

# Strategic Budgeting

Meredith Michaels  
October 26, 2006



# Principles ...

- Institutional perspective
- Invest strategically and differentially
- Be realistic about our goals



# Now ...

- At the margin ...
- The base is the base ...
- Decentralization ...



# The numbers ...

Karen Eckert  
October 26, 2006

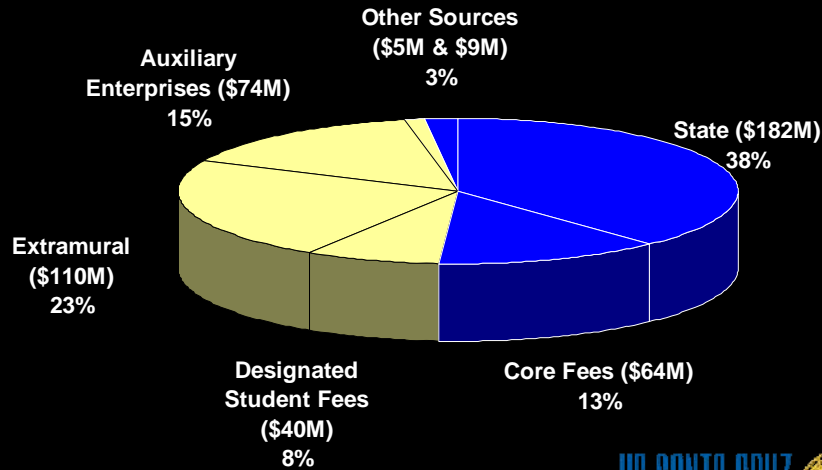


# The numbers ...

- All funds vs. funds that are the focus of the campuswide budget process
- Our resource envelope through 2010
  - New core resources
  - Commitments and investments
- Our potential resources through 2020

