resident student / nonresident tuition of \$115,259
 - Actual resident tuition was \$26,481 and GF contribution was \$41,855 resident student / nonresident tuition was \$40,527
- Expenses are underfunded from all sources
 - Data shows underfunding in FY 2010 was nearly \$43 million

Notes: Total FTE = 736; 434 Resident; 302 Non-Resident. Data provided by the State Council of Higher Education.

When is a budget strategic?

- Demonstrates **factual awareness** of current circumstances and needs
- **Benchmarks** with competitors, peers, and aspirants
- Identifies **strategic priorities** and goals
- Objectives, action steps, assignments, and a **long-range financial plan**
- Measures progress with **strategic indicators**
- Undergoes annual assessment and updating, with the **results made public**
- Contains **“what if” scenarios**
- Includes plan achievement as an indicator of the CEO's (and perhaps others') **performance**

Kent John Chabotar, “Orchestrating Change,” Business Officer Magazine (July/August 2012), p. 84

Current Budget Process

VCU's existing budget process

- January: Internal budget cycle begins
 - VCU Budget Office sends call out for “Unavoidable Costs”
 - VCU Budget Office sends call out for Unique Tuition and Student Fees
 - VP offices and Budget Office collect, review, and prioritize requests
- February and March: State budget information
 - State appropriations [usually] known in February-March
 - End of legislative session starts the VCU process in earnest
- March: University senior leadership continuous review
 - Review of existing University sources of revenue (on-going or one-time)
 - Review of known annualized costs
 - Review of unavoidable costs (on-going or one-time)
 - Analysis of “sources and uses” and calculation of the “gap”

VCU's existing budget process (cont'd)

- March and April: Final reviews
 - Review of tuition and fee requests and options (some years there have been tuition “caps” and there are other constraints on tuition and fees)
 - Review, discussion, and analysis of University priorities
- April: Recommendations developed
 - Vice Presidents as a group prioritize requests and adjust total to preliminary revenue estimates; consult with and make recommendations to the President
- Late April/May: Board of Visitors Action
 - Annual budget plan and tuition and fees recommended by President at April or May BOV meeting
 - Adoption of tuition and fees and budget plan

Approved Budgets Move to Units; Monitored by BOV

- May: Begin implementation of new budget
 - Budget Office creates all the budget files to be loaded into the University financial system (Banner) for the new fiscal year on July 1
 - Budget Office coordinates with VP offices to ensure that accurate budgets are loaded at the index and account level
- July 1: New budget loaded in Banner
- August, November, February, May: Quarterly reporting
 - Board reviews the revenues and expenditures of the University at the school/unit level

New Budget Process

VCU's Budget Process Transformation

- Work Completed to Date
- FY2013 Process and Observations
- Budget Process Principles
- FY 2014 Budget Development
- Budget Process Transformation – The “Ask”

Budget Process Transformation - Work Completed

- Monthly updates to Council of Deans (since December 2011)
- Met with campus leadership teams and FAs about budget process
- Held 5 campus wide “Budget 101” classes (200 participants)
- New Budget Website – easy to access, navigate, “looks like VCU”
- New Budget Email: gotbudget@vcu.edu
- Pilot projects:
 - School of Social Work – Mission aligned budgeting
 - School of Nursing – Purposeful Allocation of Resources – Mission Aligned
 - College of Humanities & Sciences – Delaware Study benchmarking

FY 2013 Budget Process Observations

- Lack of communication – decision-making in silos without a University-wide perspective or communication process
- Lack of understanding about allocation of resources by many in top leadership positions throughout University community
- Conversations about how resources will be allocated were not documented early in process leading to confusion and misunderstandings later on
- Clear process distinction between academic leaders (Provost and VP Health Sciences) and administrative leaders (Development, General Counsel, University Relations, Assurance Services, Government Relations) in budget development
- Budget knowledge may be squandered
- Strategically, we need to have involvement **early and throughout** by leadership

Budget Process Transformation – Key Principles

1. Aligned with *Quest for Distinction*
2. Student and Faculty Focused
3. Transparency in Process and Data Sharing
4. Understanding of Owned Stewardship and Responsibility
5. Collaborative Approach
6. Open Communication
7. Innovation Encouraged and Facilitated
8. Mission Based

Budget Process Transformation – FY2014 Process

Desired new process elements based on feedback:

1. Highly transparent process including an "all funds" approach
2. Review EPTs and principles with a holistic view
3. Creation of a formal University Budget Advisory Committee (UBAC)
4. Living Process where UBAC meets every two weeks ongoing
5. Budget meetings in August and September with UBAC (and VPs who wish to attend) for all deans and administrative leaders (consistent process)
6. Requiring new or off cycle budget requests to go through UBAC before VP review (consistency, a uniform and fair approach)
7. Quest Fund implementation (competitive process)
8. Discussions about Reallocation (TBD)
9. Projecting needs for 3 years (consistent process)
10. Involvement of faculty (to be clarified with Faculty Senate)

Budget Process Transformation – The Ask

- Leadership support
- Cooperation for new elements
- Time devoted by leadership and finance teams
- Robust discussion, review, and consideration of budgets
- Commitment throughout year to prepare for annual budget hearings
- Commitment to a disciplined approach

- **Patience**

Small Group Discussion

Small Group Discussion

Group Shekel
Reallocation Concepts at VCU
Bonfili

Group Peso
Principles for a Holistic
Budget Process
Atkinson

Group Rupee
Barriers and Solutions to
Changing a Process
Hinterlong

Group Yuan
Priority Criteria to Evaluation
Budget Needs
Hanson

Group Shekel – Jay Bonfili

- Jim Coleman
- Ed Grier
- Laura Moriarty
- Dave Sarrett
- Joe Seipel
- Vic Yanchick

Group Peso - Terry Atkinson

- Kevin Allison
- John Blohm, John
- William Cole
- Henry Rhone
- Luke Schultheis
- Tom Huff

Group Rupee - Jim Hinterlong

- Doug Boudinot
- Cecil Drain
- Charles Jennett
- Frank Macrina
- Wanda Mitchell
- Kelli Parmley
- Mike Zeig (Intern)

Group Yuan – David Hanson

- Tim Hulse
- Nancy Langston
- Pam Lepley
- Joe Marolla
- John Ulmschneider
- Chriss Walther-Thomas