A New Budget Process for VCU
Council of Deans

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The Beginning – First Steps to Explore a New Budget Process

- Budget Timeline

- Sequence of Events (FY12 – FY14)
  - New process will be implemented for FY 2014

- Pilot Project

- Preliminary Meetings

- Literature Review and Institutional Visits
The Future – Next Steps

• Focus Groups
  – VPs
  – Council of Deans
  – FA & Provosts Office
  – Faculty Senate

• Budget Overview and Budget 101
  – Faculty Senate
  – Staff Senate
  – Student Government Association
  – Open Forums (both campuses)

• Development of Process

• Leadership Review
In FY 2012, VCU is projected to collect $899.8 million . . .

### Estimated Sources of Funds, FY 2012

<table>
<thead>
<tr>
<th>Sponsored Programs</th>
<th>Educ. &amp; Gen. Programs</th>
<th>Direct Costs</th>
<th>Indirect Costs (FACR)</th>
<th>Auxiliary Enterprises</th>
<th>University Funds</th>
<th>Student Financial Assistance</th>
<th>Hospital Services</th>
<th>Total University</th>
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<tbody>
<tr>
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<td>State General Fund</td>
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<tr>
<td>Nongeneral Funds</td>
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<td>Student Tuition and Fees</td>
<td>$ 296,995</td>
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<td>45,726</td>
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<tr>
<td>Grants and Contracts</td>
<td>8,222</td>
<td>149,393</td>
<td>24,279</td>
<td>-</td>
<td>27,791</td>
<td>-</td>
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<td>209,685</td>
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<td>Federal Stimulus</td>
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<td>7,773</td>
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<td>Gifts &amp; Endowment/Investment Earnings</td>
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<td>Sales and Services</td>
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<td>24,299</td>
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<td>Other Sources</td>
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<td></td>
<td>1,669</td>
<td>3,884</td>
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<td>5,807</td>
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<tr>
<td><strong>Total Nongeneral Funds</strong></td>
<td><strong>$ 359,809</strong></td>
<td><strong>149,393</strong></td>
<td><strong>24,279</strong></td>
<td><strong>$ 109,769</strong></td>
<td><strong>$ 33,385</strong></td>
<td><strong>$ 27,791</strong></td>
<td><strong>$ 24,299</strong></td>
<td><strong>$ 728,725</strong></td>
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<tr>
<td><strong>Total University Sources</strong></td>
<td><strong>$ 502,021</strong></td>
<td><strong>156,556</strong></td>
<td><strong>24,279</strong></td>
<td><strong>$ 109,769</strong></td>
<td><strong>$ 33,385</strong></td>
<td><strong>$ 49,490</strong></td>
<td><strong>$ 24,299</strong></td>
<td><strong>$ 899,799</strong></td>
</tr>
</tbody>
</table>
Where the money comes from . . .

- Tuition and Fees: 38%
- State Appropriations: 19%
- Grants and Contracts: 23%
- Sales and Services: 15%
- Other Sources (includes Fed. Stimulus): 5%

FY 2012 Revenue totals $899.8 million
And is budgeted to spend $894.8 million . . .

### Estimated Uses of Funds, FY 2012

| FY 2011-12 Uses          | Educ. & Gen. Programs | Sponsored Programs |  |  |  |  |  |  |  | Total University |
|--------------------------|-----------------------|--------------------|---|---|---|---|---|---|----------------|
|                          | Direct Costs (FACR)   | Indirect Costs     | Auxiliary Enterprises Funds | University Financial Assistance | Hospital Services |  |  |  |                |
| **Instruction**          | $266,051              | $9,803             | - $ | - $ | $6,643 | $ | - $ | - $ | $282,497 |
| **Research**             | 8,437                 | 146,140            | 12,482 | - | 6,499 | - | - | - | 173,558 |
| **Public Service**       | 5,358                 | 613                | - | - | 674 | - | - | - | 6,645 |
| **Academic Support**     | 94,094                | -                  | 2,497 | - | 10,802 | - | - | - | 107,393 |
| **Student Services**     | 13,236                | -                  | - | - | 501 | - | - | - | 13,737 |
| **Institutional Support**| 50,806                | -                  | 1,413 | - | 3,491 | - | - | - | 55,710 |
| **Plant Operation and Maintenance** | 42,669 | - | 4,778 | - | 1,087 | - | - | - | 49,534 |
| **Scholarships and Fellowships** | 17,942 | - | 1,666 | - | 3,688 | 49,490 | - | - | 72,786 |
| **Auxiliary Enterprises**| -                    | -                  | - | - | 101,843 | - | - | - | 101,843 |
| **Hospital Services**    | -                    | -                  | - | - | - | - | - | - | 23,199 |
| **Subtotal Uses**        | $498,593              | $156,556            | $22,836 | $101,843 | $33,385 | $49,490 | $24,199 | $886,902 |
| **Reserves and Contingencies** | $3,428 | $ | $1,443 | $3,043 | - | - | - | - | 7,914 |
| **Total University Uses**| $502,021              | $156,556            | $24,279 | $104,886 | $33,385 | $49,490 | $24,199 | $894,816 |
Where the money goes...