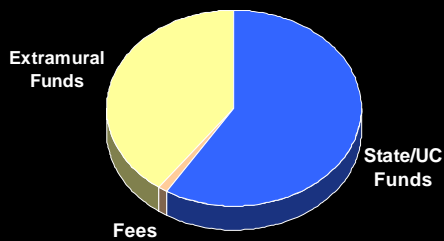


# All UCSC Funds

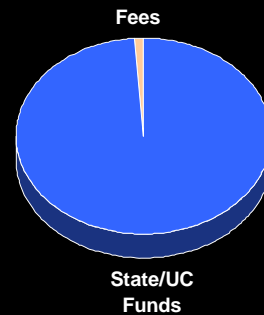


# Academic Divisions — Core vs. Designated Funds

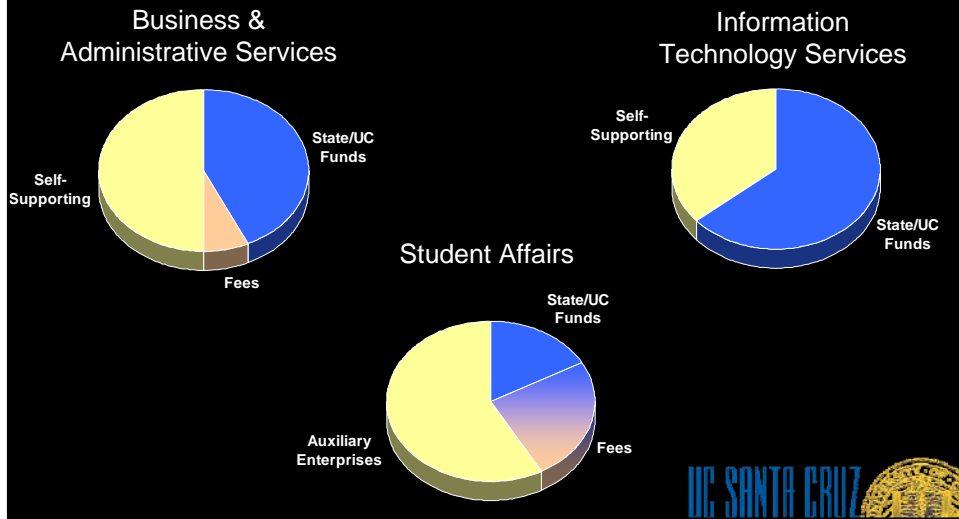
Academic Divisions  
*(all funds)*



Academic Divisions  
*(excluding extramural activity)*

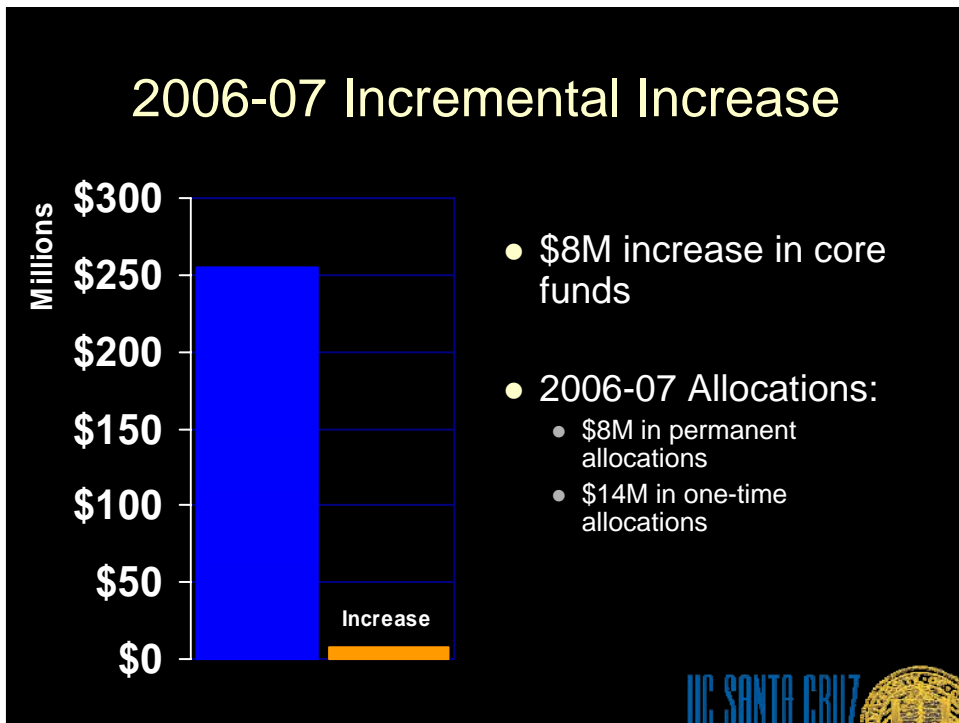


## Academic Support Divisions — Core vs. Designated Funds



## Some Observations

- **About 95% of the budget is decentralized**
- **Of the 5% held centrally, 65% is committed for ongoing obligations**
  - Debt service and off-campus leases
  - TA fee increases and GSHIP
  - IWF, Core Courses, and supplemental TAs.
- **Incremental funds are roughly 3% of the base**



## 2006-07 Allocations

### Academic Divisions

- 19 Faculty FTE
- Includes:
  - Faculty salary and benefits
  - I&R Support
  - Teaching Assistants
  - UOF (per formula)
  - One-time funds for start-up

### Other Academic and Academic Support

- Includes support of
  - Library
  - Office of Research
  - Graduate Division
  - ITS
  - BAS
  - Student Affairs
  - University Relations



## Other Recent Investments

(2001-02 to 2006-07)

- Faculty Start-Up
- AIS and GARP
- Business Transformation Projects
- IT



## Other Recent Investments (2001-02 to 2006-07)

- Campus Planning
- Off-Campus Space & Debt Service
- Capital Projects
- Bond Funding for Deferred Maintenance



Near Term Projections ...





