

**University of Kansas**  
**Changing for Excellence**

Phase II Business Case Executive Summary  
Budgeting Process - Lawrence/Edwards

November 4, 2011

Experience. **Redefined.**<sup>®</sup>

# Phase I budgeting process – Lawrence/Edwards

Huron identified opportunities related to the budgeting process of at least \$4.7M.

## Phase I Identified Challenges and Opportunities

- Historically, school/college budgets have been based on the previous year's allocation and do not take into account changes in enrollment
- The budget discussion is based on only two sources of funds: state appropriations and tuition revenues
- Recent years' budget allocations have not included funding for strategic priorities
- Deans petition the Provost for special funding during the year
- One-time agreements are made between the Provost and the deans on a one-off basis to increase revenues

## Goals

- Redesign the annual budget allocation process to encompass all sources of funding
- Create budgetary incentives to grow enrollment and improve persistence

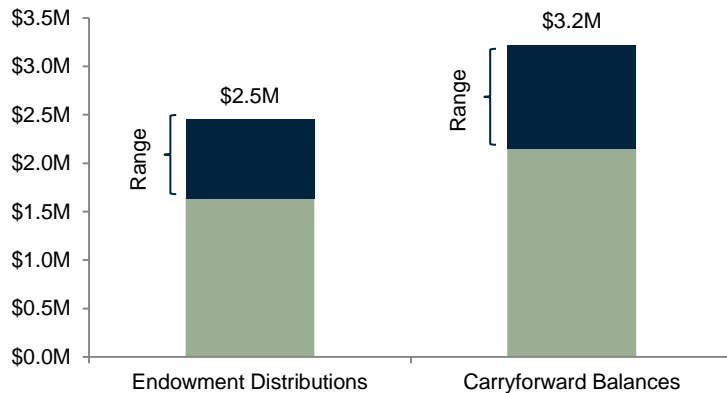
## Phase I Identified Financial Opportunity

Cost Savings	Resource Reallocation	New Revenue
N/A	\$4.7M - \$6.4M	N/A

# Phase II budget process – opportunity

Redesigning the budget process at KU will identify funds that can be spent strategically by the schools and units to further KU's goals.

## Phase II Annual Impact      Phase II – Business Case Financial Summary



**Notes:**

- Annual impact is held constant at average of past five years.
- Slide 5 outlines methodology for projections