- Instruction, Research & Public Service: 36%
- Support Services: 17%
- Operation and Maint. of Plant: 5%

Other: 7%
- Student Financial Assistance: 5%
- Auxiliary Enterprises: 12%
- Sponsored Programs: 20%

FY 2012 Budget totals $894.8 million
### VCU: Complex Interdependence

Operating Revenues FY 2011:
- Student tuition and fees: $243,094,822
- Grants and contracts: $191,005,636
- Auxiliary enterprises: $101,710,543
- Hospital services: $1,734,229,549
- Other revenues: $50,545,690

**Total Operating Revenues FY 2011:** $2,320,586,240

Operating Expenses FY 2011:
- Instruction: $300,575,246
- Research: $146,162,824
- Public service: $7,016,675
- Supporting services: $136,399,570
- Operations and maintenance of plant: $61,019,717
- Student aid: $33,754,185
- Auxiliary enterprises: $64,858,064
- Hospital services: $1,519,340,939
- Depreciation expense: $113,890,001
- Other expense: $2,390,345

**Total Operating Expenses FY 2011:** $2,385,407,566

FY2011 consolidated financial statements; does not include $374 million in non-operating revenues
Budget Models – Incremental/Decremental from Baseline

• Incremental additions and subtractions

• Existing programs (generally) do not have to be justified

• New resources provided for changes in benefits, salary increases (not lately), or other unavoidable costs

• Other increases provided only through extraordinary means

  • Pros: Certainty, Ease of administration

  • Cons: No bold moves; Nothing gets re-examined
Budget Models – Responsibility Centered Management (RCM)

• Entrepreneurial – in use at Harvard, University of Oregon, Penn State, under development at UVa

• Schools are responsible for their own bottom line
  – Revenue centers keep revenues generated and pay for direct and indirect expenses
  – Cost centers are funded from direct assessments and general taxes

• Some revenue centers will require subventions
  • Pros: Leads to disciplined financial decision making, accountability
  • Cons: Will decisions be made on financial, rather than academic, basis?
Budget Models – Zero Based Budget (ZBB)

• Assumes no history and builds from there
  – Often not realistic given personnel commitments

• Existing programs must justify each dollar requested

• Focused on outcomes and results; time-intensive

• Rarely applied 100% every year

  • Pros: Provides for in-depth knowledge of every program and activity; Focused on programs and improvements in operations

  • Cons: Doesn’t recognize that some costs are truly on-going (faculty lines); Takes significant time and effort to administer
Budget Models – Mission/Activity Aligned Budget

- Not Incremental
- Links Resources to Strategic Plan
- Aligns Resource Allocation with Mission
- Increases Transparency
- Enhanced Metrics/Feedback

Diagram:

- Budget
- Unit
- Activity
- Mission Fulfillment
Budget Models – Hybrids

• Rarely is a “pure” budget model adopted

  – Generally there will be a mix of two or even three models in existence within an institution

• Issues that a new budget model should address include:

  – Making the budget fit the mission and needs of VCU in meeting its strategic goals;

  – Maximizing all available resources and revenue streams;

  – Managing costs; and

  – Creating a process that stakeholders trust
Possible Guiding Principles of the New VCU Budget Process

• Transparency
• Financial Stewardship
• Fiscal Responsibility
• Collaboration
• Innovation
• Quest Focused

What have we missed?
How Would You Like to See the Guiding Principles Operationalized?
What Do You View as Barriers?