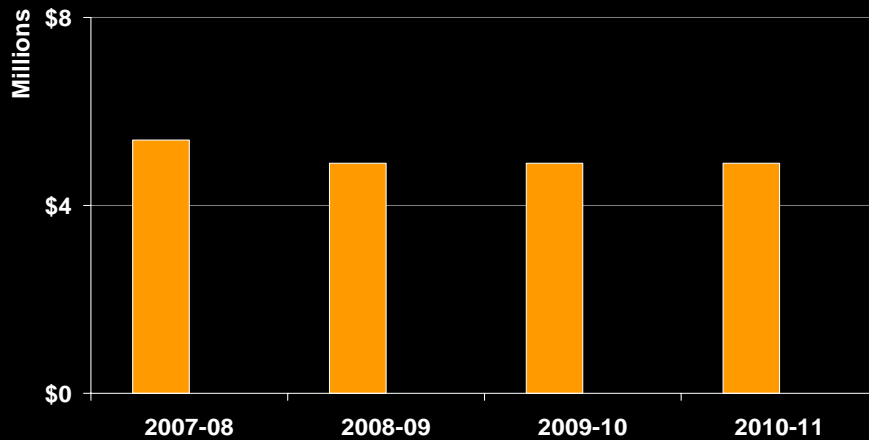
## Core Funding Assumptions

### Enrollment-Funds

Marginal Cost	\$8,100/stu
Ed Fee	\$3,100/stu
Reg Fee	\$735/stu
Indirect Cost Receipts	4% growth/yr
Admin Recharge	\$50,000/yr
OMP Workload	TBD



## Projected New Core Funds



## Future Allocations ...

### Academic Divisions

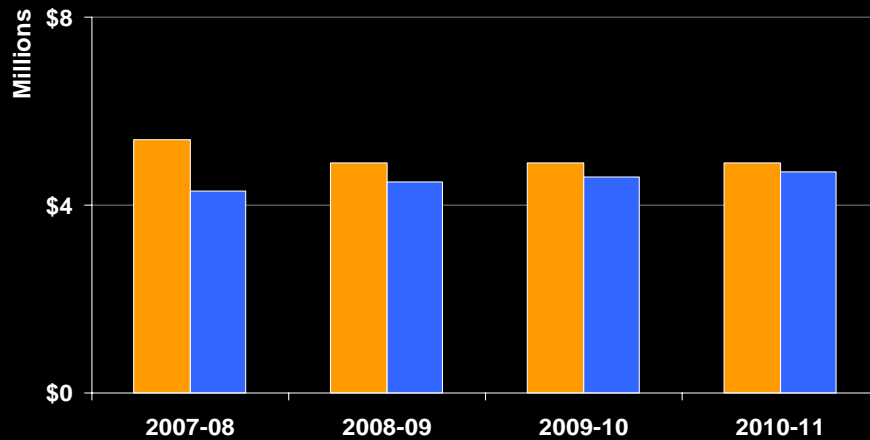
- 112 faculty FTE allocated through 2010-11
- Includes:
  - Faculty salary and benefits
  - I&R support
  - Teaching assistants
  - UOF (per formula)

### Other Academic and Academic Support

- Other Needs:
  - Graduate support
  - Development
  - Internal controls and safety
  - Library collection
  - Student services
  - Information technology



## Allocation of Core Funds



## Other Challenges

- Maintain & Improve Infrastructure
  - Deferred Maintenance (beginning to address with Bond Funding)
  - Improve Reliability and Power Capacity
    - To address power outages
    - To support high tech computing
    - Replace aging CoGen Facility
- IT Physical Infrastructure



## Other Challenges

- Recruit and Hire Faculty
- Increase Graduate Enrollments
- Big-Ticket Capital Expenses:
  - McHenry Library
  - Digital Arts Facility
  - Physical Sciences
  - 2300 Delaware (Building C)
  - Biomedical Facility



