Budget Working Group Report
May 15, 2014

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EXECUTIVE SUMMARY

In its resolution of May 4, 2013 PLU's Board of Regents committed to achieving compensation parity with peer institutions and improving the condition of the university's physical resources, while maintaining access to the university for students who lack the financial resources to attend. Recognizing that achieving these goals would require additional revenue, the Board directed the administration to develop additional revenue sources as well as look for cost savings. Through the strategic planning efforts of the President's Council, the additional revenue required was mapped into what has become known as "The Box" or a structured view of the sources of additional annual positive cash flow required by 2020 to meet the board resolution. (Appendix D)

In response to the Board resolution, the Long Range Planning Committee requested that the Budget Advisory Committee create a working group to "explore budget systems and practices, encourage entrepreneurial thinking and experimentation, and maximize our 'return on investment' in ways that are consistent with our mission." Subsequently, the Budget Working Group[1] was instituted to explore these and other goals, including improving the linkage between the budget and the teaching mission and fostering multi-year planning and budgeting.

To meet the charge of the Long Range Planning Committee (Appendix A), to align with the strategic plan and to strengthen institutional confidence in the budget process, the Budget Working Group recommends that PLU:

■Create and sustain an open system of communication that promotes organization-wide participation in the development and implementation of the budget and setting of budgetary priorities

■Create and sustain a shared culture of budget literacy and discipline with clear lines of oversight and accountability

■Create and sustain a budgeting process and model to more actively stimulate net revenue growth consistent with the university mission

■Create and sustain an optimal structure of decision-making authority that better supports strategic and sustainable budget management with an improved academic focus

In the next section of this report, we lay out the evidence for and reasoning behind each of these general recommendations. Following that, we describe several specific steps that will enable the university to make significant progress towards them. Finally, the appendix includes several documents that proved useful in the preparation of this report.

EVIDENCE AND REASONING

Since its initial meeting in fall 2013, the Budget Working Group has gathered information from a wide variety of sources. (Appendix C) Early in the fall, we invited Larry Goldstein, author of *A Guide to College and University Budgeting: Foundations for Institutional Effectiveness*, to campus as a consultant. In addition to meeting with the Budget Working Group, he met with the President and Vice Presidents, the Academic Deans' Council, and several faculty and staff committees. He also facilitated two forums at which he solicited opinions from a number of budget heads and other campus leaders. A selection of his reports and summary results from the forums are included in the appendix to this report. (Appendix G)

As the year progressed, we met with and solicited additional information from upper-level PLU administrators and informally solicited information from other members of the faculty and staff. At the same time, we solicited feedback from the chief financial officers or their representatives from nine comparable universities, some of which had recently adopted or modified their budgeting processes.[2] Summaries of their feedback, as well as a summary of feedback from PLU administrators, may also be found in the appendix. (Appendix E, F)

PLU has traditionally followed an incremental budgeting model where programs are increased by a percentage determined by measuring the expected change in allocable resources from one period to the next. This model is generally the most efficient, simple to implement, and is more controllable, adaptable and flexible than other budget models. However, according to Goldstein, the incremental model relies on the generally faulty assumption that the current distribution of resources is optimal and that a standard percentage increase will enhance each program optimally relative to the whole. "Over time, this approach will drive the institutional activities toward mediocrity." (Goldstein, p. 97) Mediocrity results from poorly performing units continuing to consume resources that provide little enhancement to institutional success and high performing/potential units being constrained by inadequate resources.[3]

The four broad recommendations of this report constitute a partial shift from incremental budgeting to a hybrid approach which includes aspects of Responsibility Center Budgeting (RCB). In its purest form, RCB emphasizes program performance rather than central budgetary control. Revenue and expense management shifts to the units with central administration collecting and redistributing a share of revenues generated to fund central services. RCB incentivizes units to enhance revenues and manage costs, forces a broader understanding of institutional finances and boosts the quality of campus services as recipients become more demanding customers. RCB can overemphasize the bottom line at the expense of academic quality, drive units to make decisions inconsistent with the goals of the institution and reduce coherence between overall planning and budgeting. The Budget Working Group's four recommendations provide the framework of a hybrid budgeting model that strives to maximize the advantages while minimizing the disadvantages of RCB.

The following section provides additional background and justification for the four broad recommendations, each of which is based on our analysis of the information we received from PLU faculty, staff, and administrators; our peer institutions; and our consultant Mr. Goldstein.

Transparency – PLU has a solid history of open and inclusive long range planning (*PLU 2000, PLU 2010, PLU 2020* documents), yet there is a weak linkage between those plans and a process for creating and implementing strategic plans that drive decisions regarding budget priorities. This weak linkage partly results from a lack of transparency and widely shared trust in the budget process currently in place.[4]

Participants at university-wide forums held in November of 2013 cited a lack of transparency, poor communication, and ineffective budget committees among the most significant concerns with the current approach to resource allocation. To underscore the lack of trust, they also widely agreed with the statements that “decisions are made based on relationships rather than objective information” and that existing budget committees are “used as a ‘rubber stamp’ rather than a meaningful resource.”

When asked at the forums to consider their “greatest hope or aspiration for the resource allocation model employed at PLU,” university leaders most often cited “transparency of process” in addition to a request for better data, adequate training, and a hope for inclusivity in the process.

PLU vice presidents echoed this sentiment. One common element from a questionnaire sent to the PLU vice presidents was a desire for more transparent processes, though most were grateful for recent progress with budget sharing and right-sizing.

Our review of several peer institutions revealed they also believed that transparency was an important characteristic of the budget process, especially for those institutions that have recently changed their budget processes. Even among schools with a tradition of ‘top down’ budgeting, there have been attempts to move budget influence and decision-making lower in the organization through the development of cost centers and the utilization of a budget working group. While there is no budget model common to all these peer universities, they all affirmed the importance of transparency.

Noting that an open and transparent process builds trust, Larry Goldstein writes in his book *A Guide to College and University Budgeting* that the best budgeting practices will integrate planning, resource allocation decisions, and assessment in a broadly representative standing committee that reports to the executive team. He states that, “the most effective budget processes are driven by plans – in particular, plans developed using open and inclusive processes.” (Goldstein, p. iv.)

Based upon internal perceptions of the PLU community, interviews with administrators at comparable institutions, and the information learned from an external budgeting expert hired as our consultant, transparency is a key element to a successful budgeting model. Working to improve transparency and communication ensures that institutional priorities are more widely known and understood, and improves university-wide trust in the budget process. Instilling such trust and confidence in budget planning and institutional priorities is absolutely essential for the positive morale of faculty and staff and for the long-term sustainability of the educational mission of PLU. As one of the watch-words of PLU 2020, sustainability in this sense pertains to the long-term financial viability of the institution.

Control and Accountability – Campus Budget Forums and subsequent conversations highlighted feelings of a lack of: control regarding budget allocations; incentives regarding budget savings; and consequences for budget mismanagement. These feelings are exacerbated by a perceived disconnect between budget decisions and strategic planning, and perceptions of little training on budget issues and processes.

In President Krise’s call to action “Strategic Framework for PLU: Realizing the Vision of the New American University” he identified “rationalization of the current budgets” as a key activity of the near term. This entails “… establishing realistic budgets for each unit of the university and then requiring strict budget discipline to ensure the university remains solvent and on track towards the goals of ‘The Box’.”

In preparing the university budget for Fiscal Year 2015, the division heads worked together in an effort to right-size the budget. This shift from straight incremental budgeting was accompanied by an increased awareness of all university budgets, encouragement to inform and involve individual budget managers to a greater extent than has been the case in the last few years, and a heightened connection to strategic planning.

Our survey of peer institutions found cultures of fiscal responsibility where clear expectations and accountability measures resulted in high levels of self-accountability.

Revenue Enhancement – The Board resolution of May 4th, 2013 directed the University administration to develop additional sources of revenue to fund expenditures related to compensation, student access and maintenance. While PLU’s incremental budgeting model has successfully supported cost management over the last few decades, it has generally not stimulated revenue growth. This has largely been a function of tuition, fee and housing increases and the occasional entrepreneurial effort of employees. Incremental budgeting models are commonly used with stable, predictable business models and are executed with minimal overhead cost to the organization. However, when significant changes to the business model are needed (as in the case of the board resolution), changes to the budgeting process should also be made with the intent of changing organizational behavior and in PLU's case, stimulate profitable revenue growth.

"The Box" describes three areas where additional sources of revenue may be obtained. The three areas charged with profitable revenue generation include tuition and continuing education, auxiliary services, and advancement, which is primarily but not exclusively the endowment. The structure of the revenue-stimulation part of the Budget Working Group's recommendation follows this structure.

Under tuition and continuing education, the strategic plan outlines opportunities for revenue enhancement through increasing graduate enrollment, continuing education, strategic enrollment management, distance learning, and grants. Within auxiliary services, opportunities for revenue enhancement are found in improved use of the university's physical facilities and coordination and promotion of non-academic services. In advancement, opportunities for revenue enhancement exist in coordinated, goal-oriented, decentralized fundraising efforts.

Structure – The Budget Working Group's review and analysis of resource allocation processes at PLU suggests that major decision-making authority is held by a few individuals with little substantive input by stakeholder groups prior to such decisions. Importantly, control of budgetary allocations resides within upper administration, rather than further down the organizational structure. As detailed in each of the three preceding sections, feedback from our PLU colleagues, our peer colleges and universities, and our consultant Mr. Goldstein, demonstrates there is widespread agreement that our current processes suffer from a lack of transparency, do not adequately connect budgets to our strategic plans or our academic mission, provide inadequate incentives to generate new net revenue, and lack sufficient authority and accountability.

We agree. In our view, our current structure and processes provide insufficient incentives for entrepreneurial activities deep in the organization that have the potential to generate new revenue or reduce costs. To increase our potential for strategic growth and better align the university's resources with its long range and strategic goals, PLU must strive to create optimal processes and structures that enable strategic decision-making authority at the appropriate organizational level.

Our analysis of peer institutions revealed three different but successful budget decision making structures incorporating different degrees of budget control, accountability, participation, transparency, and discipline. One structure was comprised of a president's council group which held all authority but utilized a secondary stakeholder group as a check to the strategic and tactical use of capital allocation as well as a downward flowing process of transparency. A second structure incorporated a stakeholder committee that had line-by-line oversight of the budget in order to have transparency, stakeholder power, checks on executive power, budgetary discipline, and decision making authority. The final structure (which most closely resembled an RCB hybrid of all the schools interviewed) pushed decision making authority to the budget heads, using a form of revenue sharing, as programs petitioned for allocation of new funds while adhering to an inflationary revenue goal set by an executive level committee.

Our analysis concluded that independent of how broad the decision making became, there existed congruent power by both stakeholder groups and executive leadership which led to deeper transparency of process, budget discipline on multiple levels, and a greater understanding of academic focus adhering to a long term strategy.

We do not advocate any specific one of these models, but view the recommendations that follow as a path to a hybrid that honors PLU's culture of shared governance, creates budget processes that provide for significant and broad-based input by the university community, and fosters and rewards entrepreneurial activities.[5]

Summary – Facing near-term turnover in major leadership positions, now is the time to critically evaluate potential changes in our budget structures and processes. We have argued for: creating systems that are sustainable independent of the specific individuals holding the positions of authority; improving the transparency of the processes and expanding the involvement of the community; creating incentives for generating new net revenue and cost savings; and for expanding budgetary control and accountability for budget heads. The following pages highlight several specific recommendations that we believe will help us to achieve these goals.

SPECIFIC RECOMMENDATIONS

The Budget Working Group proposes the following possible steps toward the achievement of our four basic recommendations of improving budget structure, transparency, accountability, and revenue. Recognizing that many of these recommendations address more than one of these goals, we have none-the-less arranged them roughly to correspond to these primary goals. We have not attempted to address the question of how these recommendations might be prioritized, either by time or importance. However, we note that the first recommendation can be begun immediately and its successful adoption is prerequisite to the recommendations that follow.

