

## **University Budget Process**

Updated 1/17/18

### ***I. Background***

Youngstown State University's annual operating budget represents the university's financial operating plan for the fiscal year period of July 1<sup>st</sup> through June 30<sup>th</sup>. The operating budget is a spending plan that reflects university goals and priorities. Budgetary expenses are supported by forecasted revenues that are based on a reading of future economic conditions. As one of the university's most important administrative tools, the budget serves as a plan of action for achieving objectives, and a standard for monitoring financial performance.

Pursuant to YSU policy 3356-3-11, the annual operating budget is submitted to the board of trustees for approval, and thereafter serves as the university's financial governing document for the fiscal year.

### ***II. Budget Advisory Council***

The budget advisory council helps shape the university's priorities and achieve the goals outlined in the YSU 2020 strategic plan. The council serves in an advisory capacity to the president regarding budget issues and funding priorities. Council members represent the entire campus community, and communicate to and provide feedback from their various constituent groups.

Even though the development and execution of the annual budget ultimately resides with the University's executive management team, the budget advisory council fosters an environment that is consistent with the notion of shared governance. The council format allows for broader participation in the budget process, and plays a key role in communicating budget decisions to the campus community.

### ***III. Fund Budgeting***

Youngstown State University uses a fund budgeting approach whereby budgets are allocated and aggregated to specific fund groups. In accordance with article V of the board of trustees' bylaws, the university's annual budget encompasses the general fund and auxiliary funds. (Restricted funds, such as grants, sponsored research and philanthropic gifts, are typically temporary in nature, are subject to externally-set conditions and/or compliance requirements and, therefore, are managed outside of the regular budget process.)



The general fund is the university's single largest fund that is supported by unrestricted general receipts, namely state operating subsidies and revenue from student charges. The general fund supports core academic and administrative expenses, such as student instruction, academic support, student services, institutional support, and plant operation and maintenance. The general fund budget also includes transfers to other types of funds, such as plant funds, auxiliaries, and reserves.

Additionally, there are subsets of the general fund that allow certain student fees to be accounted for and budgeted separately. These include lab and materials (course) fees, college fees, and information services (technology) fees that are charged to students to cover specific expenses that are unique to particular programs and disciplines. Although still unrestricted, budgeting these fee-based funds separately within the general fund ensures that the dollars are used in a manner that is consistent with the purpose of each fee. In this regard, the university practices a degree of responsibility-centered management, since income from these fees directly and proportionately supports the expense budgets in the colleges and departments that generate these revenues.

Auxiliary units generate their own revenue through sales and services that support their operations. Some auxiliaries are completely self-supported, like housing services and parking. Other auxiliaries, like Kilcawley student center and intercollegiate athletics, require additional funding support from the general fund budget.

The budget procedures described in this document apply to both general and auxiliary funds. However, year to year adjustments in auxiliary budgets are more responsive to fluctuations in their respective revenue streams.

#### ***IV. Budgeting Procedures***

Budget planning at Youngstown State University is an ongoing process but which generally begins in earnest during the fall of the preceding fiscal year. For example, budget planning for FY 2019, which will commence on July 1, 2018, began during the timeframe of October-November 2017.

YSU utilizes an incremental budgeting approach, whereby departmental and divisional operating budgets are largely based on prior year spending levels. Within the university's organizational structure, budgets may be reallocated among units, either temporarily or permanently. Some examples:

- With the approval or at the direction of a college dean, budgets may be reallocated among departments within that particular college.
- With the approval or at the direction of the provost, budgets may be reallocated among colleges, academic departments and administrative offices within the division of Academic Affairs.



- To facilitate permanent adjustments, a budget reallocation form may be submitted to the YSU budget office for inclusion in the annual operating budget. This form is located online at:

<http://cms.ysu.edu/sites/default/files/documents/budgereallocationform.xls>

The university's central budget office administers and manages the operating budget at a macro-level, and may reduce or otherwise reallocate budgets to ensure that institutional commitments and other fixed costs are fully funded. To prepare the university's annual operating budget for the upcoming fiscal year, the process employed by the YSU budget office is summarized below.