## Other Challenges

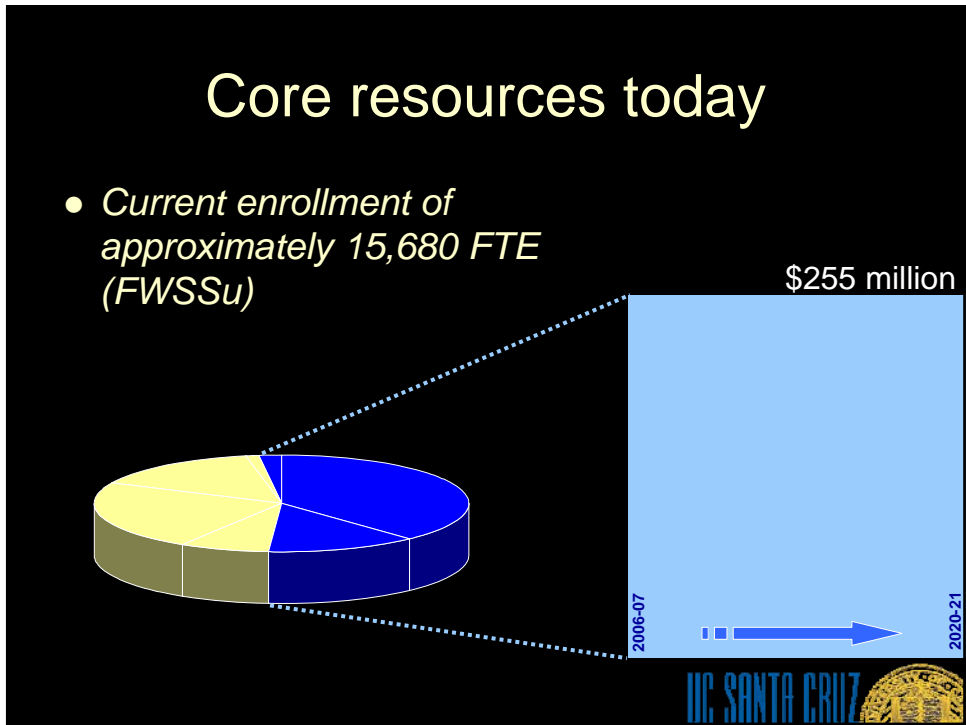
- Maintain internal controls and a safe environment
- Mount a Capital Campaign
- Deficits



## Other Challenges

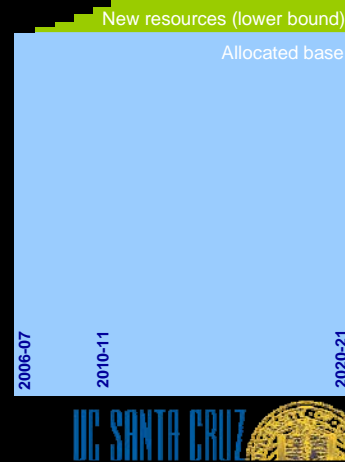
- Plan — knowing the State budget will face another down-turn at some point
- Invest in our academic plan
- Create more resource flexibility





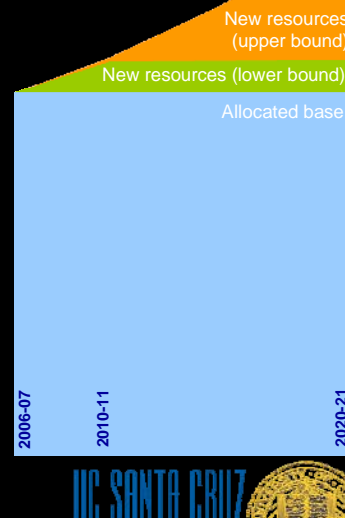
## Core resources through 2010-11

- Enrollment growth to 17,215 FTE (FWSSu)
  - Core enrollment funding
    - \$8,100 from State
    - \$3,100 in Ed Fees
    - \$ 735 in Reg Fees
  - Research funding increases proportional to faculty FTE growth
  - Administrative recharges increase marginally