To Improve Structure

The Budget Working Group recommends that —

1. the president initiate a discussion with representatives of the President's Council, the Budget Advisory Committee (BAC), the Long Range Planning Committee (LRPC), the Strategic Enrollment Management Advisory Committee (SEMAC), the Capital Improvements Committee, and the Equipment Committee to discuss how best to integrate and coordinate the budget and planning functions of these groups. While there are many ways in which this may be accomplished, this discussion process seeks the integration and coordination of planning, resource allocation decisions, and assessment.[6] The Governance Committee must be consulted throughout these discussions as well, as they are specifically charged with the oversight of the entire committee system.

To Improve Transparency

The Budget Working Group recommends that —

2. the university, ideally through the process identified above —
   a. develop a clear and predictable process for decision-making on major spending items

   b. develop a mechanism for soliciting budget-related input from all members of the campus community, ideally addressing stakeholder concerns at all levels.

   c. based on this input:[7]
      i. develop a prioritized list of strategic initiatives tied to multi-year budgeting cycles;

      ii. develop a system of periodic review and adjustment of budgets at appropriate organizational levels;

      iii. develop an annual budget to present to executive leadership for their consideration; and

      iv. develop contingency plans in the event that revenue targets are missed.

3. the university —
    a. create a common password-protected set of budget-related data that is easily accessible, understandable, and current.[8]

    b. create a highly visible Strategic Budget Portal on its website, to include:
        i. easy access to the university's long-range and strategic plans and

        ii. progress to date on each element of the plans.

    c. prepare and publish an annual report[9] that
        i. summarizes significant changes to budget allocations and the ways in which these changes align with the university's long-range and strategic plans;

        ii. provides clear information about the budgetary constraints under which the university operates, such as bond ratings, endowment income, advancement efforts, annual gift fund, auxiliary services, use of restricted funds and enrollment pressures;

        iii. provides essential details on all university budgets including both operating and capital budgets; and

        iv. reports on the status of previously adopted initiatives such as the development of new athletic fields, residence hall upgrades, and 208 Garfield.

    d. convene an annual breakout session during the University Fall Conference at which faculty and staff are provided functional budget data for the coming year, including expected revenues, costs, new programmatic initiatives, and budget priorities.

To Improve Control and Accountability

The Budget Working Group recommends that —

4. the university —
    a. develop and implement a process by which units[10] may carry over a portion of unspent budget from one fiscal year to the next, and the circumstances under which this is appropriate, in order to fund a planned expenditure.

    b. develop and implement a process for retaining a portion of new revenues generated within a unit. This process should:
        i. define and formalize policies, processes, infrastructure, and revenue sharing standards to substantially expand continuing education across the university beyond the current efforts in Nursing and Education;

ii. define and formalize policies by which units share revenues generated by new programs and initiatives; and

iii. define and formalize policies by which units share revenue directly related to program activities such as gate revenue, grant funding charged to facilities and administration,[11] and lab and studio fees.

c. develop and implement a process for retaining a portion of new cost savings within a unit.

5. the university —
   a. develop authority and decision structures that —
      i. facilitate decision making and cost control at appropriate organizational levels;

      ii. ensure suitable accountability and responsibility of all budget heads;

      iii. are independent of university personnel changes;

      iv. enable new incumbents; and

      v. embody clear metrics to ascertain success.

6. the university —
   a. provide required training for all budget managers with clearly defined and relevant content.

   b. develop a system under which division heads share monthly budget status reports with individual budget managers.

   c. develop and apply consistent assessment metrics of all existing academic programs.

   d. define and apply assessment metrics of revenue and expenses of auxiliary activities.

   e. periodically review these assessment metrics as a guide to which programs and auxiliary services may be eligible for expansion, and which may be subject to additional review.

To Improve Revenue

The Budget Working Group recommends that —

7. the university —
   a. establish and fund a revolving "Entrepreneurial Program Investment Fund," mirroring the Academic Program Investment Fund, that will provide start-up funding for new or

enhanced revenue generating opportunities within auxiliary services and other non-tuition generating endeavors.[12]

b. design transparent protocols for accessing start-up money and the mechanisms for repaying both the Academic and Entrepreneurial Program Investment Funds.

c. develop and apply consistent assessment metrics of academic programs and new initiatives created under the auspices of the Funds.

8. the university —
   a. ensure that sufficient initial investment is made in information technology, training and strategic marketing of PLU's distance learning initiatives to maintain consistency with the high quality educational offering and brand of PLU.

   b. strengthen grant writing capability at PLU through training dedicated individual(s) to proactively (as compared to our primarily reactive approach today) seek federal, state and private grants to the university and its programs.

   c. establish an Entrepreneurial Committee for Auxiliary Services that will look for non-tuition revenue opportunities that may be found throughout the university's resources

   d. expand the availability and increase flexibility in the utilization of campus facilities, resources, and services in support of university units, as well as outside organizations.

   e. create targeted and coordinated fundraising opportunities for increased usable endowment funds via increased student scholarship support, endowed programmatic support, and endowed naming opportunities within schools and divisions.

   f. strengthen fundraising capability at PLU through a decentralized model to allow for enhanced opportunities within each school or division, as well as significant institutional programs, such as Athletics, in alignment with long-range strategic initiatives.

Finally, we suggest that the university review the progress made on implementing these recommendations after a period of five years.

ENDNOTES

[1] Membership of BWG is in Appendix B.

[2] The 9 schools are: Gonzaga, Idaho State University, Linfield*, Seattle Pacific*, Seattle U*, University of Portland*, Whitworth*, Willamette*, and UPS. The six schools indicated by an asterisk are part of the 17-school cohort, a list of 17 institutions compiled in 2007 by VP for Finance Tonn, then-Provost Killen, and the Faculty Affairs Committee (FAC). These schools were chosen based on the criteria of total operating budget, endowments, size, and student profile. The list includes a range of schools that rank even with, slightly above, and slightly below PLU on these measures. This 17-school cohort is one of the two groups of comparable institutions that FAC has been using for faculty compensation analysis, with the other group being AAUP IIA.

Gonzaga and UPS were included as representatives of the Washington and Oregon independents that didn't also overlap with the 17-school cohort because of our close connections with these two schools. ISU was chosen because one of our members was traveling to ISU on business and was able to include a meeting with the CFO among his other meetings.

[3] This paragraph is based on Goldstein, pp. 95 – 97.

[4] In his report to the Budget Working Group following his visit in October 2013, our consultant Mr. Goldstein described the problem: "First, the institution has not historically shared much information about budget matters…The specifics related to the annual budget and its linkage with plans suffers from a lack of transparency. Second, advisory committees established to influence resource allocation decisions are not adequately utilized. Too often, there is a feeling that the process represents going through the motions of seeking advice without actually doing so."

[5] Linfield and the University of Portland best exemplify the first model, University of Puget Sound the second, and the third model best describes Willamette and the University of Idaho.

[6] As noted above, the Budget Advisory Committee doesn't appear to provide meaningful advice. Additionally, the Budget Advisory, Long Range Planning, Capital Improvements, and Equipment committees are not well-integrated, with the result that budgetary decisions are not necessarily aligned with strategic goals and do not appear to be made in a coordinated fashion. Ideally, those charged with developing the budget would work closely with SEMAC to assure the development of the annual budget is consistent with the university's enrollment plans and mission while maintaining access for a wide variety of students.

[7] We view these recommendations as the general and specific duties of the individuals charged with creating the university's budget.

[8] Banner contains a wealth of data, but accessing these data is cumbersome and restricted. We recommend that the business office, in conjunction with Information & Technology Services, develop a financial dashboard akin to our current 'Administrative Reporting' dashboard for enrollment data. Such a financial dashboard would provide real-time budget summaries by

functional area, providing a useful resource for departments and divisions, as well as university and faculty committees charged with developing the annual budget, for setting budget priorities, and for both strategic and long-range planning. Ideally, the user interface would be developed so as to make the site easy to use by all members of the campus community.

[9] For many years, the quarterly Program Leaders meetings have provided the primary forum for the distribution of budget data. Further, these data have been limited to revenue by source and spending by type, such as salaries, services and purchases (S&P), capital, and the like, aggregated across the university. While helpful, these data do not reveal changes in spending by functional area. For example, how are new revenues distributed by academic area? To Student Life? To Finance & Operations? To Advancement? To Marketing & Communications? How are budgets linked to priorities identified by the planning process? With these recommendations we are proposing improvements both to transparency of process and clarity of presentation. A comprehensive annual report and a forum open to all university employees through which such data are shared would bring such budgetary decisions into the light.

[10] Initially, we recommend that these processes be implemented at the level of the vice presidents. As the university gains experience with these processes, we envision that vice presidents may choose to apply these processes to their subordinates, and so on down the organizational hierarchy.

[11] For example, the Utah State University utilizes a formula whereby 30% of its negotiated F&A charges are returned to the researchers, their department, and their college. See https://rgs.usu.edu/facultyfunding/files/uploads/Faculty%20F&A.pdf.

[12] Creation of this fund could be realized from a donor with a particular interest in entrepreneurial activities, or established over a short period of time within the budget process. A portion of any new net revenue generated could be earmarked for sustaining the fund.

Appendices contents

Appendix A: **Long Range Planning Committee Charge**

The Long-Range Planning Committee (LRPC) requests that the Budget Advisory Committee (BAC) explore budget systems and practices that will help the University optimize its resources, encourage entrepreneurial thinking and experimentation, and maximize our "return on investment" in ways that are consistent with our mission.

Toward this end, LRPC requests that BAC create a working group, the membership of which balances expertise with open-mindedness and a willingness to experiment, imagine and engage with new ideas. The ideal membership of this working group would represent many types of operations and incorporate a range of views as to the strengths, weaknesses, challenges and opportunities within the University's budget systems and processes. It is suggested that the membership of the working group be drawn from some members of BAC and be supplemented with other members not currently on BAC.

Topics for the BAC and the working group to explore and upon which to make recommendations may include:

- The link between the teaching mission and the budget;
- The return on investment for new programs, and how such proceeds might be used for further program development;
- The systems by which subunits within the university that put on events which draw gate or box office receipts may use some of those proceeds for further audience development;
- The manner by which units may "roll over" funds from one fiscal year to the next and thereby foster multi-year planning and budgeting.

LRPC asks that BAC provide LRPC with a progress report by April 15, 2013 regarding the organization of its work, and that it provide LRPC with a final report by April 1, 2014 with frequent interim reports as to its progress.

Revised, 2/27/13

Appendix B: **Budget Working Group**
2013-2014 MEMBERS

Name	**Representation**	**Contact Information**
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Appendix C: **Brief narrative of BWG activities**

The Budget Working Group was assembled during the Summer of 2013. At this time, BWG members were each given copies of Larry Goldstein's book *A Guide to College and University Budgeting: Foundations for Institutional Effectiveness* for us to read in preparation for our work during the 2013-2014 academic year.

The group initiated its work during the Fall of 2013. During September of 2013, the BWG met for the first time. During this meeting, we met with President Krise, Provost Starkovich, and VP for Finance Tonn, and we reviewed the charge of the BWG. We met again in October to review PLU's current budget; this discussion was facilitated by Bob Riley, a BWG member and PLU's Associate VP for Finance and Controller.

We met again during Larry Goldstein's visit to the PLU campus. PLU hired Mr. Goldstein to serve as a consultant to our group. During his 2-day visit to PLU, he met with different groups of faculty, staff, and administrators, as well as facilitated open forums where constituents could express their concerns about the current budgeting process and their hopes for a new one. The BWG met with Mr. Goldstein both upon his arrival to PLU on October 31st and also just prior to his departure for a multi-hour training for our group.

The BWG met shortly thereafter to review the information obtained during Mr. Goldstein's visit and to strategize as to our next steps. At that time, we agreed to split into two groups, one to look at PLU's internal budgeting process more closely and one to examine the budgeting processes at several peer institutions.

During the months of December 2013 and January 2014, the two subgroups carried out their work. The internal group developed a set of questions to ask the PLU vice presidents regarding our current budgeting process and their ideas for positive change. The external group developed a set of questions to ask chief financial officers or their representatives at peer institutions. Information was gathered by both groups and the two groups rejoined in February of 2014, at which time the data gathered was shared.

