



Budgeting & Capital Planning Best Practices

**NACUBO Planning & Budgeting Conference
Denver 2014**

Tuesday, September 23, 2014



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Presenters

Tanya K. Hahn, CPA, MBA

Managing Director

Robert W. Baird & Co., Inc.

(614) 629-6951 direct

(614) 582-7892 mobile

thahn@rwbaird.com



Dr. Duane Kilty

Special Assistant to the President/Former Senior VP of Finance

Indiana Wesleyan University

(866) 468-6498 direct

Duane.kilty@indwes.edu



Mr. Wallace Wetherill, CPA

Partner

BKD, LLP

(260) 460-4004 direct

wwetherill@bkd.com





Agenda

- Current Issues and Observations Surrounding the Budget Process
- Business Office Challenges
- What Should a Comprehensive Budget Include
- How Do We Engage Senior Management & the Board
- What Targets Can We Establish to Measure Results
- Can We Use it for Future Planning
- Questions



Current Issues and Observations from CFO's

- Dissatisfied with our systems
 - Takes too long and not automated
- Want to change budgeting process
- Don't budget for non-operating activities
- Don't look far enough into the future
- Budget not aligned with strategic plan
- Don't have enough reserves
- Cabinet doesn't own parameters or challenges
- Silo mentality and unwillingness to change



Outside Observations

- Inadequate budget process and tools
- Is short-term not long-term
- Does not link with strategic plan
- Does not include non-operating activities
- Lacks connection with other policies: investment, capital, development
- Lacks accountability & goals
- Not transparent or user friendly for governance & decision making
- Not tied to actual results



One Opinion of the Future

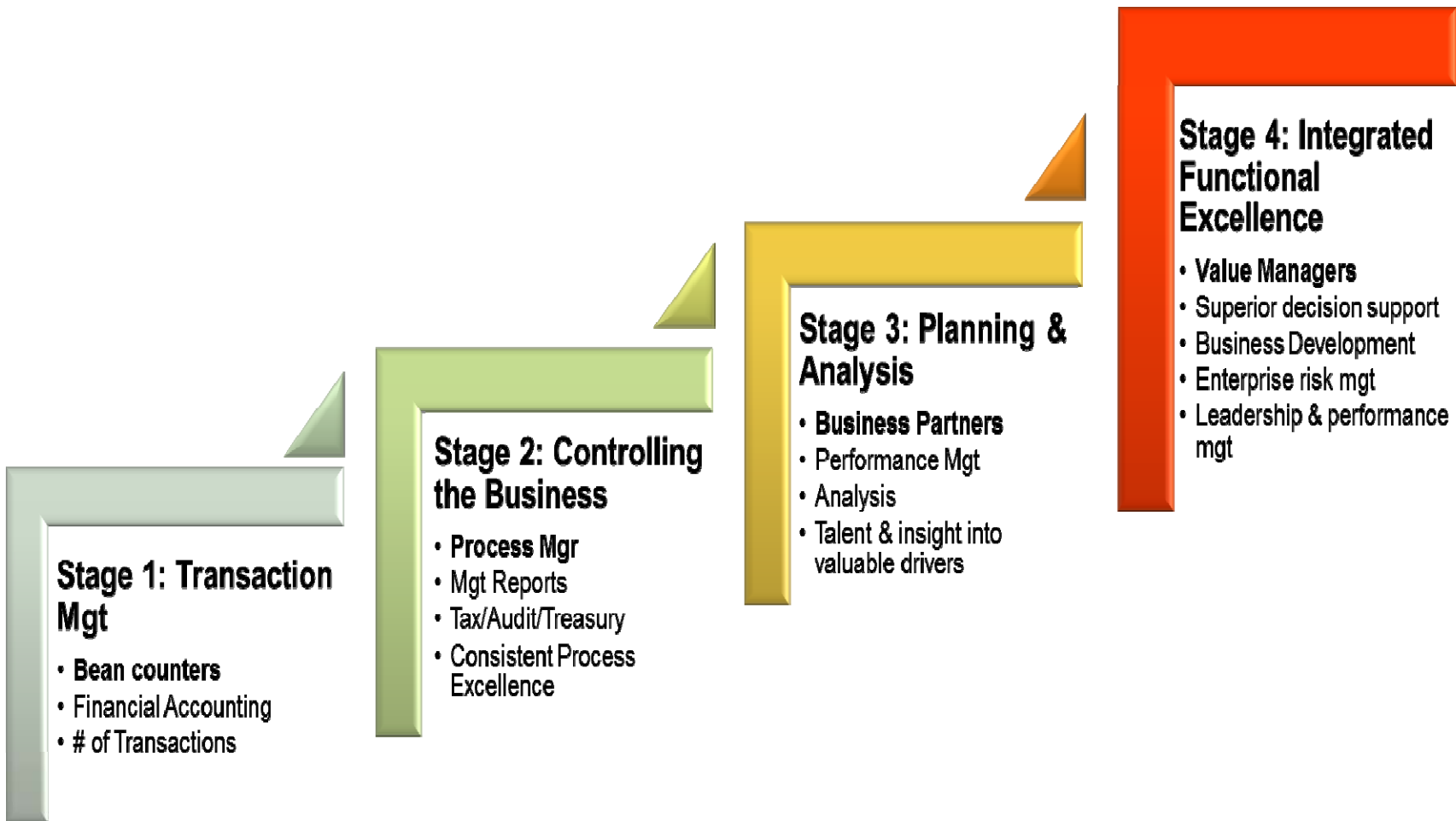
“Today the traditional university’s challenge is to change in ways that decrease its price premium and increase its contributions to students and society. Its expensive campus and professoriate must be deployed innovatively against the jobs of discovery, memory, and mentoring. It won’t be enough to change superficially, such as by cutting budgets or working faculty harder. Tough choices about students, subjects, and scholarship must be made. These choices must be reflected in the university’s institutional DNA and in its success measures.”