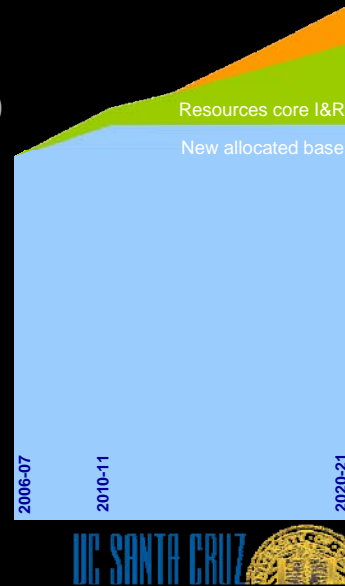
## Core resources allowed by LRDP

- Enrollment growth to 19,500 FTE (FWS) plus full summer growth potential
  - Core enrollment funding
    - \$8,100 from State
    - \$3,100 in Ed Fees
    - \$ 735 in Reg Fees
  - In addition, research funding *per faculty FTE* improves
  - Administrative recharges increase modestly



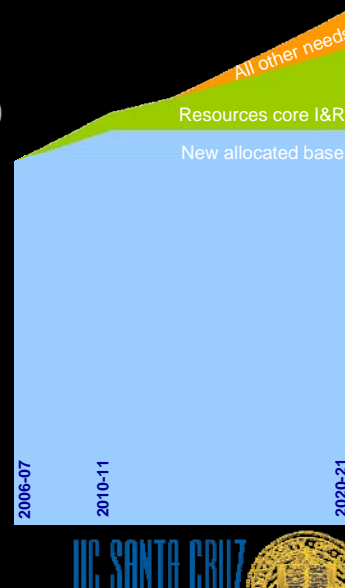
## Commitments against core resources

- Allocated base reflecting current commitments thru 2010
- **Instruction**  
*(faculty and TA FTE/I&R support)*




## Commitments against core resources

- Allocated base reflecting current commitments thru 2010
- **Instruction**
- **Additional resources for**
  - Other academic investments
  - Infrastructure and service investments
  - Workload increases



## Review of the numbers ...

- Core funds
  - Resources through 2010
  - Potential resources through 2020
- 
- Do these resources provide the flexibility to meet campus needs?
  - How do we create more flexibility?





# Overview of Strategic Budgeting Options

David Maddox  
October 26, 2006



## What are your options

Karen and Meredith identified major budgeting strategy issues:

Incremental budgeting won't allow UCSC to do what you want and need to do

There is flexibility in the budget that would allow you to try something else.

So what can you do?

From a technical budgeting perspective, there's a range of options



## Will consider two questions

1. How can the institution make more funds available for allocation?
2. Can you allocate funds in a way that is more effective strategically?

There is a range of techniques available,  
and we will start by looking at the range  
No magic solutions



## A range of options

- Options come from what universities and other organizations have tried.
- Most universities use some combination of these techniques.
- What happens at the center and units is relevant
- Not all options will work out for Santa Cruz -- but the best starting position is that each one of the ideas might hold promise for UCSC.
- Want to spur everyone's thinking.



## Revenue strategies

- Most obvious strategy is to increase revenue
- But those strategies are obvious
  - ...and are being pursued
  - ...and have some limitations:
    - Offsetting costs
    - Campus capacity
    - Limitations on use of funds
    - Length of time between investment and payout
    - Effect on primary mission



## If revenue is constrained

You can:

1. Reallocate funds to free more up for allocation
2. Change the way you allocate funds to create better alignment with strategic goals



# Reallocation to produce flexibility

## Techniques

- Cost cutting
- Mandate internal reallocations in units
- Eliminate or reduce programs
- Reduce quality of service or work conditions
- Process improvement
- Capture salary savings
- Redirect fund streams
- Hold back some incremental funds
- Tax budgets
- Transfer funds between units



# Reallocation to produce flexibility

## Techniques

### **Cost cutting**

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**Cutting wasted effort or delivering a service more efficiently to free up funds for new purposes. It can be hard to capture such savings, let alone find them.**