During the Spring of 2014, the BWG met regularly (nearly every week) to work on compiling our report. Additionally, subgroups met separately on a regular basis to work on various sections of the report. In our report, we have categorized concerns with PLU's current budgeting process and composed several general recommendations, accompanied by ideas for remedying these concerns.

During this process, the chair of the BWG, Professor Norris Peterson, has given updates of our progress to various groups: Faculty Assembly (2 updates), BAC, Provost Starkovich, and President Krise.

Appendix D: **“The Box” materials**

March 30, 2013
To: Bruce Bjerke, Estelle Kelley, Tom Krise, Sheri Tonn
From: Steve Starkovich
Re: Background for multi-year budget planning

Introduction

This report is written in response to the Board of Regents' request to see several fiscal and budgetary considerations combined into one place [that "place" has been called "the box"] and is meant to jump-start our deliberations over ways to meet certain budget targets in the future.

There is a simple "math problem" that is common to most of the budget planning that we're trying to accomplish, namely, trying to catch up to a moving target. We derive the equations that solve the general case for the annual changes [in percentage terms] that are necessary to attain any goal ["hit a target"] over any length of time starting from any deficit position for any rate of change of the target itself. Attachment A provides tables with a range of specific results. The examples in this first section are important; please review them even if you skip the math. The budget projection shown later in Attachment E builds in the results of Examples 1 & 2.

Attachment B gives an historical account of the PLU operating budget for the period FY01-FY12. These are end-of-year "actuals" and care must be taken in interpreting some of these numbers in certain years. The results are expressed in the "common size" format [where revenues sum to 100%] - this helps us see relative shifts within the budget over time as a percentage of total revenue. Annualized rates of change are calculated. Key Observations:

(a) The salary pool for all employees has been a steadily declining share of total revenue throughout this period [from 38.7% in FY01 to 31.1% in FY12];
(b) the benefits pool has been an approximately constant share of total revenue throughout this period in the range of 9.7-11%;
(c) Financial aid is now the single largest budget expense, surpassing the salary pool for all employees in FY10;
(d) The combined salary and benefits pool as a share of net operating revenue is relatively constant in recent years, but is lower than earlier in the decade.

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Attachment C takes the final FY12 operating results and projects them forward in time to FY19 using historical annualized rates of change from the FY01-FY12 period [selected from Attachment B]. In selecting the rates of change for the forward projection, more weight was given to the rates of change in the more recent years than to rates earlier in the decade. We do not use FY13 or FY14 estimates but start the forward projection with FY12. We can fix this later. Key results:

(a) With financial aid growing at 7% annually [the FY01-FY12 rate was 8.1%, but the more recent FY09-FY12 rate was 6.7% - see Attachment B] we quickly start to run operating deficits;
(b) By FY19 the annual operating deficit is 2.5% [approximately $3.8M] of total revenue;
(c) The salary pool as a share of total revenue continues its decline [from 31.1% in FY12 to 28.8% in FY19];
(d) Salary and benefits as a share of net operating revenue increase due to relatively slow growth in net operating income [because of the growth in financial aid].

Attachment D repeats the projection in Attachment C but with one change: the growth in the financial aid budget is reduced from 7% to 6%. Key results:

(a) The operating budget is approximately balanced throught the FY12-FY19 period;
(b) Salary and benefits as a share of net operating income stabilize throughout the period.

Finally, Attachment E is a "catch up" projection where we build into this model two simultaneous goals [from Examples 1 and 2] to be accomplished in seven years: (a) overcoming an average salary deficit for faculty and staff of 15% relative to our peers and the marketplace, and (b) increasing expenditures on equipment and maintenance from $5.0M to $8.5M in real terms. The assumptions are described in Examples 1 and 2.

Attachment E modifies the "balanced budget" model in Attachment D [keeping the growth in financial aid at 6%], does not add new revenue, but does add these new expenses. Obviously, we are going to start running significant operating deficits very quickly [by FY19, the annual deficit would be 4.4% of total revenue, or \$6.7M], but this approach keeps things simple and allows us to get a sense of the scale of new revenues necessary to accomplish the goals and balance the operating budget. A legitimate model would necessarily incoporate "structural changes" in levels of employment, enrollment, financial aid, and tuition and fees as well as new sources of revenue. However, now knowing the scale of the challenge, we are in a better position to fashion the means of its solution.

It is interesting to observe that as far as salaries are concerned, Attachment E shows that we can reach our salary target in seven years if the salary pool maintains its FY12 share of total revenue [31.1%] in a budget that would now be running a deficit! This means that were we to close the deficit with new additional revenue, we would meet our salary target even while the salary share of total revenue continued its historical decline.

The Math Problem Common to Most of the Issues
The math problem common to most of the issues is this:

▶We are at some known deficit to some target
▶The target is moving at some specified annual rate of change
▶We want to catch up to the target in some specified number of years
▶What rate of change must we invoke to meet that goal?

This basic problem applies to compensation, services and purchases, equipment and maintenance, or any other budget line where we can identify goals from our current position and set a timeline for obtaining those goals. For example:

▶Equipment and Maintenance: we may determine that we should be spending \$8.5M per year where we presently spend \$5.0M, but inflation is 2%, and we want to be spending the equivalent (in today's dollars) of \$8.5M in seven years. By what rate do we need to make annual increases in the Equipment and Maintenance budget?
▶Compensation: we may determine that our salaries lag a target group by 15%, the target group is increasing at 2%, and we want to catch up in seven years. How fast do our salaries need to improve on an annulaized basis?

The main results are Equations (3), (4) and (6) and they solve the general case; they apply to any rates of change over any period of time starting from any deficit and for a target that is moving at any specified rate. From these three equations we can generate tables of specific options for people to consider. We do this in Attachment A.

Let the present-day target budget be B_t and let the present-day actual PLU budget be B_{plu}. After n years those budget values are denoted as functions of n as $B_t(n)$ and $B_{plu}(n)$ and are given by

$$B_t(n) = B_t(1 + r_t)^n \tag{1}$$

and

$$B_{plu}(n) = B_{plu}(1 + r_{plu})^n, \tag{2}$$

where r_t and r_{plu} are the annualized rates of change for the target and the PLU budgets, respectively. Setting $B_{plu}(n) = B_t(n)$ [i.e., hitting the moving target] and solving for r_{plu} gives

$$r_{plu} \ = (\frac{B_t}{B_{plu}})^{1/n} \ \ (1 + r_t) - 1. \tag{3}$$

Expressed in terms of a deficit D to the target, where

$$D = \frac{B_t - B_{plu}}{B_t}$$

we get

$$r_{plu} \ = (\frac{1}{1 - D})^{1/n} \ \ (1 + r_t) - 1. \tag{4}$$

<u>*Example 1*</u>: We presently should be spending \$8.5M per year on equipment and maintenance, but we presently spend only \$5.0M. Costs increase at a rate of inflation of 2%, and we want to be spending the equivalent (in today's dollars) of \$8.5M in seven years. Equation (3) gives

$$r_{plu} \ = (\frac{8.5}{5.0})^{1/7} \ \ (1 + .02) - 1 = 0.10013$$

which means PLU would need to increase spending for equipment and maintenance at approximately 10.0% annually for 7 years to meet the moving target. This effectively doubles <u>nominal</u> budget expenditures for equipment and maintenance in 7 years (from \$5.0M to \$9.74M). That is, from Equations (1) and (2) we get:

$$B_t(7) = 8.5(1 + .02)^7 = 9.76$$

and

$$B_{plu}(7) = 5.0(1 + .10)^7 = 9.74.$$

Example 1 could have been solved using Equation (4) by noting that \$5.0M is a 41.2% deficit to \$8.5M.

Example 2: Salaries lag a target group by 15%, the target group is increasing at 2% per year, and we want to catch up in seven years. Equation (4) gives

$$r_{plu} = \left(\frac{1}{1 - 0.15}\right)^{1/7} \ (1 + .02) - 1 = 0.04396$$

which means PLU would need to increase salaries at approximately 4.4% annually for 7 years to meet the moving target. In nominal budget terms this increases the amount spent on salaries by 35.2%. That is, from Equation (2) we get

$$B_{plu}(7) = B_{plu}(1 + .044)^7 = 1.352B_{plu}.$$

See the tables in Attachment A.

A quantity like salaries (or, on the revenue side, net revenue per student), however, is "dollars per capita", and the calculation above looks only at total outlays based on the assumption that the number of persons stays constant. Allowance for changes in N_{plu}, the present-day number of persons, is necessarily part of any per capita calculation.

Let an "average salary" at PLU today be S_{plu} and in year n be represented by $S_{plu}(n)$, a "salary budget per capita", i.e.,

$$S_{plu}(n) = \frac{B_{plu}(n)}{N_{plu}(n)}. \tag{5}$$

If we allow for $N_{plu}(n)$ to change at an annualized rate of $r_{N,plu}$, then using Equation (2) gives

$$S_{plu}(n) = \frac{B_{plu}(n)}{N_{plu}(n)} = \frac{B_{plu}(1+r_{plu})^n}{N_{plu}(1+r_{N,plu})^n} = S_{plu}(\frac{1+r_{plu}}{1+r_{N,plu}})^n. \tag{6}$$

Example 3: If the salary budget grows at exactly the same rate as the number of employees ($r_{plu} = r_{N,plu}$), Equation (6) gives the obvious result that $S_{plu}(n) = B_{plu}/N_{plu}$ which is the initial average salary; salaries don't change from their present-day values.

Example 4: The average salary changes if the salary budget and the number of employees change at different rates, i.e., if $r_{plu} \neq r_{N,plu}$. As an "extreme example", if the budget grows at 2% annually, but the number of employees *decreases* at 2% annually, then after 7 years the budget would have increased by 14.9% but the number of employees would have decreased by 13.2%, and the average salary would have increased by 32.4%. From Equation (6):

$$S_{plu}(7) = \frac{B_{plu}(1+.02)^7}{N_{plu}(1-0.02)^7} = S_{plu}\frac{1.149}{0.868} = 1.324 S_{plu}.$$

This is nearly the same salary result as in Example 2, but by radically different means.

We'll have the same considerations on the revenue side when we discuss per capita tuition and fee revenue.

An Historical Account of the Operating Budget for FY01-FY12

An historical account of the operating budget is provided in the spreadsheet in Attachment B. The "common size" format allows us to see relative shifts among the budget lines from year to year. The annualized rates of change of the major budget items are shown in Attachment B. Note that in some instances (e.g., debt service) there have been singular events since 2001 (adding more debt) that make an annualized "rate of increase in debt service" meaningless for the full period. The same holds true for any small quantity that changes dramatically in percentage terms from year to year.

Projecting Historical Rates Into the Future

The forward projections stick with the final FY12 results as the initial starting point rather than estimating FY13 final results, but we can update this later. We may want to estimate FY13 results for the next draft. Attachment C uses a financial aid growth rate of 7%; Attachment D chages this to 6%. All other growth rates between these two models are the same.

The "Catch-Up" Projection

As stated previously, this projection (Attachment E) aims to accomplish the two goals of catching up to the competition on salaries and increasing expenditures on Equipment and Maintenance. We start with the "balanced budget model" in Attachment D and add in these new expenses. We assume 2% growth rates for the salary competition and for inflation in Equipment and Maintenance. See Examples 1 and 2 for details. We do not speculate at this point as to the best means for closing the operating budget deficits that obviously arise in this model.