Christensen, C. M., & Eyring, H. J. (2011). *The Innovative University: Changing the DNA of Higher Education From The Inside Out*. San Francisco, CA: Jossey-Bass.

- “While the soul of an institution can be found in its curriculum, its conscience can be found in its budget.”
 - -Thomas F. Staley
- Pierce, S. R. (2012). *On Being Presidential: A Guide for College and University Leaders*. San Francisco: Jossey-Bass.



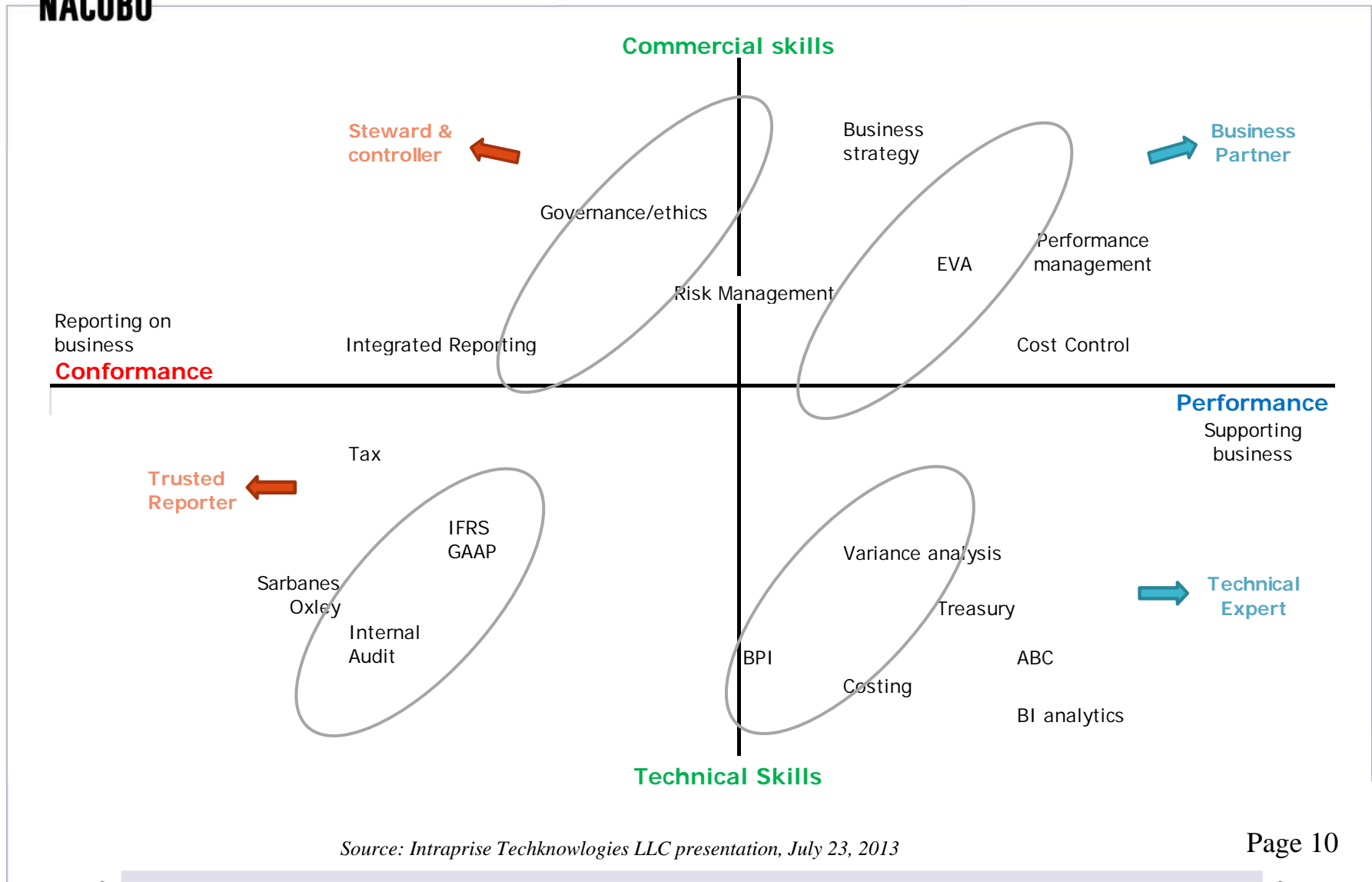
Finance Organization Evolution – Increased Expectations