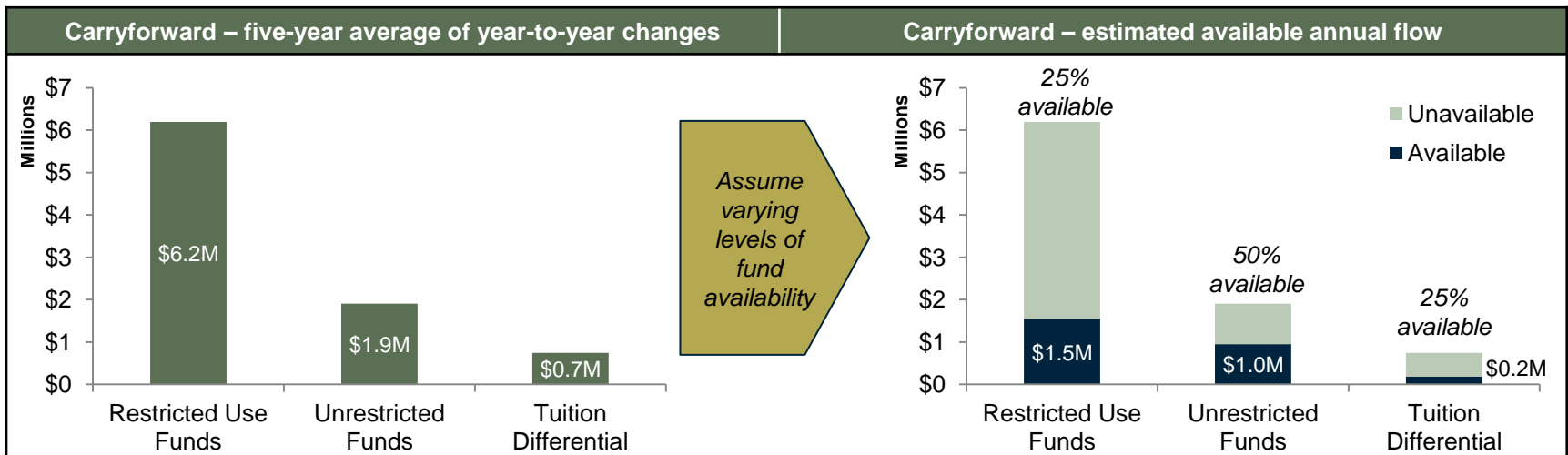
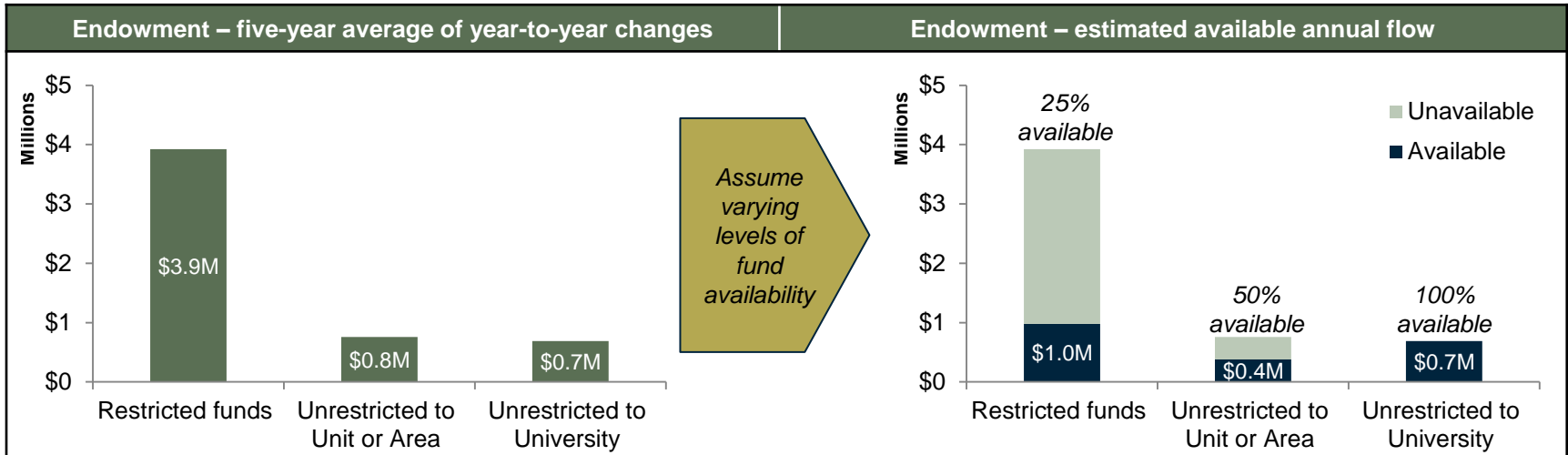
- Five year's of carryforward and endowment distribution balance growth was analyzed to determine a potential annual amount to be used for strategic purposes
- Projections assume that an increased portion of unrestricted and restricted funds will be spent on an annual basis, but balances will continue to grow
- Implementing a new budget model will provide the data and context needed for schools and units to strategically spend annual funds
- Elevating the current budgeteers through training will provide the deans and unit leaders with the support needed to more closely manage budgets

Five Year Cumulative Impact <sup>1</sup> (Expected Case)	000s (parentheses denote costs)
Endowment Distributions	\$10,247
Carryforward Balances	\$13,436
<b>Investment Requirement (total)</b>	<b>(\$1,027)</b>
<b>Net Benefit</b>	<b>\$22,656</b>

<sup>1</sup>Year 1 is FY12, which is a partial year (begins in November)

# Phase II financial summary

The average of the past five years of year-over-year changes was used to predict future funds available for strategic uses.



# Phase II KU budget process – opportunities and goals

Redesigning the budget process can enable conversations between schools and the college that focus on all sources of funds.

## Phase II Identified Opportunities

- Unit budgets are based on the previous year's allocation and do not take into account cost drivers such as enrollment and research
- As the smaller freshman classes (2009, 2010) attend the professional schools for junior and senior year, school enrollments will decrease as these students move through the years at KU
- The budget discussion is based on only two sources of funds: state appropriations and tuition revenues
- Recent years' budget allocations have not included funding for strategic priorities
- Deans petition the Provost for special funding during the year
- One-time agreements are made between the Provost and the deans on a one-off basis to increase revenues
- Unexpended endowment distributions have been growing by a CAGR of 6.36% over the past 5 years, growing from \$76M in 2006 to \$101M in 2011.
- Carryforward balances have been growing by a CAGR of 11.9% over the past 5 years, growing from \$60M in 2006 to \$106M in 2011.

## Goals

- Spend a larger percentage of operating funds and endowment distributions, decreasing the rate of balance growth.
- Bring all resources to bear on implementing school and university joint priorities, and thus redesign the annual budget allocation process to encompass all sources of funding; enable comprehensive budget understanding and budget transparency for all stakeholders
- Inform budget development with cost drivers and quality metrics; create incentives to grow enrollment and sponsored research, and to reward accountability.

# Financial model – notes and assumptions

A series of assumptions were required to estimate the financial impact of implementing a new budget process.