Attachment A - Rates Required to Hit Moving Targets

Target Moves at 2.00%	Number of Years to Hit Target				
% Deficit Below Target	4	5	6	7	8
5	3.32%	3.05%	2.88%	2.75%	2.66%
10	4.72%	4.17%	3.81%	3.55%	3.35%
15	6.23%	5.37%	4.80%	4.40%	4.09%
20	7.85%	6.66%	5.86%	5.30%	4.89%
25	9.61%	8.04%	7.01%	6.28%	5.73%
30	11.51%	9.54%	8.25%	7.33%	6.65%

Target Moves at 3.00%	Number of Years to Hit Target				
% Deficit Below Target	4	5	6	7	8
5	4.33%	4.06%	3.88%	3.76%	3.66%
10	5.75%	5.19%	4.82%	4.56%	4.37%
15	7.27%	6.40%	5.83%	5.42%	5.11%
20	8.91%	7.70%	6.90%	6.34%	5.91%
25	10.68%	9.10%	8.06%	7.32%	6.77%
30	12.61%	10.62%	9.31%	8.38%	7.70%

Target Moves at 4.00%	Number of Years to Hit Target				
% Deficit Below Target	4	5	6	7	8
5	5.34%	5.07%	4.89%	4.76%	4.67%
10	6.78%	6.21%	5.84%	5.58%	5.38%
15	8.31%	7.44%	6.86%	6.44%	6.13%
20	9.97%	8.75%	7.94%	7.37%	6.94%
25	11.76%	10.16%	9.11%	8.36%	7.81%
30	13.70%	11.69%	10.37%	9.44%	8.74%

Target Moves at 5.00%	Number of Years to Hit Target				
% Deficit Below Target	4	5	6	7	8
5	6.36%	6.08%	5.90%	5.77%	5.68%
10	7.80%	7.24%	6.86%	6.59%	6.39%
15	9.35%	8.47%	7.88%	7.47%	7.15%
20	11.02%	9.79%	8.98%	8.40%	7.97%
25	12.83%	11.22%	10.16%	9.41%	8.84%
30	14.79%	12.76%	11.43%	10.49%	9.79%

Attachment B - Operating Income and Expenditures FY01-FY12

	2012	%	2011	%	2010	%
Income						
Tuition and Fees	102,298,716	89.5%	97,235,499	88.5%	95,203,151	89.0%
Endowment Income to Operations	3,136,338	2.7%	3,136,520	2.9%	3,045,428	2.8%
Government Grants	257,863	0.2%	257,117	0.2%	402,051	0.4%
Gifts and Grants	2,684,574	2.3%	3,172,652	2.9%	2,201,589	2.1%
Other Revenue	1,030,587	0.9%	1,363,885	1.2%	1,136,295	1.1%
Net Auxiliary Revenue	4,881,130	4.3%	4,758,081	4.3%	5,030,751	4.7%
Total Operating Income	**114,289,208**	**100.0%**	**109,923,754**	**100.0%**	**107,019,265**	**100.0%**
Financial Aid	**40,318,774**	**35.3%**	**37,403,725**	**34.0%**	**35,414,871**	**33.1%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	39.4%		38.5%		37.2%	
Net Operating Income	**73,970,434**	**64.7%**	**72,520,029**	**66.0%**	**71,604,394**	**66.9%**
Operating Expenditures						
Faculty+Staff Salaries	35,536,456	31.1%	34,502,345	31.4%	34,520,247	32.3%
Student Salaries Not Already Included in Net Aux. Rev.	2,889,603	2.5%	2,881,344	2.6%	2,826,874	2.6%
Employee Benefits	11,253,322	9.8%	10,912,561	9.9%	10,902,120	10.2%
Library Acquisitions	1,025,591	0.9%	955,428	0.9%	1,044,250	1.0%
Services & Purchases (Study Away Effect in 02-04)	13,997,638	12.2%	13,660,375	12.4%	13,005,997	12.2%
Subtotal	**64,702,610**	**56.6%**	**62,912,053**	**57.2%**	**62,299,488**	**58.2%**
Equipment and Maintenance	4,961,803	4.3%	4,998,905	4.5%	5,153,151	4.8%
Transfers and Debt Service	3,984,475	3.5%	3,972,668	3.6%	3,952,516	3.7%
Contribution to Reserve	300,000	0.3%	500,000	0.5%	0	0.0%
Budget Savings and/or Deficit Reduction	0	0.0%	0	0.0%	0	0.0%
Subtotal	**9,246,278**	**8.1%**	**9,471,573**	**8.6%**	**9,105,667**	**8.5%**
Total Operating Expenditures	**73,948,888**	**64.7%**	**72,383,626**	**65.8%**	**71,405,155**	**66.7%**
Operating Surplus	21,546	0.0%	136,403	0.1%	199,239	0.2%
Faculty+Staff Salaries as % of Net Operating Income	48.0%		47.6%		48.2%	
Employee Benefits as % of Net Operating Income	15.2%		15.0%		15.2%	
	63.3%		62.6%		63.4%	

Roundoff error on some percentages

Compiled from End-of-Year Operating Statements

Attachment B - Operating Income and Expenditures FY01-FY12

	2009	%	2008	%	2007	%
Income						
Tuition and Fees	93,029,002	88.6%	87,765,265	88.9%	81,621,417	88.7%
Endowment Income to Operations	2,974,457	2.8%	2,756,312	2.8%	2,510,082	2.7%
Government Grants	290,487	0.3%	299,025	0.3%	312,569	0.3%
Gifts and Grants	2,326,280	2.2%	1,888,675	1.9%	1,996,276	2.2%
Other Revenue	1,078,204	1.0%	1,666,872	1.7%	1,226,085	1.3%
Net Auxiliary Revenue	5,250,003	5.0%	4,388,525	4.4%	4,356,081	4.7%
Total Operating Income	**104,948,433**	**100.0%**	**98,764,674**	**100.0%**	**92,022,510**	**100.0%**
Financial Aid	**33,224,830**	**31.7%**	**30,261,181**	**30.6%**	**27,105,879**	**29.5%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	35.7%		34.5%		33.2%	
Net Operating Income	**71,723,603**	**68.3%**	**68,503,493**	**69.4%**	**64,916,631**	**70.5%**
Operating Expenditures						
Faculty+Staff Salaries	34,255,195	32.6%	32,697,904	33.1%	30,823,284	33.5%
Student Salaries Not Already Included in Net Aux. Rev.	2,734,029	2.6%	2,557,407	2.6%	2,693,691	2.9%
Employee Benefits	10,223,911	9.7%	9,540,400	9.7%	9,321,079	10.1%
Library Acquisitions	952,427	0.9%	995,116	1.0%	977,408	1.1%
Services & Purchases (Study Away Effect in 02-04)	12,735,712	12.1%	13,388,424	13.6%	12,278,190	13.3%
Subtotal	**60,901,274**	**58.0%**	**59,179,251**	**59.9%**	**56,093,652**	**61.0%**
Equipment and Maintenance	5,192,952	4.9%	5,081,448	5.1%	5,367,314	5.8%
Transfers and Debt Service	4,779,068	4.6%	4,072,154	4.1%	2,471,666	2.7%
Contribution to Reserve	500,000	0.5%	170,000	0.2%	500,000	0.5%
Budget Savings and/or Deficit Reduction	0	0.0%	0	0.0%	481,970	0.5%
Subtotal	**10,472,020**	**10.0%**	**9,323,602**	**9.4%**	**8,820,950**	**9.6%**
Total Operating Expenditures	**71,373,294**	**68.0%**	**68,502,853**	**69.4%**	**64,914,602**	**70.5%**
Operating Surplus	350,309	0.3%	640	0.0%	2,029	0.0%
Faculty+Staff Salaries as % of Net Operating Income	47.8%		47.7%		47.5%	
Employee Benefits as % of Net Operating Income	14.3%		13.9%		14.4%	
	62.0%		61.7%		61.8%	

Roundoff error on some percentages

Compiled from End-of-Year Operating Statements

Attachment B - Operating Income and Expenditures FY01-FY12

	2006	%	2005	%	2004	%
Income						
Tuition and Fees	77,469,214	90.0%	72,226,132	88.7%	64,405,664	89.1%
Endowment Income to Operations	2,295,160	2.7%	2,198,235	2.7%	2,094,318	2.9%
Government Grants	357,532	0.4%	347,548	0.4%	354,619	0.5%
Gifts and Grants	1,736,708	2.0%	2,087,870	2.6%	1,853,459	2.6%
Other Revenue	1,352,055	1.6%	1,178,128	1.4%	939,174	1.3%
Net Auxiliary Revenue	2,838,995	3.3%	3,360,738	4.1%	2,601,648	3.6%
Total Operating Income	**86,049,664**	**100.0%**	**81,398,651**	**100.0%**	**72,248,882**	**100.0%**
Financial Aid	**25,284,903**	**29.4%**	**23,696,500**	**29.1%**	**20,254,389**	**28.0%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	32.6%		32.8%		31.4%	
Net Operating Income	**60,764,761**	**70.6%**	**57,702,151**	**70.9%**	**51,994,493**	**72.0%**
Operating Expenditures						
Faculty+Staff Salaries	29,013,985	33.7%	27,323,865	33.6%	25,846,537	35.8%
Student Salaries Not Already Included in Net Aux. Rev.	2,499,418	2.9%	2,279,963	2.8%	1,917,640	2.7%
Employee Benefits	8,531,754	9.9%	8,302,642	10.2%	7,597,544	10.5%
Library Acquisitions	957,415	1.1%	899,954	1.1%	862,858	1.2%
Services & Purchases (Study Away Effect in 02-04)	12,242,025	14.2%	10,967,493	13.5%	10,020,220	13.9%
Subtotal	**53,244,597**	**61.9%**	**49,773,917**	**61.1%**	**46,244,799**	**64.0%**
Equipment and Maintenance	4,564,143	5.3%	3,247,426	4.0%	2,631,238	3.6%
Transfers and Debt Service	1,747,446	2.0%	4,076,837	5.0%	2,451,670	3.4%
Contribution to Reserve	500,000	0.6%	500,000	0.6%	0	0.0%
Budget Savings and/or Deficit Reduction	0	0.0%	0	0.0%	424,520	0.6%
Subtotal	**6,811,589**	**7.9%**	**7,824,263**	**9.6%**	**5,507,428**	**7.6%**
Total Operating Expenditures	**60,056,186**	**69.8%**	**57,598,180**	**70.8%**	**51,752,227**	**71.6%**
Operating Surplus	708,575	0.8%	103,971	0.1%	242,266	0.3%
Faculty+Staff Salaries as % of Net Operating Income	47.7%		47.4%		49.7%	
Employee Benefits as % of Net Operating Income	14.0%		14.4%		14.6%	
	61.8%		61.7%		64.3%	

Roundoff error on some percentages

Compiled from End-of-Year Operating Statements

Attachment B - Operating Income and Expenditures FY01-FY12

	2003	%	2002	%	2001	%
Income						
Tuition and Fees	59,354,427	88.3%	57,508,851	87.2%	55,605,259	86.0%
Endowment Income to Operations	2,017,403	3.0%	2,196,453	3.3%	1,879,713	2.9%
Government Grants	361,538	0.5%	330,111	0.5%	417,793	0.6%
Gifts and Grants	2,296,398	3.4%	2,610,169	4.0%	2,475,000	3.8%
Other Revenue	879,506	1.3%	1,143,803	1.7%	2,194,268	3.4%
Net Auxiliary Revenue	2,281,450	3.4%	2,157,166	3.3%	2,074,386	3.2%
Total Operating Income	**67,190,722**	**100.0%**	**65,946,553**	**100.0%**	**64,646,419**	**100.0%**
Financial Aid	**18,200,362**	**27.1%**	**18,058,855**	**27.4%**	**17,036,398**	**26.4%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	30.7%		31.4%		30.6%	
Net Operating Income	**48,990,360**	**72.9%**	**47,887,698**	**72.6%**	**47,610,021**	**73.6%**
Operating Expenditures						
Faculty+Staff Salaries	25,860,167	38.5%	25,070,341	38.0%	25,032,736	38.7%
Student Salaries Not Already Included in Net Aux. Rev.	1,878,672	2.8%	1,839,713	2.8%	1,891,705	2.9%
Employee Benefits	7,358,843	11.0%	7,097,960	10.8%	6,677,997	10.3%
Library Acquisitions	811,681	1.2%	821,680	1.2%	800,192	1.2%
Services & Purchases (Study Away Effect in 02-04)	9,031,591	13.4%	9,284,581	14.1%	8,897,723	13.8%
Subtotal	**44,940,954**	**66.9%**	**44,114,275**	**66.9%**	**43,300,353**	**67.0%**
Equipment and Maintenance	2,252,732	3.4%	2,453,539	3.7%	2,512,328	3.9%
Transfers and Debt Service	1,743,660	2.6%	1,816,963	2.8%	1,790,698	2.8%
Contribution to Reserve	0	0.0%	0	0.0%	0	0.0%
Budget Savings and/or Deficit Reduction	0	0.0%	0	0.0%	0	0.0%
Subtotal	**3,996,392**	**5.9%**	**4,270,502**	**6.5%**	**4,303,026**	**6.7%**
Total Operating Expenditures	**48,937,346**	**72.8%**	**48,384,777**	**73.4%**	**47,603,379**	**73.6%**
Operating Surplus	53,014	0.1%	-497,079	-0.8%	6,642	0.0%
Faculty+Staff Salaries as % of Net Operating Income	52.8%		52.4%		52.6%	
Employee Benefits as % of Net Operating Income	15.0%		14.8%		14.0%	
	67.8%		67.2%		66.6%	