Source: McKinsey & Company



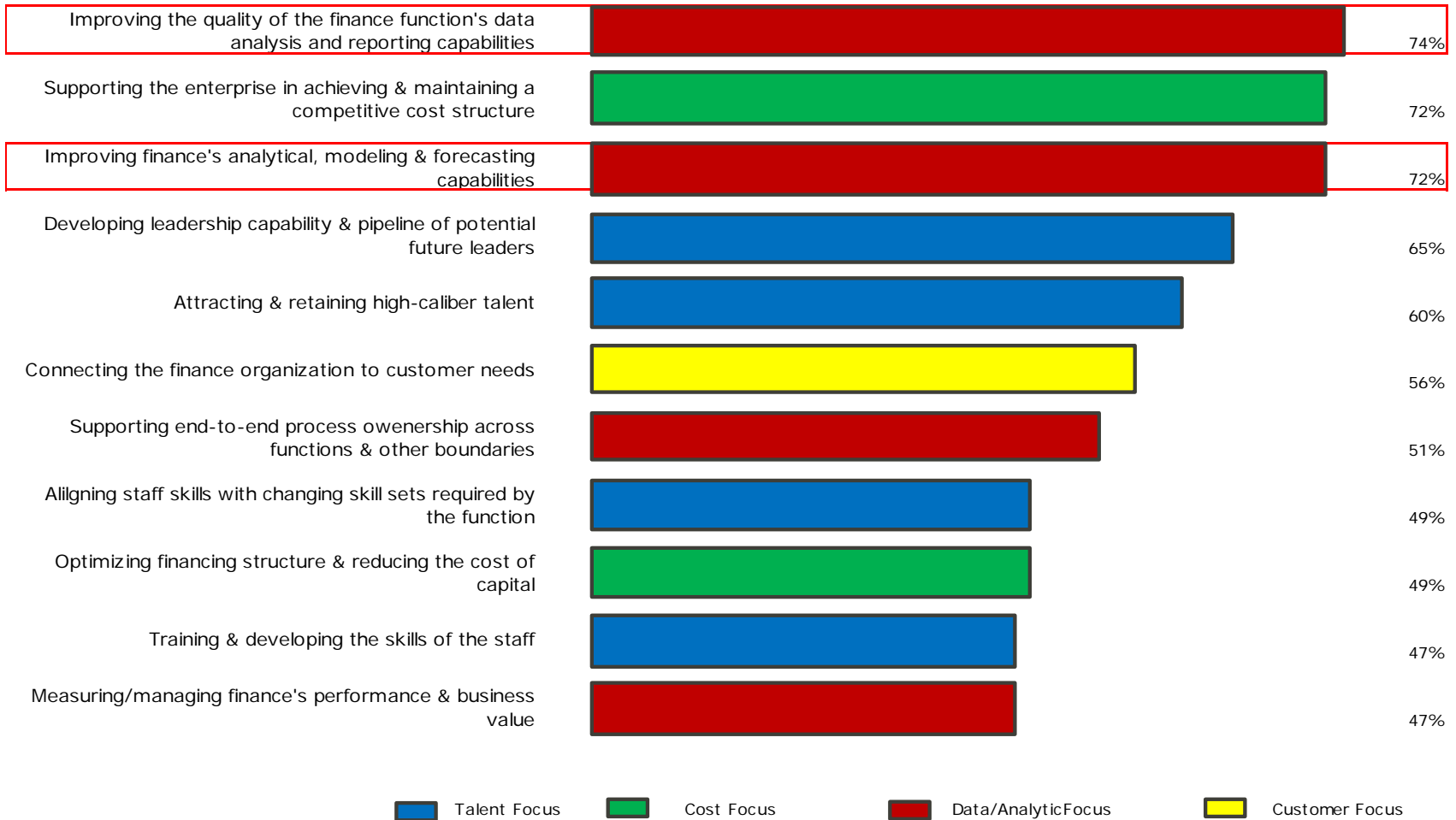
Finance Evolution – Shift to Business Partner



Source: Intraprise Techknowlogies LLC presentation, July 23, 2013



Challenges for Finance



Source: "2013 Finance Agenda: Moving Toward Borderless Business Services", January 2013, The Hackett Group