### Step 1 – Forecasting Revenues

The process of formulating revenue projections typically begins in October or November of the preceding fiscal year but is a fluid process that does not culminate until April or May. Information regarding major revenue drivers and variables is collected or developed as follows:

- Student enrollment estimates are provided by the office of enrollment management.
- Tuition and fee revenues are modeled on the basis of enrollment estimates and on any planned adjustments to student charges, as may be permitted by state law. (Tuition for resident undergraduate students is governed by the state of Ohio, which generally restricts the ability of state universities from raising tuition.)
  - Tuition increases generally require corresponding adjustments to institutional scholarship expense budgets, which the budget office annually reviews with the director of student financial aid.
  - The budget office consults with deans' council to determine whether the budget should include adjustments to graduate tuition, which has historically been exempt from state-imposed tuition limitations. Increases to graduate tuition typically require adjustments to graduate assistantship expense budgets.
  - The budget office consults with the enrollment management office to determine whether the budget should include adjustments to nonresident surcharges, which also are exempt from state-imposed tuition limitations.
- Any department across campus may propose to increase an existing fee or establish a new fee by completing a "Fee Change Request" form located online at <http://cms.ysu.edu/sites/default/files/documents/budgereallocationform.xls>.



- Such fee requests must be approved by the appropriate manager and area division officer, such as the provost, and must be reviewed and approved by the bursar's office to ensure that the fee is administratively feasible.
- Such fee requests are also reviewed by the vice president for finance, to ensure compliance with state of Ohio rules and restrictions vis-à-vis tuition and fees.
- For approved fee requests, the budget office formulates a revenue projection to include in the upcoming budget, which also serves as the basis for corresponding adjustments to spending budgets, as may be applicable.
- The Ohio Department of Higher Education provides state share of instruction (SSI) funding estimates for the upcoming fiscal year.
- The YSU budget office works with the university's financial advisor (Hartland) to review the university's investment strategy and formulate investment income estimates for the upcoming fiscal year.
- The YSU budget office analyzes other, lesser revenue streams, such as auxiliary income, indirect cost recoveries and unrestricted gifts, and adjusts those amounts as may be necessary.
- The sum total of each of these revenue streams serves as the baseline within which overall spending cannot exceed.

## Step 2 – Setting Expense Budgets

- In concert with various levels of the university's management team, the YSU budget office identifies any and all fixed costs and pre-existing financial commitments and incorporates these expenses into the budget. Examples of such commitments and fixed costs include:
  - Salaries and wages, most of which are subject to collective bargaining agreements negotiated between management and the university's four (4) labor unions.
  - Fringe benefit costs, notably employee health care insurance coverage and required employer contributions to the state retirement systems.
  - Debt service covenants related to bonded indebtedness undertaken by the university to pay for improvements to and expansion of the campus physical plant.
  - Scholarship and assistantship commitments made to new and continuing students.
  - Heating, cooling and other utility costs that are affected by external factors, such as weather conditions and national or regional energy markets.



- Departmental and divisional spending budgets are set at the prior year's levels, or adjusted as may be requested through the budget reallocation process described above.
- The budget office formulates a preliminary operating budget to determine if aggregate budgeted expenses are within the aggregate revenue projections developed in step 1 above.
  - If projected revenues exceed projected expenses, then the budget office may solicit or otherwise entertain spending requests. For consideration, requests must come directly from the president and/or his executive management team, and are reviewed by the budget advisory council.
  - If projected revenues are insufficient to cover projected expenses, then the budget office establishes a spending reduction target that is shared with the president, the senior leadership and executive management teams, the budget advisory council, and other groups, as may be appropriate. This spending reduction target is set at a level to ensure a balanced budget, and is divided into sub-targets that are then allocated to each functional division of the university. Although budget reduction targets are proportionately allocated to each division, these targets may be adjusted upward or downward to reflect the university's strategic priorities.
  - Because personnel costs represent the university's greatest expense, discussions about filling vacant positions and creating new positions typically occur at this stage of the budget process.
- The budget office formulates preliminary operating budgets for each auxiliary unit. If budgeted revenues exceed expenses for a given auxiliary, excess funds are budgeted in a reserve account within that particular auxiliary's budget. If budgeted revenues are insufficient to cover expenses for a particular auxiliary, the budget office works with the appropriate auxiliary manager(s) to reduce expense budgets.

## ***V. Strategic Budgeting***

The board of trustees has a fiduciary responsibility to ensure that the university is financially solvent. Maintaining a balanced budget is perhaps the most effective way of ensuring that this responsibility is met. Further compounding the need for a balanced budget, Ohio revised code §3345.72 requires the Ohio Department of Higher Education to annually evaluate the financial health of state universities. Failure to satisfy the state's evaluation could result in catastrophic operational and financial consequences, as delineated in Ohio administrative code §126:3-1-01. To this end, maintaining a balanced operating budget is itself a strategic priority.