Roundoff error on some percentages

Compiled from End-of-Year Operating Statements

Attachment B - Operating Income and Expenditures FY01-FY12

	Annualized Rates of Change			
Income	2001-06	2006-09	2009-12	2001-12
Tuition and Fees	6.9%	6.3%	3.2%	5.7%
Endowment Income to Operations	4.1%	9.0%	1.8%	4.8%
Government Grants	-3.1%	-6.7%	-3.9%	-4.3%
Gifts and Grants	-6.8%	10.2%	4.9%	0.7%
Other Revenue	-9.2%	-7.3%	-1.5%	-6.6%
Net Auxiliary Revenue	6.5%	22.7%	-2.4%	8.1%
Total Operating Income	**5.9%**	**6.8%**	**2.9%**	**5.3%**
Financial Aid	**8.2%**	**9.5%**	**6.7%**	**8.1%**
Net Operating Income	**5.0%**	**5.7%**	**1.0%**	**4.1%**
Operating Expenditures				
Faculty+Staff Salaries	3.0%	5.7%	1.2%	3.2%
Student Salaries Not Already Included in Net Aux. Rev.	5.7%	3.0%	1.9%	3.9%
Employee Benefits	5.0%	6.2%	3.2%	4.9%
Library Acquisitions	3.7%	-0.2%	2.5%	2.3%
Services & Purchases (Study Away Effect in 02-04)	6.6%	1.3%	3.2%	4.2%
Subtotal	**4.2%**	**4.6%**	**2.0%**	**3.7%**
Equipment and Maintenance	12.7%	4.4%	-1.5%	6.4%
Transfers and Debt Service	-0.5%	39.8%	-5.9%	7.5%
Contribution to Reserve				
Budget Savings and/or Deficit Reduction				
Subtotal	**9.6%**	**15.4%**	**-4.1%**	**7.2%**
Total Operating Expenditures	**4.8%**	**5.9%**	**1.2%**	**4.1%**

Compiled from End-of-Year Operating Statements
Some numbers are small and subject to large % change
Transfer & Debt Service APRs not indicative of a trend

Attachment C - Projecting Historical Rates Into the Future

Projected Historical Rate	Income	2012	%	2013	%
4.50%	Tuition and Fees	102,300,000	89.5%	106,903,500	89.7%
3.00%	Endowment Income to Operations	3,140,000	2.7%	3,234,200	2.7%
0.00%	Government Grants	250,000	0.2%	250,000	0.2%
0.00%	Gifts and Grants	2,600,000	2.3%	2,600,000	2.2%
0.00%	Other Revenue	1,100,000	1.0%	1,100,000	0.9%
5.00%	Net Auxiliary Revenue	4,900,000	4.3%	5,145,000	4.3%
	Total Operating Income	**114,290,000**	**100.0%**	**119,232,700**	**100.0%**
7.00%	**Financial Aid**	**40,320,000**	**35.3%**	**43,142,400**	**36.2%**
	Overall Discount Rate (Financial Aid/Tuition and Fees)	39.4%		40.4%	
	Net Operating Income	**73,970,000**	**64.7%**	**76,090,300**	**63.8%**
	Operating Expenditures				
3.20%	Faculty+Staff Salaries	35,540,000	31.1%	36,677,280	30.8%
3.00%	Student Salaries Not Already Included in Net Aux. Rev.	2,900,000	2.5%	2,987,000	2.5%
4.00%	Employee Benefits	11,250,000	9.8%	11,700,000	9.8%
2.40%	Library Acquisitions	1,020,000	0.9%	1,044,480	0.9%
3.70%	Services & Purchases	14,000,000	12.2%	14,518,000	12.2%
	Subtotal	**64,710,000**	**56.6%**	**66,926,760**	**56.1%**
4.50%	Equipment and Maintenance	4,960,000	4.3%	5,183,200	4.3%
0.00%	Transfers + Debt Service	3,980,000	3.5%	3,980,000	3.3%
0.00%	Contribution to Reserve	300,000	0.3%	300,000	0.3%
	Subtotal	**9,240,000**	**8.1%**	**9,463,200**	**7.9%**
	Total Operating Expenditures	**73,950,000**	**64.7%**	**76,389,960**	**64.1%**
	Operating Surplus	20,000	0.0%	-299,660	-0.3%
	Faculty+Staff Salaries as % of Net Operating Income	48.0%		48.2%	
	Employee Benefits as % of Net Operating Income	15.2%		15.4%	
		63.3%		63.6%	

FY12 dollar amounts are rounded off, but relative values are maintained.
Chosen rates are motivated by the historical record; more weight given to recent years. Negative historical rates, or rates associated with small quantities, are set to zero. Quantities that do not have a rate specified are calculated.
In this draft we use the FY12 end-of-year results as the starting point. We do NOT use estimates for FY13 or FY14.

Attachment C - Projecting Historical Rates Into the Future

	2014	%	2015	%	2016	%
Income						
Tuition and Fees	111,714,158	89.8%	116,741,295	89.9%	121,994,653	90.1%
Endowment Income to Operations	3,331,226	2.7%	3,431,163	2.6%	3,534,098	2.6%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	2.1%	2,600,000	2.0%	2,600,000	1.9%
Other Revenue	1,100,000	0.9%	1,100,000	0.8%	1,100,000	0.8%
Net Auxiliary Revenue	5,402,250	4.3%	5,672,363	4.4%	5,955,981	4.4%
Total Operating Income	**124,397,634**	**100.0%**	**129,794,820**	**100.0%**	**135,434,731**	**100.0%**
Financial Aid	**46,162,368**	**37.1%**	**49,393,734**	**38.1%**	**52,851,295**	**39.0%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	41.3%		42.3%		43.3%	
Net Operating Income	**78,235,266**	**62.9%**	**80,401,086**	**61.9%**	**82,583,436**	**61.0%**
Operating Expenditures						
Faculty+Staff Salaries	37,850,953	30.4%	39,062,183	30.1%	40,312,173	29.8%
Student Salaries Not Already Included in Net Aux. Rev.	3,076,610	2.5%	3,168,908	2.4%	3,263,976	2.4%
Employee Benefits	12,168,000	9.8%	12,654,720	9.7%	13,160,909	9.7%
Library Acquisitions	1,069,548	0.9%	1,095,217	0.8%	1,121,502	0.8%
Services & Purchases	15,055,166	12.1%	15,612,207	12.0%	16,189,859	12.0%
Subtotal	**69,220,276**	**55.6%**	**71,593,236**	**55.2%**	**74,048,418**	**54.7%**
Equipment and Maintenance	5,416,444	4.4%	5,660,184	4.4%	5,914,892	4.4%
Transfers + Debt Service	3,980,000	3.2%	3,980,000	3.1%	3,980,000	2.9%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**9,696,444**	**7.8%**	**9,940,184**	**7.7%**	**10,194,892**	**7.5%**
Total Operating Expenditures	**78,916,720**	**63.4%**	**81,533,420**	**62.8%**	**84,243,311**	**62.2%**
Operating Surplus	-681,455	-0.5%	-1,132,333	-0.9%	-1,659,875	-1.2%
Faculty+Staff Salaries as % of Net Operating Income	48.4%		48.6%		48.8%	
Employee Benefits as % of Net Operating Income	15.6%		15.7%		15.9%	
	63.9%		64.3%		64.8%	

Attachment C - Projecting Historical Rates Into the Future

	2017	%	2018	%	2019	%
Income						
Tuition and Fees	127,484,412	90.2%	133,221,211	90.3%	139,216,165	90.4%
Endowment Income to Operations	3,640,121	2.6%	3,749,324	2.5%	3,861,804	2.5%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	1.8%	2,600,000	1.8%	2,600,000	1.7%
Other Revenue	1,100,000	0.8%	1,100,000	0.7%	1,100,000	0.7%
Net Auxiliary Revenue	6,253,780	4.4%	6,566,469	4.5%	6,894,792	4.5%
Total Operating Income	**141,328,312**	**100.0%**	**147,487,004**	**100.0%**	**153,922,761**	**100.0%**
Financial Aid	**56,550,886**	**40.0%**	**60,509,448**	**41.0%**	**64,745,109**	**42.1%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	44.4%		45.4%		46.5%	
Net Operating Income	**84,777,427**	**60.0%**	**86,977,556**	**59.0%**	**89,177,652**	**57.9%**
Operating Expenditures						
Faculty+Staff Salaries	41,602,163	29.4%	42,933,432	29.1%	44,307,302	28.8%
Student Salaries Not Already Included in Net Aux. Rev.	3,361,895	2.4%	3,462,752	2.3%	3,566,634	2.3%
Employee Benefits	13,687,345	9.7%	14,234,839	9.7%	14,804,233	9.6%
Library Acquisitions	1,148,418	0.8%	1,175,980	0.8%	1,204,203	0.8%
Services & Purchases	16,788,884	11.9%	17,410,072	11.8%	18,054,245	11.7%
Subtotal	**76,588,704**	**54.2%**	**79,217,075**	**53.7%**	**81,936,617**	**53.2%**
Equipment and Maintenance	6,181,062	4.4%	6,459,210	4.4%	6,749,875	4.4%
Transfers + Debt Service	3,980,000	2.8%	3,980,000	2.7%	3,980,000	2.6%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**10,461,062**	**7.4%**	**10,739,210**	**7.3%**	**11,029,875**	**7.2%**
Total Operating Expenditures	**87,049,767**	**61.6%**	**89,956,285**	**61.0%**	**92,966,492**	**60.4%**
Operating Surplus	-2,272,340	-1.6%	-2,978,729	-2.0%	-3,788,840	-2.5%
Faculty+Staff Salaries as % of Net Operating Income	49.1%		49.4%		49.7%	
Employee Benefits as % of Net Operating Income	16.1%		16.4%		16.6%	
	65.2%		65.7%		66.3%	

Attachment D - Projecting Historical Rates Into the Future with Fin Aid at 6% Rather Than 7%

Projected Historical Rate		2012	%	2013	%
	Income				
4.50%	Tuition and Fees	102,300,000	89.5%	106,903,500	89.7%
3.00%	Endowment Income to Operations	3,140,000	2.7%	3,234,200	2.7%
0.00%	Government Grants	250,000	0.2%	250,000	0.2%
0.00%	Gifts and Grants	2,600,000	2.3%	2,600,000	2.2%
0.00%	Other Revenue	1,100,000	1.0%	1,100,000	0.9%
5.00%	Net Auxiliary Revenue	4,900,000	4.3%	5,145,000	4.3%
	Total Operating Income	**114,290,000**	**100.0%**	**119,232,700**	**100.0%**
6.00%	**Financial Aid**	**40,320,000**	**35.3%**	**42,739,200**	**35.8%**
	Overall Discount Rate (Financial Aid/Tuition and Fees)	39.4%		40.0%	
	Net Operating Income	**73,970,000**	**64.7%**	**76,493,500**	**64.2%**
	Operating Expenditures				
3.20%	Faculty+Staff Salaries	35,540,000	31.1%	36,677,280	30.8%
3.00%	Student Salaries Not Already Included in Net Aux. Rev.	2,900,000	2.5%	2,987,000	2.5%
4.00%	Employee Benefits	11,250,000	9.8%	11,700,000	9.8%
2.40%	Library Acquisitions	1,020,000	0.9%	1,044,480	0.9%
3.70%	Services & Purchases	14,000,000	12.2%	14,518,000	12.2%
	Subtotal	**64,710,000**	**56.6%**	**66,926,760**	**56.1%**
4.50%	Equipment and Maintenance	4,960,000	4.3%	5,183,200	4.3%
0.00%	Transfers + Debt Service	3,980,000	3.5%	3,980,000	3.3%
0.00%	Contribution to Reserve	300,000	0.3%	300,000	0.3%
	Subtotal	**9,240,000**	**8.1%**	**9,463,200**	**7.9%**
	Total Operating Expenditures	**73,950,000**	**64.7%**	**76,389,960**	**64.1%**
	Operating Surplus	20,000	0.0%	103,540	0.1%
	Faculty+Staff Salaries as % of Net Operating Income	48.0%		47.9%	
	Employee Benefits as % of Net Operating Income	15.2%		15.3%	
		63.3%		63.2%	

FY12 dollar amounts are rounded off, but relative values are maintained.
Chosen rates are motivated by the historical record; more weight given to recent years. Negative historical rates, or rates associated with small quantities, are set to zero. Quantities that do not have a rate specified are calculated.
In this draft we use the FY12 end-of-year results as the starting point. We do NOT use estimates for FY13 or FY14.