Business Office Challenge-Spreadsheet Challenge

Slow

- "...the average corporation spends 4 months and 20-30% of financial managers' time budgeting." *APQC Study*

Error Prone

- >88% of Spreadsheets Audited Had Errors – *Average of Surveys from Accounting Firms since 2000*

Risky

- Missing Minus Sign Caused Fidelity's Magellan Fund to Overstate Projected Earnings by \$2.6 B – *CFO Research*

Costly

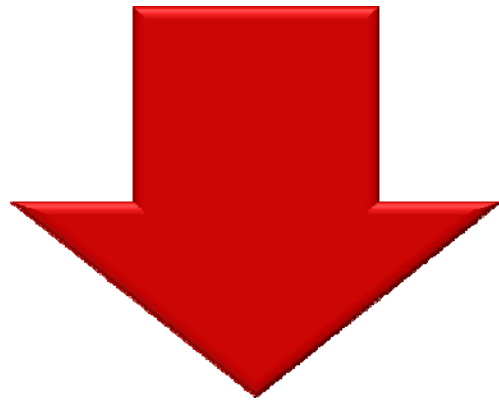
- 50% of companies say too time consuming and 73% plan to make process changes – *BPM Forum*

Ineffective

- "...the budgeting process at most companies has to be the most ineffective process in management." – *Jack Welch*



Want to Change the Budget Process? -What Do We Do?



Status Quo
with Same
Results

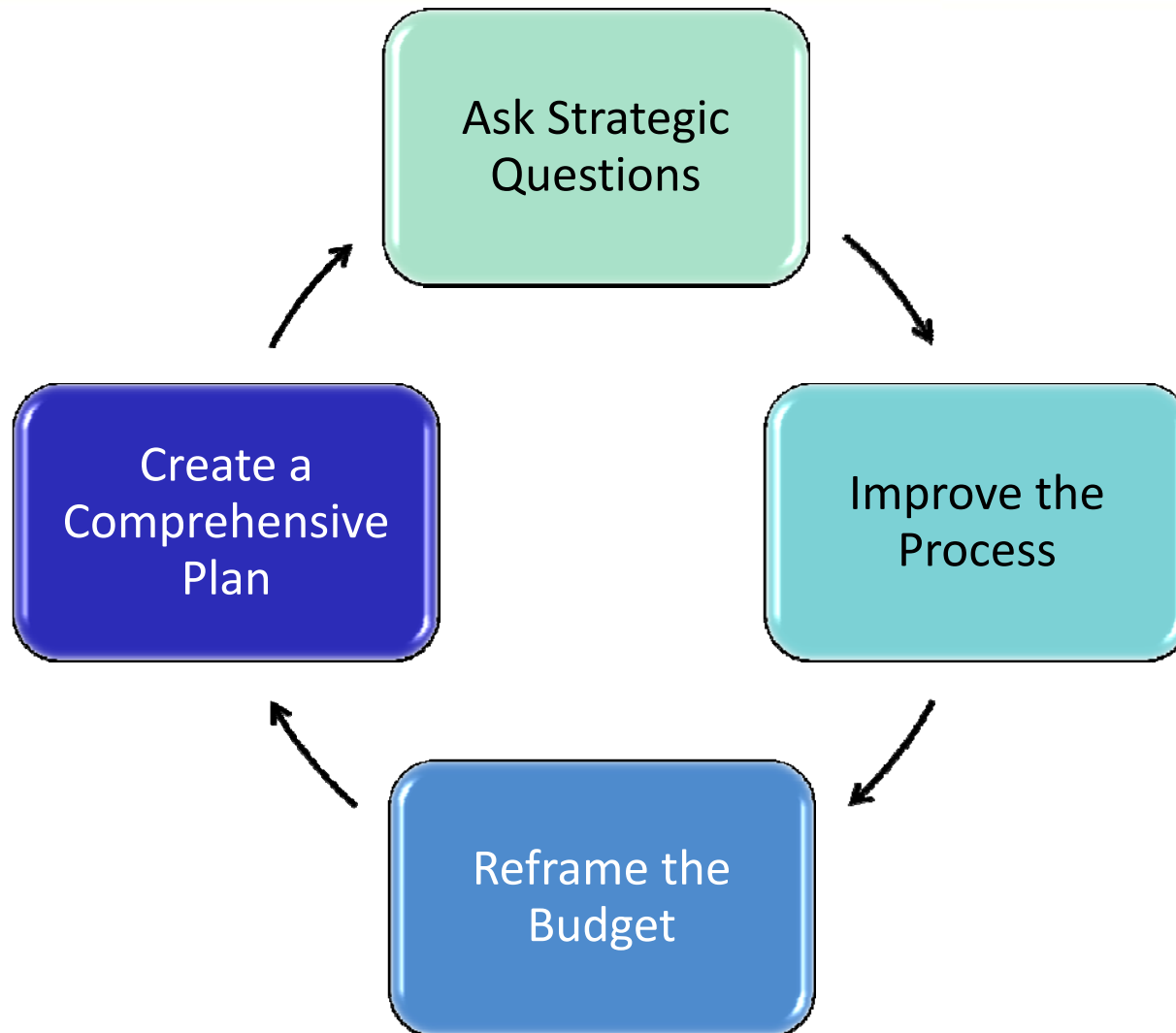


Change the
Budget
Conversation





Four Ideas for the Future





Which is the More Productive Dialogue?

