Proposed by SBPC Subcommittee
Model for Budget Reinvestment, Contingency Fund and Capital Expenditures

Friday, April 29, 1:30 pm – 3:30 pm

Attended by:

Don DeHayes
Tom Dougan
Nancy Eaton
Trish Morokoff
Linda Barrett
Steve D’Hondt
Ron Jordan - absent

Monday, May 16, 2011

Overall Purpose: Construct a proposed model to create a budget recovery, reinvestment, and potentially reduction process and address the relationship between funding of capital/asset protection projects and implications for the general fund budget.

Budget reduction scenarios addressed by sub-committee:

- Introduce a budget recovery strategy assigned differentially to each Division that is informed by both strategic priority and comparative position based on the IPEDS data
- Allocate a portion of the revenue as a reinvestment strategy to fund major strategic priorities and support a contingency fund.
- Fund major capital and asset protection projects outside of the general fund budget (i.e. GO Bonds, RICAP, Private, other non-general fund sources)
- Re-evaluate asset protection spending priorities annually with careful consideration of new and emergent priorities.

Over-riding Challenge: How do we create a sustainable reinvestment/contingency fund that serves the best interests of the institution and does not dramatically impair essential institutional functions and activities and demoralize personnel by further reducing already lean budgets.

Definitions

Harmless: An area of the budget that cannot be touched
Protected: An area of the budget that, while not held harmless, may not incur a full cut

- Given two programs within a division (A and B), one would be protected (A), the other would not (B)
- Program A would incur a reduced cut, while program B would make up the difference by incurring a larger cut
- Under these definitions, only Financial Aid would be held Harmless – this is consistent with principles established originally by the VP’s, endorsed by the President, and then independently re-enforced by the SBPC. GO debt service is treated entirely as separate from the GF budget in this model.
Proposed Model

It became clear that a strategic reinvestment/contingency fund needs to be established “off the top” prior to the establishment of base budgets of Divisions, units, etc... – As such, this should be done well in advance – e.g., now for FY 13.

A target amount should be set aside for the reinvestment/contingency fund and during the Budget Request cycle this should be set as follows:

- ½% of the tuition increase (i.e. if tuition increase is 4% in state and 2% out of state) then ½% of the instate revenue and ½% of the out of state revenue will be budgeted for strategic reinvestment/contingency fund
- ½% of the annual revenue of Fund 101’s
- ½% of the annual revenue of the Auxiliary and Enterprise units (except those with negative fund balances as these units must work to eliminate those balances first)
- ½% of the annual revenue dedicated to SPA

All components of the institution contribute to the fund and are expected to manage resources to accommodate this institutional need.

The reinvestment/contingency fund would be used to both make investments in important new initiatives (reinvestment portion) and to meet emergent situations (contingency portion), including budget cuts if necessary. The proportion of reinvestment vs. contingency would vary from year to year depending on budget situations; this proportion would be determined by senior management and shared with SBPC.

It will be beneficial for everyone to focus on attaining the targeted enrollment; this will maximize the available funds in the reinvestment/contingency account.

Process for allocation of Reinvestment funds

Investment funds would be allocated to provide support for significant new initiatives (long-term or one time) that serve the best interests of the institution; these funds are not meant for routine additions of faculty or staff or day-to-day needs

To be eligible for investment funding, proposing units would need to provide the full cost of the proposed project (i.e. costs in outer years if significantly more than year 1) as well as a meaningful (perhaps define a minimum threshold %) cost-share or co-investment for the proposed initiative – this contributes financially, but more importantly, ensures true commitment to the initiative

Because many new initiatives may require base budget investments, it will be necessary to replenish the investment fund; this can be done by requiring bridging of such funds to a future pay back over a period of 1 to 5 years (???)

Division heads will present potential initiatives to the SBPC, which will review and make recommendations to the President of projects that will significantly advance the university

Process for Contingency Fund:

Senior Management to assess at appropriate budget cycle – contingency funds can address both shortfalls and retain a small pool for emergent situations.

Use of contingency funds to meet budget shortfalls would only occur after all efforts were made to absorb cuts that fall within the range of “rounding error”
Base budget reductions met by the contingency will need to be carried forward, erased by new allocations, or distributed to Divisions in subsequent years

**Capital Budget Requests**

Asset Protection budget within the unrestricted budget ($688,000) should remain in place for minor projects; RICAP AP budget ($5.8 m) plus the unrestricted AP budget should absorb AP project costs in priority areas. RICAP funding should continue to be sought for specific major capital projects. Overruns and new emergent items will either be absorbed through management of these funds and/or reprioritization of projects as necessary.

Major capital projects need to include a full cost analysis at the inception, including costs of additional personnel, equipment, and operations (e.g., utilities, maintenance) needed to operate the facilities. These need to be identified with revenue streams to support these components. If a project is approved by the State; but, a change in funding is recommended, the project should be reviewed along with the implications from the change in funding.

Routine general fund allocations or reallocations should not be a standard mechanism for supporting capital/asset protection projects; requests to tap such GF should be reviewed by the SBPC and, if approved by senior management, must be forwarded to the Board of Governors for approval if an item is greater than $100K.

Reducing non-capital/AP GF operating budgets to support capital and asset protection projects or new debt service should be avoided.

Capital/AP projects can be proposed for either investment funds as part of a significant new initiative that serves the institution or contingency funds for short-term emergent situations and reviewed by SBPC as appropriate. This also will require Board of Governors approval if greater than $100K.

Capital process should be aligned with the budget request process.

**Key Considerations**

This will not be possible for FY2012, may be for 2013; must be at least 1 year in advance.

New programs/initiatives must identify how it is to be funded, either via cuts or revenue increase.

Surplus will be available for use based on convincing proposals that will improve the university.

Base investment of either reinvestment or contingency funds will deplete the account fairly quickly, unless a pay back mechanism is established. Treating the investment as a “bridge” fund accomplishes the reinvestment goal, replenishes the account over time, and creates a sustainable budget by not simply adding to existing expenses over time.

Reinvestment funds would be available based on convincing proposals that will improve the university – critical that the focus is on the institution.

Sub-committee will continue to meet to develop a recommendation to the SBPC for discussion on budget reduction process. This discussion should be complete by October 2011 so that the process can be recommended to the President and utilized during the FY12 MYR if needed.