Attachment D - Projecting Historical Rates Into the Future with Fin Aid at 6% Rather Than 7%

	2014	%	2015	%	2016	%
Income						
Tuition and Fees	111,714,158	89.8%	116,741,295	89.9%	121,994,653	90.1%
Endowment Income to Operations	3,331,226	2.7%	3,431,163	2.6%	3,534,098	2.6%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	2.1%	2,600,000	2.0%	2,600,000	1.9%
Other Revenue	1,100,000	0.9%	1,100,000	0.8%	1,100,000	0.8%
Net Auxiliary Revenue	5,402,250	4.3%	5,672,363	4.4%	5,955,981	4.4%
Total Operating Income	**124,397,634**	**100.0%**	**129,794,820**	**100.0%**	**135,434,731**	**100.0%**
Financial Aid	**45,303,552**	**36.4%**	**48,021,765**	**37.0%**	**50,903,071**	**37.6%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	40.6%		41.1%		41.7%	
Net Operating Income	**79,094,082**	**63.6%**	**81,773,055**	**63.0%**	**84,531,660**	**62.4%**
Operating Expenditures						
Faculty+Staff Salaries	37,850,953	30.4%	39,062,183	30.1%	40,312,173	29.8%
Student Salaries Not Already Included in Net Aux. Rev.	3,076,610	2.5%	3,168,908	2.4%	3,263,976	2.4%
Employee Benefits	12,168,000	9.8%	12,654,720	9.7%	13,160,909	9.7%
Library Acquisitions	1,069,548	0.9%	1,095,217	0.8%	1,121,502	0.8%
Services & Purchases	15,055,166	12.1%	15,612,207	12.0%	16,189,859	12.0%
Subtotal	**69,220,276**	**55.6%**	**71,593,236**	**55.2%**	**74,048,418**	**54.7%**
Equipment and Maintenance	5,416,444	4.4%	5,660,184	4.4%	5,914,892	4.4%
Transfers + Debt Service	3,980,000	3.2%	3,980,000	3.1%	3,980,000	2.9%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**9,696,444**	**7.8%**	**9,940,184**	**7.7%**	**10,194,892**	**7.5%**
Total Operating Expenditures	**78,916,720**	**63.4%**	**81,533,420**	**62.8%**	**84,243,311**	**62.2%**
Operating Surplus	177,361	0.1%	239,635	0.2%	288,350	0.2%
Faculty+Staff Salaries as % of Net Operating Income	47.9%		47.8%		47.7%	
Employee Benefits as % of Net Operating Income	15.4%		15.5%		15.6%	
	63.2%		63.2%		63.3%	

Attachment D - Projecting Historical Rates Into the Future with Fin Aid at 6% Rather Than 7%

	2017	%	2018	%	2019	%
Income						
Tuition and Fees	127,484,412	90.2%	133,221,211	90.3%	139,216,165	90.4%
Endowment Income to Operations	3,640,121	2.6%	3,749,324	2.5%	3,861,804	2.5%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	1.8%	2,600,000	1.8%	2,600,000	1.7%
Other Revenue	1,100,000	0.8%	1,100,000	0.7%	1,100,000	0.7%
Net Auxiliary Revenue	6,253,780	4.4%	6,566,469	4.5%	6,894,792	4.5%
Total Operating Income	**141,328,312**	**100.0%**	**147,487,004**	**100.0%**	**153,922,761**	**100.0%**
Financial Aid	**53,957,255**	**38.2%**	**57,194,691**	**38.8%**	**60,626,372**	**39.4%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	42.3%		42.9%		43.5%	
Net Operating Income	**87,371,057**	**61.8%**	**90,292,313**	**61.2%**	**93,296,389**	**60.6%**
Operating Expenditures						
Faculty+Staff Salaries	41,602,163	29.4%	42,933,432	29.1%	44,307,302	28.8%
Student Salaries Not Already Included in Net Aux. Rev.	3,361,895	2.4%	3,462,752	2.3%	3,566,634	2.3%
Employee Benefits	13,687,345	9.7%	14,234,839	9.7%	14,804,233	9.6%
Library Acquisitions	1,148,418	0.8%	1,175,980	0.8%	1,204,203	0.8%
Services & Purchases	16,788,884	11.9%	17,410,072	11.8%	18,054,245	11.7%
Subtotal	**76,588,704**	**54.2%**	**79,217,075**	**53.7%**	**81,936,617**	**53.2%**
Equipment and Maintenance	6,181,062	4.4%	6,459,210	4.4%	6,749,875	4.4%
Transfers + Debt Service	3,980,000	2.8%	3,980,000	2.7%	3,980,000	2.6%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**10,461,062**	**7.4%**	**10,739,210**	**7.3%**	**11,029,875**	**7.2%**
Total Operating Expenditures	**87,049,767**	**61.6%**	**89,956,285**	**61.0%**	**92,966,492**	**60.4%**
Operating Surplus	321,290	0.2%	336,028	0.2%	329,898	0.2%
Faculty+Staff Salaries as % of Net Operating Income	47.6%		47.5%		47.5%	
Employee Benefits as % of Net Operating Income	15.7%		15.8%		15.9%	
	63.3%		63.3%		63.4%	

Attachment E - Projecting Historical Rates Into the Future with Fin Aid at 6% + Salary and Benefits at 4.4% + EquipMaint at 10%

Projected Historical Rate		2012	%	2013	%
	Income				
4.50%	Tuition and Fees	102,300,000	89.5%	106,903,500	89.7%
3.00%	Endowment Income to Operations	3,140,000	2.7%	3,234,200	2.7%
0.00%	Government Grants	250,000	0.2%	250,000	0.2%
0.00%	Gifts and Grants	2,600,000	2.3%	2,600,000	2.2%
0.00%	Other Revenue	1,100,000	1.0%	1,100,000	0.9%
5.00%	Net Auxiliary Revenue	4,900,000	4.3%	5,145,000	4.3%
	Total Operating Income	**114,290,000**	**100.0%**	**119,232,700**	**100.0%**
6.00%	**Financial Aid**	**40,320,000**	**35.3%**	**42,739,200**	**35.8%**
	Overall Discount Rate (Financial Aid/Tuition and Fees)	39.4%		40.0%	
	Net Operating Income	**73,970,000**	**64.7%**	**76,493,500**	**64.2%**
	Operating Expenditures				
4.40%	Faculty+Staff Salaries	35,540,000	31.1%	37,103,760	31.1%
3.00%	Student Salaries Not Already Included in Net Aux. Rev.	2,900,000	2.5%	2,987,000	2.5%
4.40%	Employee Benefits	11,250,000	9.8%	11,745,000	9.9%
2.40%	Library Acquisitions	1,020,000	0.9%	1,044,480	0.9%
3.70%	Services & Purchases	14,000,000	12.2%	14,518,000	12.2%
	Subtotal	**64,710,000**	**56.6%**	**67,398,240**	**56.5%**
10.00%	Equipment and Maintenance	4,960,000	4.3%	5,456,000	4.6%
0.00%	Transfers + Debt Service	3,980,000	3.5%	3,980,000	3.3%
0.00%	Contribution to Reserve	300,000	0.3%	300,000	0.3%
	Subtotal	**9,240,000**	**8.1%**	**9,736,000**	**8.2%**
	Total Operating Expenditures	**73,950,000**	**64.7%**	**77,134,240**	**64.7%**
	Operating Surplus	20,000	0.0%	-640,740	-0.5%
	Faculty+Staff Salaries as % of Net Operating Income	48.0%		48.5%	
	Employee Benefits as % of Net Operating Income	15.2%		15.4%	
		63.3%		63.9%	

FY12 dollar amounts are rounded off, but relative values are maintained.
Chosen rates are motivated by the historical record; more weight given to recent years. Negative historical rates, or rates associated with small quantities, are set to zero. Quantities that do not have a rate specified are calculated.
In this draft we use the FY12 end-of-year results as the starting point. We do NOT use estimates for FY13 or FY14.

Attachment E - Projecting Historical Rates Into the Future with Fin Aid at 6% + Salary and Benefits at 4.4% + EquipMaint at 10%

	2014	%	2015	%	2016	%
Income						
Tuition and Fees	111,714,158	89.8%	116,741,295	89.9%	121,994,653	90.1%
Endowment Income to Operations	3,331,226	2.7%	3,431,163	2.6%	3,534,098	2.6%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	2.1%	2,600,000	2.0%	2,600,000	1.9%
Other Revenue	1,100,000	0.9%	1,100,000	0.8%	1,100,000	0.8%
Net Auxiliary Revenue	5,402,250	4.3%	5,672,363	4.4%	5,955,981	4.4%
Total Operating Income	**124,397,634**	**100.0%**	**129,794,820**	**100.0%**	**135,434,731**	**100.0%**
Financial Aid	**45,303,552**	**36.4%**	**48,021,765**	**37.0%**	**50,903,071**	**37.6%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	40.6%		41.1%		41.7%	
Net Operating Income	**79,094,082**	**63.6%**	**81,773,055**	**63.0%**	**84,531,660**	**62.4%**
Operating Expenditures						
Faculty+Staff Salaries	38,736,325	31.1%	40,440,724	31.2%	42,220,116	31.2%
Student Salaries Not Already Included in Net Aux. Rev.	3,076,610	2.5%	3,168,908	2.4%	3,263,976	2.4%
Employee Benefits	12,261,780	9.9%	12,801,298	9.9%	13,364,555	9.9%
Library Acquisitions	1,069,548	0.9%	1,095,217	0.8%	1,121,502	0.8%
Services & Purchases	15,055,166	12.1%	15,612,207	12.0%	16,189,859	12.0%
Subtotal	**70,199,429**	**56.4%**	**73,118,354**	**56.3%**	**76,160,007**	**56.2%**
Equipment and Maintenance	6,001,600	4.8%	6,601,760	5.1%	7,261,936	5.4%
Transfers + Debt Service	3,980,000	3.2%	3,980,000	3.1%	3,980,000	2.9%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**10,281,600**	**8.3%**	**10,881,760**	**8.4%**	**11,541,936**	**8.5%**
Total Operating Expenditures	**80,481,029**	**64.7%**	**84,000,114**	**64.7%**	**87,701,943**	**64.8%**
Operating Surplus	-1,386,947	-1.1%	-2,227,059	-1.7%	-3,170,283	-2.3%
Faculty+Staff Salaries as % of Net Operating Income	49.0%		49.5%		49.9%	
Employee Benefits as % of Net Operating Income	15.5%		15.7%		15.8%	
	64.5%		65.1%		65.8%	