Strategic Priorities

Value

Student Learning

Sustainability

Cost Control

Protecting Turf

Short-Term

Survival



Comprehensive Influences on Budget

Tuition &
Discounts

Investment
Policy &
Earnings

Enrollment and
Headcount

Staffing

Graduation/
Results

Curriculum
Changes

Budget
Strategies (i.e.
operating
margin)

Endowment
Spending
Policies

Debt Policy

Strategic Plan

Capital
Improvement
Plans

Capital
Campaigns



Plans & Policies Considered

- Strategic Plan
 - What are goals
 - Does the plan have enough specifics
 - Do we keep track of progress
 - How does it affect each year's operational budget
- Capital Improvement Plan
 - Detailed plan for replacing/renovating existing fixed assets
 - Status of the campus assets
- Debt Policy
 - Parameters for borrowing
 - Compliance and managing existing debt
- Investment & Spending Policy
 - Does it consider the strategic, capital, operational and debt plans and policies
 - Acknowledges debt financial covenants
- Liquidity Policy
 - Sets minimum unrestricted operating cash



Capital Improvement Plan

Define capital assets included

Condition assessment of each asset

Determine life span of each asset

Evaluate last time improvements made to each asset & time for next upgrade/replacement

Calculate cost of maintenance & replacement of each asset



Debt Policy Considerations

Purpose/Philosophy

Responsible/Authorizing Parties

Definitions

Approved Projects

Debt Capacity

Type of Debt Incurred

Prohibited Debt

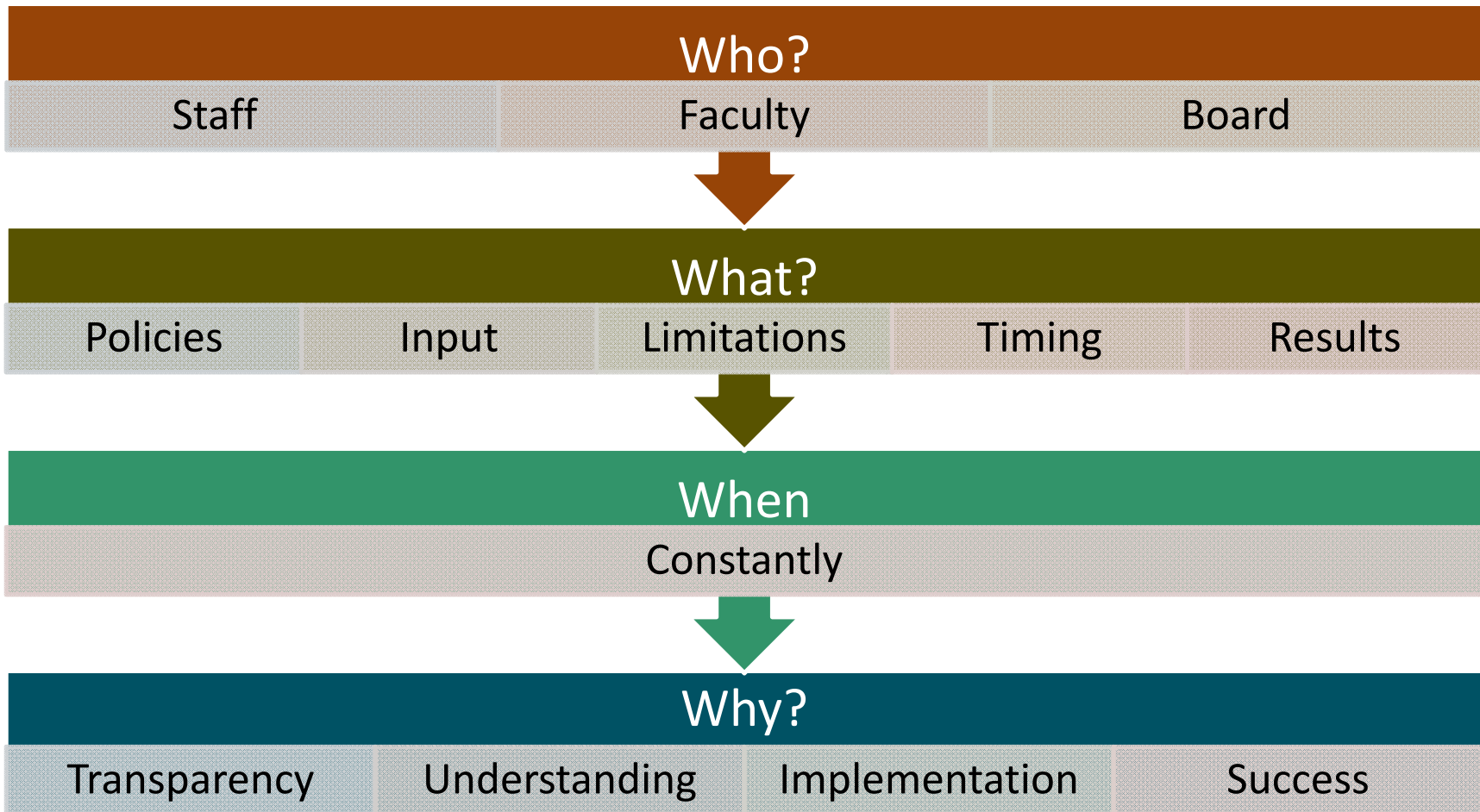
Refinancings

Derivatives

Reporting

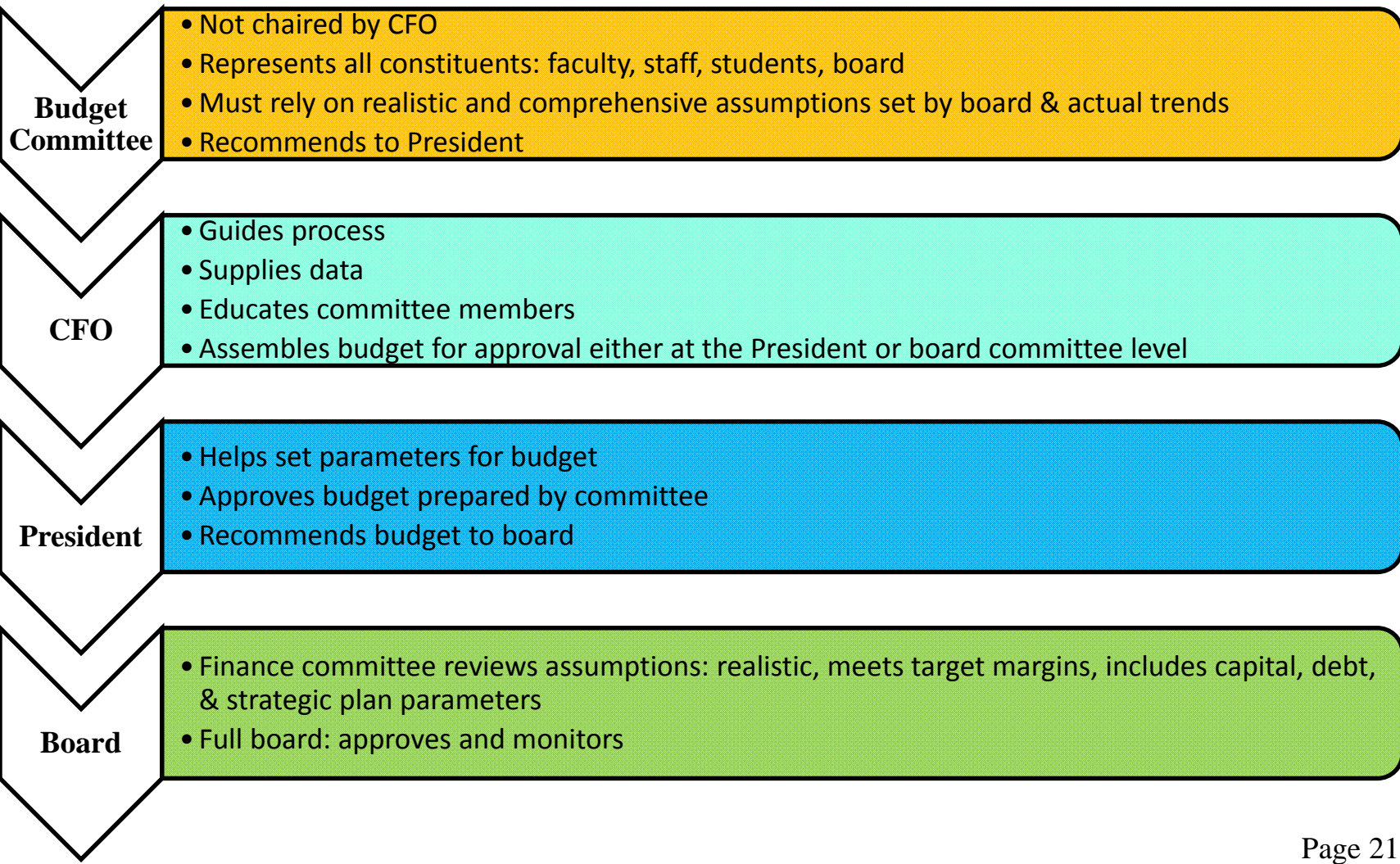


Communication About the Budget





Key Participants in Budget





Sample Budget Timeline

November - January

- Preliminary Budget Projections for Next Fiscal Year
 - Start with last FYE
 - Changes for current FYE
 - Estimates for next FYE

February - April

- Budget assumptions
- Enrollment projections
- Program changes
- Capital expenditure needs

April - May

- Budget Adjustments
- Finalize with departments
- Agree with Mgt Team
- Finance Committee
- Present to board

June - July

- Budget Variables Monitored and Updated
- Reflect FYE actuals
- Adjust for fall anticipated enrollment



Reframe the Budget – What If?