The university is also subject to state of Ohio collective bargaining law, labor agreements, and its own policies regarding tenure and employment. And with approximately 70% of the university's budget committed to personnel, the university has relatively little ability to strategically redeploy existing resources. It is not practical, for example, to completely divest in one department as a means of investing in a new or separate department. Such strategies, therefore, are achieved on a more incremental and sometimes opportunistic basis.

Decisions on whether to fill faculty and staff vacancies and/or create new ones are determined through an exhaustive review process whereby each position request must be justified and approved by not only by the appropriate manager(s), HR and the budget office, but also by the president of the university. The availability of funding for hiring is contingent on whether resources exist to do so as described in step 2 above. Hiring decisions are also heavily influenced by whether there exist budgeted vacancies sufficient to make personnel investments. This is not necessarily a one-for-one process. For example, the retirement or resignation of one faculty member in the Williamson College of Business could enable the hiring of two faculty members in other colleges, where compensation levels are comparatively lower and where student demand may be greater. Such strategic reallocations of personnel resources are facilitated through the process described in the *Budgeting Procedures* section of this document.

In addition to mitigating risks associated with the ability to cover fixed costs and other financial commitments, a balanced budget also increases the likelihood that unspent dollars may be available at fiscal year-end, that is, if actual revenues exceed actual expenses. When this occurs, year-end resources can be strategically reallocated, on a one-time basis, to pursue and/or augment university priorities. In this regard, the budget advisory council plays an important role in soliciting, reviewing and recommending strategic investments proposed by the campus community. Information about the budget advisory council's current process is available online at:

<http://cms.ysu.edu/administrative-offices/vice-president-finance-and-business-operations/budget-planning>

## **VI. Budget finalization**

Once the budget office completes the formulation of the revenue and expense budgets, a final balanced budget is produced, which includes a narrative to explain the budget planning process, contextualize the figures included in the budget, and highlight examples of how the budget relates to university priorities and the strategic plan. This document is then shared with the budget advisory council for review and feedback. Following any revisions proposed by the budget advisory council, the budget is then presented to the president's senior leadership team for review and discussion. Finally, upon completion of this review process, the budget is presented to the board of trustees' finance and facilities committee for consideration. Once approved by the finance and facilities committee, the



budget is then presented to the full board of trustees for approval. This usually occurs at the May or June meeting of the board of trustees. Once adopted by the board of trustees, the budget serves as the university's financial governing document for the applicable fiscal year. The budget document is also posted to the university's website, making it available to the entire campus community, as well as the general public.

### ***VII. Budget management and administration***

Much of the budget planning and analytical processes described in this document are performed using Microsoft Excel spreadsheets. However, the budget is managed and administered through the university's enterprise resource planning (ERP) system, Ellucian (formerly Banner), which allows budgetary information to be uploaded from and downloaded to Excel. The budget office maintains a significant amount of documentation to describe the technical aspects of budget development and particularly the steps required to integrate the budget with the university's ERP system.

Although the budget office centrally manages the budget at a macro-level, the university's ERP system allows for decentralized micro-level management by giving financial managers across campus access to and oversight of their respective spending budgets. (Employees designated as financial managers must first receive appropriate approvals, and participate in training provided by the training and development office.) Within the university's ERP system, budgets are allocated to colleges, departments, divisions, and administrative units by using unique organizational, account and program codes. In this way, the university's budget is highly organized and reflective of expected revenues and expenses at a very micro level. At any time, financial managers may seek assistance from the budget office regarding the management of their budgets, as may be necessary.

### ***VIII. Budget monitoring***

During the course of the fiscal year, the budget office monitors overall revenue and spending levels, to ensure budget alignment. On quarterly basis, the controller's office prepares a standardized summary report of revenues and expenses, comparing actual experience with budgeted projections. This report is presented to and discussed with the finance and facilities committee of the board of trustees at each quarterly meeting.

Pursuant to YSU policy 3356-3-11, the budget may be modified during the course of the fiscal year, if a budget variance of 5% or more develops as a result of a revenue shortfall or unforeseen expenses. A modified budget is subject to the same process outlined above, albeit abbreviated, and must be approved by the board of trustees.