Attachment E - Projecting Historical Rates Into the Future with Fin Aid at 6% + Salary and Benefits at 4.4% + EquipMaint at 10%

	2017	%	2018	%	2019	%
Income						
Tuition and Fees	127,484,412	90.2%	133,221,211	90.3%	139,216,165	90.4%
Endowment Income to Operations	3,640,121	2.6%	3,749,324	2.5%	3,861,804	2.5%
Government Grants	250,000	0.2%	250,000	0.2%	250,000	0.2%
Gifts and Grants	2,600,000	1.8%	2,600,000	1.8%	2,600,000	1.7%
Other Revenue	1,100,000	0.8%	1,100,000	0.7%	1,100,000	0.7%
Net Auxiliary Revenue	6,253,780	4.4%	6,566,469	4.5%	6,894,792	4.5%
Total Operating Income	**141,328,312**	**100.0%**	**147,487,004**	**100.0%**	**153,922,761**	**100.0%**
Financial Aid	**53,957,255**	**38.2%**	**57,194,691**	**38.8%**	**60,626,372**	**39.4%**
Overall Discount Rate (Financial Aid/Tuition and Fees)	42.3%		42.9%		43.5%	
Net Operating Income	**87,371,057**	**61.8%**	**90,292,313**	**61.2%**	**93,296,389**	**60.6%**
Operating Expenditures						
Faculty+Staff Salaries	44,077,801	31.2%	46,017,224	31.2%	48,041,982	31.2%
Student Salaries Not Already Included in Net Aux. Rev.	3,361,895	2.4%	3,462,752	2.3%	3,566,634	2.3%
Employee Benefits	13,952,596	9.9%	14,566,510	9.9%	15,207,437	9.9%
Library Acquisitions	1,148,418	0.8%	1,175,980	0.8%	1,204,203	0.8%
Services & Purchases	16,788,884	11.9%	17,410,072	11.8%	18,054,245	11.7%
Subtotal	**79,329,593**	**56.1%**	**82,632,538**	**56.0%**	**86,074,501**	**55.9%**
Equipment and Maintenance	7,988,130	5.7%	8,786,943	6.0%	9,665,637	6.3%
Transfers + Debt Service	3,980,000	2.8%	3,980,000	2.7%	3,980,000	2.6%
Contribution to Reserve	300,000	0.2%	300,000	0.2%	300,000	0.2%
Subtotal	**12,268,130**	**8.7%**	**13,066,943**	**8.9%**	**13,945,637**	**9.1%**
Total Operating Expenditures	**91,597,722**	**64.8%**	**95,699,480**	**64.9%**	**100,020,138**	**65.0%**
Operating Surplus	-4,226,665	-3.0%	-5,407,167	-3.7%	-6,723,749	-4.4%
Faculty+Staff Salaries as % of Net Operating Income	50.4%		51.0%		51.5%	
Employee Benefits as % of Net Operating Income	16.0%		16.1%		16.3%	
	66.4%		67.1%		67.8%	

"The Box" Memo

Multi-Year Budget Planning

Introduction

The aim of this report is to provide perspective and context for our forthcoming deliberations over ways to meet certain budget targets in the future, and it is written in response to the Board of Regents' request in January, 2013 to see several fiscal and budgetary considerations combined into one place [that "place" has been called "the box"]. These targets include: (a) improving compensation for faculty and staff so as to reach peer group and market means, and (b) increasing annual budget allocations for equipment and maintenance to a level necessary to address deferred maintenance issues as assessed by a comprehensive review of PLU facilities.

Adequate resources are needed to attract and retain faculty and staff of the first rank and for maintaining the condition of our physical resources that enhance and support teaching, learning and student living. Achieving these goals is essential for the university to remain a viable contender in the ever more competitive higher education marketplace.

Historical Trends

An historical account of the PLU operating budget for the period FY01-FY12 using end-of-year "actuals" shows:

- The salary pool for all employees has been a steadily declining share of total revenue throughout this period [from 38.7% in FY01 to 31.1% in FY12];
- The benefits pool has been an approximately constant share of total revenue throughout this period, in the range of 9.7-11%;
- Financial aid is now the single largest budget expense relative to total revenue, surpassing the salary pool for all employees in FY10;
- The combined salary and benefits pool as a share of net operating revenue is relatively constant in recent years, but is lower than earlier in the decade.

Forward Projections

We solved the general case for the annual changes [in percentage terms] that are necessary to attain any goal ["hit a target"] over any length of time starting from any deficit position for any rate of change of the target itself. This general result was then be used with specific assumptions to assess budget impacts and fiscal needs in necessary to attain certain goals.

In the first model we sought to project the recent historical past into the future. We selected what we considered to be representative historical annualized rates of change from the FY01-FY12 period for the various operating budget lines (both revenue and expenses), with more weight given to the rates of change in the more recent years than to rates earlier in the decade. Beginning with the final FY12 operating results and projecting them forward in time to FY19, we observe the following:

- With financial aid growing at 7% annually [the FY01-FY12 rate was 8.1%, but the more recent FY09-FY12 rate was 6.7%] we quickly start to run operating deficits;
- By FY19 the annual operating deficit would be 2.5% [approximately $3.8M] of total revenue;

- The salary pool as a share of total revenue continues its decline [from 31.1% in FY12 to 28.8% in FY19];
- Salary and benefits as a share of net operating revenue increase due to relatively slow growth in net operating income [because of the growth in financial aid].

We then repeated the forward projection with the annualized growth in the financial aid budget reduced from 7% to 6%. Here, we found:

- The operating budget is approximately balanced throughout the FY12-FY19 period;
- Salary and benefits as a share of net operating income stabilize throughout the period.

However, this “balanced budget model” (with its assumptions on revenue and expenses – revenue assumptions that some would call optimistic) at best maintains the status quo with regard to compensation, equipment and maintenance. This model does not allow us to make any significant progress on compensation, and deferred maintenance would tend to increase over time under this projection.

New Revenues Necessary to Accomplish Goals

We then assessed the magnitude of new revenues needed to meet two very specific goals with regard to compensation, equipment and maintenance.

- Compensation: our studies have shown that our salaries lag the mean of peer and market groups by approximately 15% for both faculty and staff. We assume these target groups are increasing at 2% annually, and that we want to catch up in seven years. Assuming constant levels of employment, PLU would need to increase salaries at approximately 4.40% annually for 7 years to meet the moving target.
- Equipment and Maintenance: our studies have shown that we should be spending $8.5M per year (in 2012 dollars) where we presently spend $5.0M. Assuming inflation going forward is 2%, the goal is to be spending the equivalent (in today's dollars) of $8.5M in seven years. PLU would need to increase spending for equipment and maintenance at approximately 10.0% annually for 7 years to meet the moving target.

As a budget projection, we modified the forward "balanced budget model”, keeping the growth in financial aid at 6% and the same assumptions on revenue, but with the salary pool growing at 4.40% [rather than the historical 3.20%] and equipment and maintenance growing at 10.0% [rather than the historical 4.50%].

Obviously, in this model, we are going to start running significant operating deficits very quickly [by FY19, the annual deficit would be 4.4% of total revenue, or $6.7M], but the purpose of this approach is to assess the scale of new revenues necessary to accomplish the goals and balance the operating budget.

The Future

A legitimate plan for the future would necessarily incorporate structural assumptions in levels of employment, program and enrollment mix, financial aid, and tuition and fees as well as new sources of revenue. However, now knowing the scale of the challenge, we are in a better position to fashion the means of its solution.

Full details of the historical record, the assessment of needs, and the budget model projections with their assumptions will be provided at the May, 2013 Board meeting in plenary session.

Steve P. Starkovich, Ph.D.
Provost and Dean of Graduate Studies

Sheri Jeanne Tonn, Ph.D.
Vice President for Finance and Operations

RESOLUTION OF THE BOARD OF REGENTS
OF PACIFIC LUTHERAN UNIVERSITY
REGARDING COMPENSATION FOR FACULTY,
ADMINISTRATION AND STAFF
AND MAINTENANCE OF PHYSICAL RESOURCES.

May 4, 2013

WHEREAS: Pacific Lutheran University is committed to being a university of the first rank; and

WHEREAS: An essential element of being a university of the first rank is having a distinguished and dedicated faculty, administration and staff of the first rank; and

WHEREAS: The Board of Regents has determined that the total compensation provided by the University for its faculty, administration and staff has fallen behind the compensation offered by peer institutions, which jeopardizes the University's ability to attract and retain faculty, administration and staff of the first rank; and

WHEREAS: The Board of Regents is committed to rectifying this disparity, over a reasonable period of years, based on the University's ability to achieve the additional revenue and potential cost reduction required to do so; and

WHEREAS: At the same time, the Board of Regents is also committed to maintaining access to the University for students who do not have the financial resources to pay for the cost of attending Pacific Lutheran University; and

WHEREAS: The Board of Regents is also committed to maintaining the condition of the physical resources of the University so as to better enhance and support teaching, learning, and student living;

NOW THEREFORE, be it resolved that the Board of Regents of Pacific Lutheran University hereby:

1. Adopts the objective of achieving parity with its peer institutions with respect to the total compensation packages offered to the University faculty, administration and staff;

2. Commits to achieving this objective over a period of approximately 7 years, with the timing to be determined by the University's ability to achieve the additional revenue and potential cost reduction required to do so, on an annual balanced budget basis;

3. Recognizes that the achievement of this objective will require the development of new sources of revenue for the University and the strategic and efficient redeployment of resources; and

4. Directs the administration of the University to develop additional sources of revenue, including the potential for creating additional programs that will be consistent with the University's mission; be academically sound; and provide additional revenue and potential cost reductions to the University to fund these expenditures, as well as other potential activities and services.

This resolution will be effective the 4th day of May, 2013.

M E M O R A N D U M

OFFICE OF THE PRESIDENT

TO: PLU Community

FROM: Thomas W. Krise, President

RE: "The Box" Explained

DATE: April 21, 2014

Thanks for your patience and engagement in all the rethinking, planning, and revising that's been going on this academic year! As I said at the Fall Conference way back in September: this is an especially challenging and stressful time, since we need to continue doing what we've been doing, think about how to do things better, and then implement the new ways of doing things better.

In some meetings recently (notably with the Faculty Affairs Committee, which, you'll remember, got us all moving on "The Box" resolution), I've been asked to provide more guidance on "The Box" and how faculty and staff can contribute to achieving our ambitious goals. Here goes:

What is "The Box"?

"The Box" (graphic is included on page 4 of this memo) is the shorthand term for the resolution by the Board of Regents in May 2013 that called on us all to achieve, by 2020, enough additional annual revenue to achieve three things:

1) Reach the median salary levels for faculty, staff, and administrators compared to our peer group (on average, we are currently about 15% below the median, with the range running from about 9% to 19% below the median);
2) Reach a "catch up" regime in deferred maintenance (meaning an industry-standard level needed to anticipate repairs and improvements rather than waiting until things fall apart); and
3) Reach a best-practice level of institutional reserves of $1.8M (these funds will be accumulated gradually over the period and will roll over each year).

How does "The Box" fit into PLU2020 and the Strategic Planning process?

At the end of this memo, beginning on page 5, I've include a document titled "The Strategic Framework" (which was distributed to Faculty Assembly on February 14th and to Program Leaders on February 18th and then posted on the Finance and Operations Division website), which aims to explain how the pieces fit together. We're building a process to support these goals. So far, three key committees are overseeing or carrying out the Strategic Planning process:

- The Strategic Enrollment Management Advisory Committee (SEMAC) has been working hard to determine a set of Key Enrollment Indicators (specific targets we'll aim for and work towards).
- The Budget Working Group (BWG), which is a subcommittee of the standing Budget Advisory Committee, has been working hard to produce a set of recommendations for ways we can improve our budgeting process to help us achieve the goals of "The Box" and to encourage experimentation and entrepreneurial thinking.
- And the Long Range Planning Committee (LRPC) has been working hard to identify Key Performance Indicators and to suggest ways to measure the goals laid out in PLU2020. LRPC will be distributing these recommendations soon to the responsible committees and units.