# Reallocation to produce flexibility

## Techniques

Cost cutting

**Mandate internal reallocations in units**

Eliminate or reduce programs

Reduce quality of service or work conditions

Process improvement

Capture salary savings

Redirect fund streams

Hold back some incremental funds

Tax budgets

Transfer funds between units

**Set a percentage goal, require each unit to demonstrate reallocation within their budgets. Retains level of funds by unit but in essence creates small allocation pools in the units.**



# Reallocation to produce flexibility

## Techniques

Cost cutting

Mandate internal reallocations in units

**Eliminate or reduce programs**

Reduce quality of service or work conditions

Process improvement

Capture salary savings

Redirect fund streams

Hold back some incremental funds

Tax budgets

Transfer funds between units

**Academic or administrative. Programs which institutions can end appear to be rare. Does not free up much funding if people are absorbed elsewhere. Program reductions tend to occur organically and incrementally.**



# Reallocation to produce flexibility

## Techniques

- Cost cutting
- Mandate internal reallocations in units
- Eliminate or reduce programs
- Reduce quality of service or work conditions**
- Process improvement
- Capture salary savings
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- Hold back some incremental funds
- Tax budgets
- Transfer funds between units

Reduced spending in one area or activity leaves funding available for other purposes. Of course, reduced quality has serious effects and costs.



# Reallocation to produce flexibility

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- Reduce quality of service or work conditions
- Process improvement**
- Capture salary savings
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- Hold back some incremental funds
- Tax budgets
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The theory is that process improvements allow service to be delivered at same quality level with fewer resources. Difficult to realize \$ savings.



# Reallocation to produce flexibility

## Techniques

Cost cutting  
Mandate internal reallocations in units  
Eliminate or reduce programs  
Reduce quality of service or work conditions  
Process improvement

### **Capture salary savings**

Redirect fund streams  
Hold back some incremental funds  
Tax budgets  
Transfer funds between units

**Retain the value of unfilled positions centrally. Or the difference between old and replacement salary.**



# Reallocation to produce flexibility

## Techniques

Cost cutting  
Mandate internal reallocations in units  
Eliminate or reduce programs  
Reduce quality of service or work conditions  
Process improvement

Capture salary savings

### **Redirect fund streams**

Hold back some incremental funds  
Tax budgets  
Transfer funds between units

**If certain revenue streams are dedicated to specific purposes by institutional choice, they can be redirected to fund general allocation pools.**



# Reallocation to produce flexibility

## Techniques

- Cost cutting
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- Process improvement
- Capture salary savings
- Redirect fund streams

### **Hold back some incremental funds**

- Tax budgets
- Transfer funds between units

**Funds added to the pool of incremental funds available for allocation.**



# Reallocation to produce flexibility

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- Process improvement
- Capture salary savings
- Redirect fund streams
- Hold back some incremental funds

### **Tax budgets**

- Transfer funds between units

**Tax budgets across the institution to create an enhanced funding pool. The tax might be limited to certain fund types and expense types**





# Reallocation to produce flexibility

## Techniques

Cost cutting  
Mandate internal reallocations in units  
Eliminate or reduce programs  
Reduce quality of service or work conditions  
Process improvement  
Capture salary savings  
Redirect fund streams  
Hold back some incremental funds  
Tax budgets

**Transfer funds between units**

**Based on need, performance or other criteria, take some base funding from one unit and transfer it to another or make it available for general deployment.**



# Allocation methods

- Once you settle how much you have available for allocation, you have choices on how to allocate the funds.
- Different allocation methods may produce more successful alignment of funding and strategy.
- Changing allocation methods does not necessarily free up resources.
- But changing the allocation method does change how funds flow within the organization.