- Unit leaders have to decide on resource allocation
- Responsibility is delegated to unit leaders to drive revenues & control expenses
- Each unit has target margins it must achieve
- CFO is no longer dictating cost reductions/staffing levels
- Consequences exist for missing the budget at the manager level



Margin-Based Budget

- Promotes ownership of the budget
- Delegates authority, responsibility & *accountability*
- Empowers unit leaders
- Pushes decision making down to program & department level
- Increases transparency
- Facilitates use of metrics / dashboards
- Keeps the budget in equilibrium regardless of enrollment
- Encourages discipline and breaks free of tradition



Decision Making

- **CFO is responsible for:**
 - Developing the model and establishing the framework and targets
- **Unit leaders are responsible for:**
 - Achieving target margins
 - Develop and manage budgets within the overall financial framework of the institution
 - Make all operational decisions, including personnel
- **For a target margin of 20%:**
 - Leaders can spend 80 cents of each dollar and return 20 cents for central administration
- **Additional targets define delegated responsibility and authority**
 - Example: compensation can't exceed 50% of tuition.



Margin-Based Budget: University

2013-2014 Budget

Income	Total	Residential	Non-Res	Univ Admin
Tuition & Fees	\$170,534,984	\$66,340,481	\$104,144,503	\$50,000
Federal Grants	\$1,020,240	\$1,020,240		
Private Gifts/Grants	\$2,292,658	\$2,190,000	\$102,658	
Investment Income	\$2,442,378	\$1,970,442		\$471,936
Excess Rev: R&D	\$431,164		\$431,164	
Other Income	\$2,815,965	\$988,210	\$1,789,755	\$38,000
Auxiliary Income	\$35,089,546	\$19,061,984	\$16,027,562	
Total Income	\$214,626,935	\$91,571,357	\$122,495,642	\$559,936
Expenses				
Instruction	\$48,628,223	\$21,188,729	\$27,439,494	
Academic Support	\$28,672,625	\$4,802,050	\$22,973,840	\$896,735
Student Services	\$30,842,363	\$10,376,150	\$18,870,389	\$1,595,824
Institutional Support	\$16,182,983	\$2,477,168	\$2,979,389	\$10,726,426
Physical Plant	\$15,038,089	\$7,195,378	\$7,842,711	
Financial Aid	\$24,293,063	\$22,639,977	\$1,653,086	
Auxiliary Expenses	\$22,471,464	\$9,496,799	\$12,974,665	
Facilities Reserve Fund	\$5,000,000	\$5,000,000		
Capital Expenditures	\$3,355,000	\$2,125,000	\$1,230,000	
Total Expenses	\$194,483,810	\$85,301,251	\$95,963,574	\$13,218,985
Operating Margin	\$20,143,125	\$6,270,106	\$26,532,068	-\$12,659,049
<i>Margin %</i>	9.39%	6.85%	21.66%	-5.90%
Target %	12.20%	9.00%	25.00%	-6.00%



Margin-Based Budget: Residential Only

2013-2014 Budget

	Total	CAS	SoN-Res	SHS	Grad	Admin
Income						
Tuition & Fees	\$66,340,481	\$57,646,259	\$7,799,222	\$895,000		
Federal Grants	\$1,020,240	\$1,020,240				
Private Gifts/Grants	\$2,190,000	\$2,190,000				
Investment Income	\$1,970,442	\$1,970,442				
Other Income	\$988,210	\$140,800	\$99,574	\$747,836		
Auxiliary Income	\$19,061,984	\$18,996,564		\$28,420	\$37,000	
Total Income	\$91,571,357	\$81,964,305	\$7,898,796	\$1,671,256	\$37,000	\$0
Expenses						
Instruction	\$21,188,729	\$18,230,417	\$2,958,312			
Academic Support	\$4,802,050	\$3,273,579	\$12,241	\$1,371,256	\$144,974	
Student Services	\$10,376,150	\$10,108,250	\$167,900	\$100,000		
Institutional Support	\$2,477,168	\$2,277,168		\$200,000		
Physical Plant	\$7,195,378	\$7,195,378				
Financial Aid	\$22,639,977	\$22,639,977				
Auxiliary Expenses	\$9,496,799	\$8,931,926			\$564,873	
Facilities Reserve Fund	\$5,000,000	\$5,000,000				
Capital Expenditures	\$2,125,000	\$2,125,000				
Total Expenses	\$85,301,251	\$79,781,695	\$3,138,453	\$1,671,256	\$709,847	\$0
Operating Margin	\$6,270,106	\$2,182,610	\$4,760,343	\$0	(\$672,847)	\$0
Margin %	6.85%	2.66%	60.27%	0.00%	-0.73%	
Target %	9.00%	5.10%	55.00%	25.00%	0.70%	