Notes	Assumptions
<p>Assumptions of usable unspent annual endowment distribution balances for the expected case are based on:</p> <ul style="list-style-type: none"><li>• 100% of average previous annual unrestricted central funds</li><li>• 50% of average previous annual unrestricted unit-allocated funds</li><li>• 25% of average previous annual restricted funds</li></ul> <p>Assumptions of usable future carryforward balances for the expected case are based on:</p> <ul style="list-style-type: none"><li>• 50% of average previous annual increase to unrestricted balances</li><li>• 25% of average previous annual tuition differential balances</li><li>• 25% of average previous annual restricted use fund balances</li></ul>	<p>Balances available to be used strategically are based on the average previous five years of annual increases to endowment distribution and carryforward balances</p> <p>Strategic use of the funds suggested in this case will not reduce the current account balances, but will reduce the annual amount that the balances are increasing</p> <p>The range of annual funds available is based on:</p> <ul style="list-style-type: none"><li>• A “low” assumption that overall 20% less funds will be useable than predicted in the expected case</li><li>• A “high” assumption that overall 20% more funds will be useable than predicted in the expected case</li></ul>

Focusing on using a portion of currently carryforward funds will allow for continued savings as well as use of funds for strategic purposes. Based on the expected case, an additional \$4.7M can be spent strategically.

# Financial model – summary

The expected benefits case examines a case for spending a portion of the current average year-over-year balance increase for strategic purposes.

## *Expected Benefits Case (\$000's)*

*(assumes expected percentage of balances can be used strategically)*

<b>Benefits</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
Endowment distributions	\$2,049	\$2,049	\$2,049	\$2,049	\$2,049
Carryforward	\$2,687	\$2,687	\$2,687	\$2,687	\$2,687
<b>Total</b>	<b>\$4,737</b>	<b>\$4,737</b>	<b>\$4,737</b>	<b>\$4,737</b>	<b>\$4,737</b>
<b>Costs</b>					
Stipends	\$123	\$216	\$223	\$229	\$236
<b>Total</b>	<b>\$123</b>	<b>\$216</b>	<b>\$223</b>	<b>\$229</b>	<b>\$236</b>
<b>Net</b>	<b>\$4,614</b>	<b>\$4,520</b>	<b>\$4,514</b>	<b>\$4,507</b>	<b>\$4,500</b>

## *Low Benefits Case* *(assumes 20% less of balances can be used strategically)*

Net Present Value **\$17.6M**

## *High Benefits Case* *(assumes 20% more of balances can be used strategically)*

Net Present Value **\$26.4M**

**Net Present Value (Expected Benefits Case): \$22,027,000**

# Risk assessment summary – budget process

Deploying a new budget model represents a significant change for deans and administrative leaders at KU.

- Direct involvement of the Provost and senior leadership in the implementation of changes to the budget process will be required to secure buy-in and support of the new process.
- Deans are concerned that endowment and carryforward balances will be “swept;” ongoing communication, transparent treatment of funds and consistent implementation will be required to address such concerns and to enable a successful implementation.
- Enhancement of the budgeteer role into the budget officer role will provide additional support to enable units and schools to manage budgets on an ongoing basis.

Implementation of an all funds budget process at KU is low risk and will be a key enabler of cost savings and revenue growth in other administrative areas as all sources of funds are employed in the budgeting process and resources are aligned with the strategic goals of the institution.



# Approach

The table below depicts the high level tasks necessary to implement an all-funds budgeting model at KU.

Mobilize	Design	Deploy	Optimize
Oct. 2011 – Feb. 2012	Nov. 2011 – July 2012	Dec. 2011 – Nov. 2012	Sep. 2012 – Nov. 2012
<p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>• Develop expanded budgeteer responsibilities</li> </ul>	<p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>• Develop the KU all funds budget model and report templates</li> <li>• Define future state reporting requirements</li> <li>• Define incentives and communicate to deans and business leadership</li> <li>• Execute communication plan</li> </ul>	<p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>• Implement budget officer role and deploy training</li> <li>• Budget meetings with deans and unit leaders</li> </ul>	<p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>• Examine lessons learned</li> <li>• Ongoing monitoring of budgets (monthly)</li> </ul>
<p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>• Executive committee decision</li> <li>• Budget office role</li> </ul>	<p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>• KU Budget Report template</li> <li>• Budget call letter</li> <li>• Central database for budgeting</li> </ul>	<p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>• Budget officers on-boarded</li> <li>• KUEA and KUCR data interface with KU</li> </ul>	<p><b>Deliverables</b></p> <ul style="list-style-type: none"> <li>• Incentive based all funds budget model and annual process deployed in the initial iteration</li> </ul>



Experience. **Redefined.**