Potential shifts in resources between units



# Budget allocation methods

## Techniques

Leadership discretion  
Across the board increments/decrements  
Responsibility Center Management (RCM)  
Zero-Based Budgeting (ZBB)  
Activity-Based Budgeting (ABB)  
Formula budgeting  
Process budgeting  
Resource realignment/resetting  
Initiative processes



# Budget allocation methods

## Techniques

### **Leadership discretion**

Across the board increments/decrements  
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Resource realignment/resetting  
Initiative processes

**Leadership (an individual or a group) gathers information and makes decision on allocations. Assumed to reflect their view of institution's strategic goals.**



# Budget allocation methods

## Techniques

Leadership discretion

**Across the board increments/  
decrements**

Responsibility Center Management (RCM)

Zero-Based Budgeting (ZBB)

Activity-Based Budgeting (ABB)

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Initiative processes

**Incremental funds  
go out by a uniform  
percentage, cuts hit  
across the board.**



# Budget allocation methods

## Techniques

Leadership discretion

Across the board increments/decrements

**Responsibility Center Management  
(RCM)**

Zero-Based Budgeting (ZBB)

Activity-Based Budgeting (ABB)

Formula budgeting

Process budgeting

Resource realignment/resetting

Initiative processes

**Funds flow to the  
unit that generated  
them. Critical steps  
for RCM are to  
define financial  
performance targets,  
attribute revenues  
and expenses to  
units, provide  
managerial freedom,  
and allow units to  
retain carry forward  
balances.**



# Budget allocation methods

## Techniques

Leadership discretion  
Across the board increments/decrements  
Responsibility Center Management (RCM)

### **Zero-Based Budgeting (ZBB)**

Activity-Based Budgeting (ABB)  
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**Exhaustive process of evaluating every allocation against institutional goals and needs.**



# Budget allocation methods

## Techniques

Leadership discretion  
Across the board increments/decrements  
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Zero-Based Budgeting (ZBB)

### **Activity-Based Budgeting (ABB)**

Formula budgeting  
Process budgeting  
Resource realignment/resetting  
Initiative processes

**Funding for each function based on the level of activity in that function. The most advanced systems work from rigorous evaluation of the relationship between activity drivers and costs.**



# Budget allocation methods

## Techniques

Leadership discretion  
Across the board increments/decrements  
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Activity-Based Budgeting (ABB)

### **Formula budgeting**

Process budgeting  
Resource realignment/resetting  
Initiative processes

**Funding based on  
some overall metric  
or basket of metrics.  
E.g., enrollment-  
based funding  
formulas.**



# Budget allocation methods

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Leadership discretion  
Across the board increments/decrements  
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Activity-Based Budgeting (ABB)  
Formula budgeting

### **Process budgeting**

Resource realignment/resetting  
Initiative processes

**Fund processes  
rather than units.  
“We should be  
spending xx% of our  
budget on  
instruction.”**



# Budget allocation methods

## Techniques

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Process budgeting  
**Resource realignment/resetting**  
Initiative processes

**Periodic shift of resources between units reflecting changes in strategic priorities.**



# Budget allocation methods

## Techniques

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Resource realignment/resetting  
**Initiative processes**

**Funds granted to initiatives based on proposals. Like an internal grant program.**



## Methods used at UCSC

UCSC uses or has used many of these methods

- **Activity-based budgeting:** Funding for academic positions is based on target student:faculty ratios, I&R based on standards for support of faculty.
- **Leadership discretion:** Characterizes many decisions on use of incremental funding. Parallel process occurs within units.
- **RCM:** Once funds are allocated to units, they are free to manage those funds within broad expense categories. Thorough attribution of revenue does not occur.



## Methods used at UCSC

- **Recharges:** Some closer to ABB, some closer to formula based. Depends on the degree to which the service is consumption driven.
- **Across the board:** Primary method for allocating undesignated budget cuts in recent years.
- **Initiatives:** UCSC has had major programs of this sort in the recent past.



## Considerations

- Impact
- Scale/\$ range
- Incentives (desirable and not)
- Parallels in practices at different organization levels
- Strategic clarity
- Restrictions and policy
- Complexity



## Questions

What does UCSC need to take into account in making any choices/decisions?

What do you want to know more about?

What issues/opportunities do you see with any of the options?