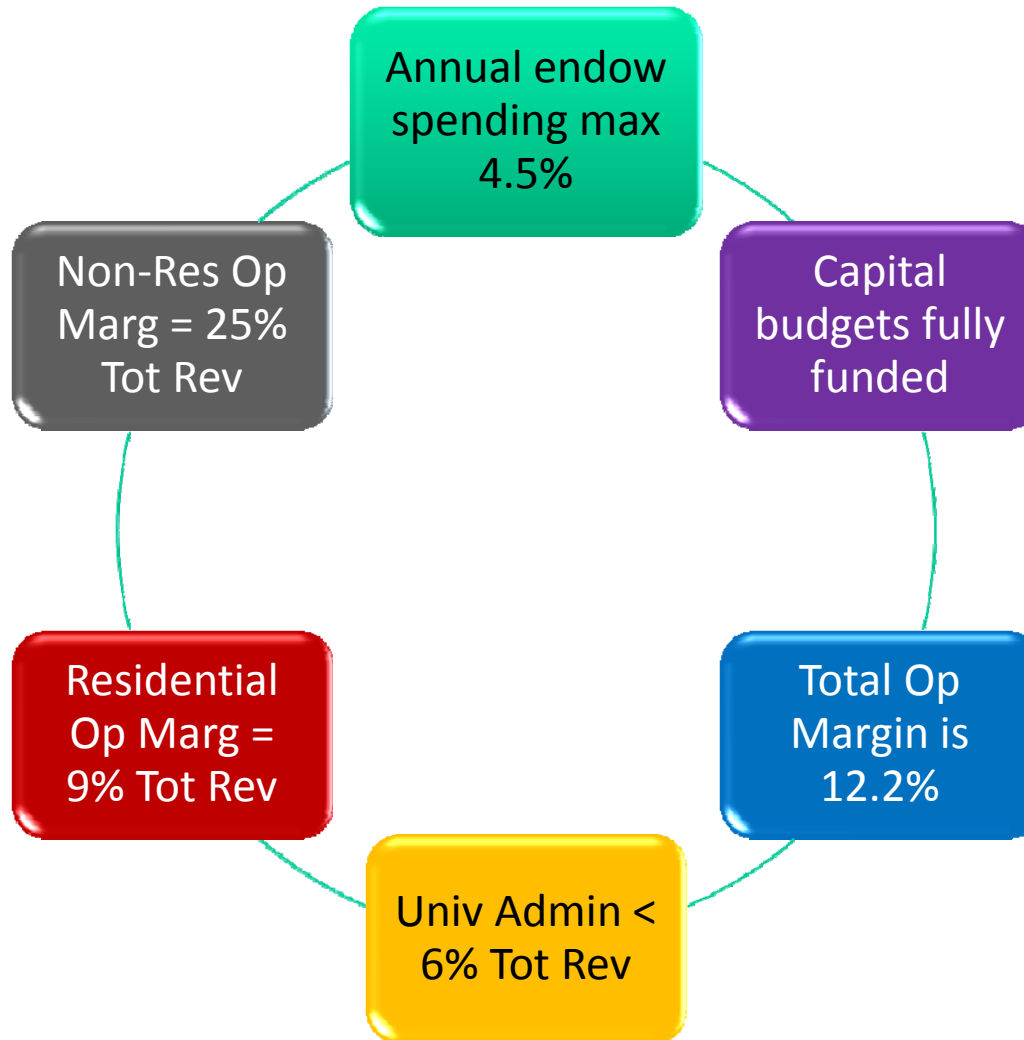


Margin Tests

- Total operating margin/total revenue
- Auxiliary margin
- Academic administration/total revenue
- Central administration/total revenue
- Depreciation/capital expenses/actual depreciation charge
- Endowment spending



Successful Budget/Results: 6 Margin Test





Additional Ways to Reframe the Budget

- Report actual vs budget and actual vs actual frequently
 - Transparency
 - React to actual results different than budgeted & prior years
- Project/budget/forecast multiple years
 - Affords long-term perspective
 - More time to react to negative results
- Prepare best and worst case
 - Transparency
 - Put details around plus and minus assumptions – opens eyes to how much differences can influence results
- Compensation is driven by financial results for senior management/unit leaders



Four Ideas for the Future

- 1 Ask strategic questions
- 2 Improve the process
- 3 Reframe the budget
- 4 Create a comprehensive plan



Thank You for Participating!

Questions?