How much additional revenue will it take to achieve the goals of "The Box"?

Based on our recent history and projections into the future, we'll need $6.7 million over the additional revenue we would expect to have by 2020. Our annual budget (minus financial aid) is about $80 million, so that's about 8.4% more revenue than now.

How do we raise that much additional revenue?

We can accomplish this with the energetic help of everyone at PLU. We've broken down the $6.7 million into four manageable pieces (please see the first attachment below—it's a one-page visual of how "The Box" works):

1. Tuition: $3.5 million ($2.5M from undergrad and grad; $1M from Continuing Education)
2. Endowment: $2 million (requiring an additional $40M in endowed scholarships, etc)
3. Auxiliaries: $1 million (Conferences & Events, Summer Camps, Garfield Book Company, 208 Garfield, Garfield Station, Residence Halls, Old Main Mkt, etc)
4. Savings: $200,000 (mainly via efficiencies identified by our Six Sigma Green Belts)

How can faculty, staff, and administrators help achieve the goals of "The Box"?

Everyone can help by:

1. **Helping retain students** and urging them to graduate (every first-year student retained to sophomore equals $14,500 to the bottom line--and it costs an additional $2,600 to recruit the replacement); So, as the semester winds down, say to everyone, "See you in the Fall!"

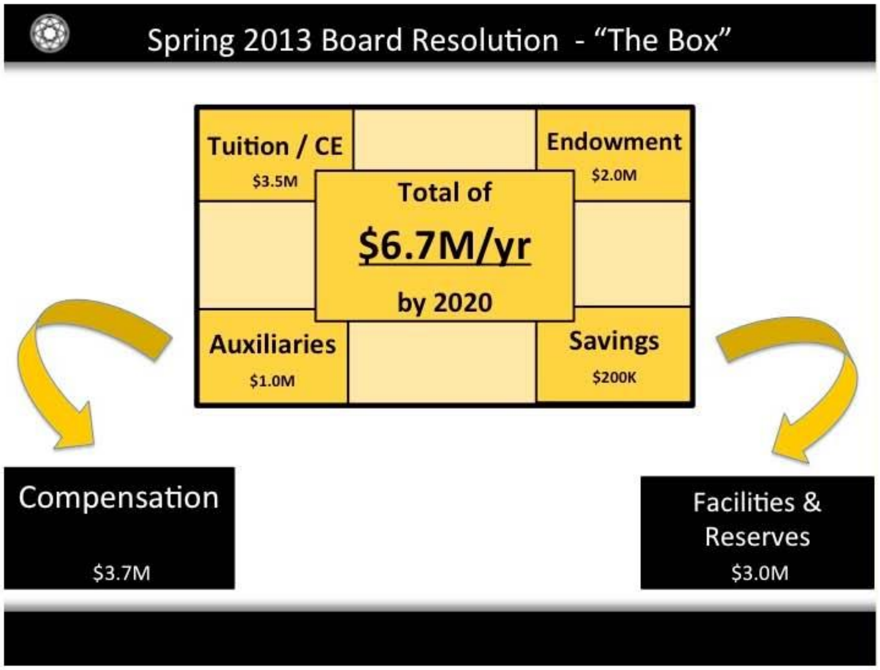
2. **Helping recruit new students** by talking to people you know, by offering to talk with high school counselors or students, or volunteering for President's Scholars Weekend or Passport Weekend, or offering to guest lecture, or serve on boards or committees at schools and community colleges and talking to people about what PLU has to offer, or stopping to say hi to campus tour groups as they roam the campus.
3. **Recruiting students to majors, minors, and to individual courses**—in general, classes of 16 or more add to the bottom line; so, working with our Admission Counselors to explain our programs and attract the most prepared and able students is important to ensuring robust enrollment in all of our programs and courses.
4. **Helping us keep track of alumni** so we can tout their achievements, tell their stories, and connect current students with them for mentorship and networking and recruitment (please let the Alumni Affairs office know about alumni you're in touch with).
5. **Supporting the Annual Fund**, since the percentage of faculty and staff giving is a marker of engagement and support looked at by grantmakers and donors--it's the percentage of participation rather than the dollar amount that counts, so even token gifts have great value.
6. **Proposing new and improved Academic and Co-Curricular Programs**—with an eye on ones that can advance our academic mission and/or improve effectiveness, efficiency, and our bottom line.
7. **Supporting the Six Sigma Process**—by lending encouragement, ideas, or even by taking the Green Belt training to help us all figure out ways to be more effective and efficient in everything we do.

How will the additional revenue we raise be distributed?

As the graphic below shows, $3.7 million of the additional revenue will be needed to bring salaries up to the median of our peer group of universities; the remaining $3 million will then be used to improve and maintain our classrooms, labs, and other facilities. We plan to achieve the $1.8 million in institutional reserves by building up to that level over the next six years. The reserves would be rolled over from one year to the next; so, once we reach that level we won't require $1.8 million per year. Once we achieve the required level of reserves, the next prioritiy is bringing up the salaries, followed by bringing up the facilities.

It's important to understand that the distribution of this $6.7 million in additional revenue is beyond the normal increases in revenue that we expect (following historical trends) from normal annual processes. We're awaiting the recommendations of the Budget Working Group on new structures and processes to manage our budgeting process. Until we adopt new procedures, we'll carry on with our existing ones, which include gathering recommendations and advice from committees and units across the university.

All this may seem complex, but I hope everyone will find a certain clarity in the goals of "The Box." We all can contribute to realizing these goals. Thanks for your commitment, energy, and wisdom as we work to ensure our beloved PLU more fully realizes the dream of our founders to be a University of the First Rank.



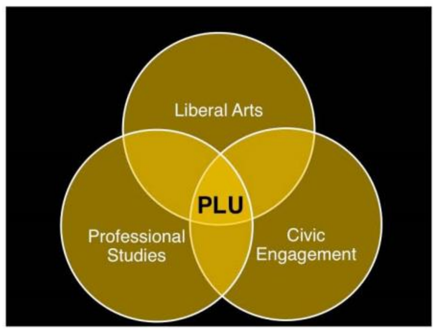
"The Box" Explained 4

Strategic Framework for PLU:
Realizing the Vision of the New American University

Background Perspective

PLU has long been on the road to becoming a certain kind of university: one that is primarily a first class residential liberal arts college, but also one that has first class professional education at both the undergraduate and graduate levels. PLU has also been highly regarded in the community for its commitment to community and civic engagement. These three elements:

1. Liberal Arts
2. Professional Studies
3. Civic Engagement



— when integrated together, are the three ingredients for a new type—a new genus—of higher education institution. This type was called a New American College by Ernest Boyer in a series of influential essays and speeches in the 1990s. Since Boyer coined this term, most of the institutions that have aligned with this identity are referred to as universities; so, the term has tended to become New American University. The association of these types of institutions is called New American Colleges and Universities (NAC&U). The PLU vision document, PLU2020, calls on the university community to realize just the kind of vision Boyer set forth.

Pacific Lutheran University was founded in 1890 with the aim of becoming a "University of the First Rank." Exactly what kind of university was not specified, and in America, we have a wide array of types of institutions represented by the term "university." For instance, we have Soka University of America (an undergraduate liberal arts college with 370 students); Western Governors University (a strictly online program that claims 40,000 students at any given time); Antioch University (a multi-campus, mainly professional training institution focused on graduate programs); and Johns Hopkins University (a research-focused institution of 21,000 with nearly three times as many graduate students as undergraduates); these are all quite different from each other, despite sharing the designation "university." PLU's current challenge is to identify the type of university it aims to become and then to take steps to achieve that aim.

The Boyerian New American University model seeks to integrate the three ingredients of liberal arts, professional education, and civic engagement—not merely to offer these three things, but to **integrate** them. At present, PLU offers these three ingredients, and, a number of students achieve integration of these three elements during their PLU education. PLU's mission statement—"We seek to educate students for lives of thoughtful inquiry, service, leadership, and care—for other people, for their communities, and for the earth"—nicely captures the spirit of Boyer's New American University ideal. PLU's mission statement is rooted in the Lutheran higher education tradition, which emphasizes rigorous research, commitment to the betterment of the world, learning in community, and the purposeful discernment of vocation. If PLU can fully realize (one might say, maximize) this mission statement—that is, to ensure every student experiences every aspect of the mission statement, rather than merely being offered these aspects—we will have become a model of the New American University. In other words, PLU has been aiming to become just the kind of institution described by Boyer's term, "New American University." PLU has a well-supported mission statement that perfectly aligns with this vision. So, recognizing what it is we are in the process of becoming should help us achieve it.

The Opportunity Ahead

Boyer's idea of the New American University was that America had invented two notable types of higher education institutions: the liberal arts college and the community college. In coining the term New American University, Boyer was suggesting that we create a new kind of institution—not merely a liberal arts college; not merely an applied professional school; not a giant research-focused university; not a "comprehensive university"; not a "master's university"; not a "regional college"; and not a "regional university." The new type of institution Boyer envisioned would provide all the depth and richness and personal connection of a classic liberal arts college with all the skills and training and expertise of a professional school with an overarching commitment to cultivating leaders of communities and the solvers of problems.

In practical terms, becoming not just an example of a New American University, but rather an "internationally renowned model" of one, means that we need to figure out how to integrate liberal education and professional education and civic engagement. Becoming a "premier center for professional education" assumes a richer mix of professional programs as well as more—and more notable—graduate programs in professional disciplines. Having a mere 8 percent of students currently in PLU graduate programs does not suggest an institution particularly committed to graduate education. Something between 20 percent and 33 percent would seem to be closer to the kind of balance between undergraduate and graduate programs of a model New American University. What those programs are and how many students will be in them and what kinds of resources (people and money and facilities) we will need to reach these numbers is some of the hard work of the next 7 to 10 years.

Universities are complex organizations, making it difficult for all members of the organization to see the future in similar ways. Two terms, though, might serve to unify PLU during the next 7 to 10 years: one is "The Box," and the other is "Integration."

"The Box" refers to the multi-year budget resolution passed by the Board of Regents in May 2013, which calls for PLU to generate enough additional annual operating surplus to achieve three goals:

1) Achieve the 50th percentile of our peer group in compensation;
2) Achieve a "catch up" regime in deferred maintenance; and
3) Achieve a best practice level of unrestricted institutional reserves.

This goal will require an additional $6.7 million in annual operating surplus. This *ambitious* goal should help everyone at PLU to see where we are headed and what is required. Academic programs need to be successful—both in terms of academic reputation as well as in revenue generation. Auxiliary services need to increase revenue. All programs and operations need to decrease costs. New programs of all kinds need to be evaluated and monitored to ensure success and contribution to the mission and operations. Fund raising needs to focus on raising usable endowment.

"Integration" refers to the New American University ideal of truly integrating the liberal arts with professional education and with civic engagement. For those members of the PLU community who might not see a clear role for themselves in the work associated with "The Box," the idea of figuring out how we at PLU can be the first institution anywhere to achieve effective, meaningful, high-quality integration of these three elements will provide a pole star to follow. Such integration will require creativity across the institution—and it will require considerable trial and error. Given that PLU has a strongly collegial and mutually supportive culture--a "door opening culture"—the idea of integration should find a more welcoming soil than other institutions might.

Summary and Action Plan

Goal: PLU is a model New American University

Critical success factors to be integrated:
1) Liberal arts college
2) Center for professional education
3) Center for civic engagement

Necessary conditions to achieve the critical success factor:
1) "The Box"
2) Integration

Plan to achieve "The Box"

- Improve Financial & Physical Resources

    - Seek additional annual revenue (from the academic program, endowment, auxiliary services, and process efficiencies) to bring compensation, facilities, and reserves to levels comparable to peers among the first rank of universities

    - Seek to be a model (meaning a place others call for advice on how to be successful) for organizational effectiveness, efficiency, and stewardship

Plan to achieve Integration

- Advance Academic Excellence

- Ensure our existing excellence is better known—both by way of marketing as well as by seeking external validation in all appropriate ways

- Ensure the incorporation of the core elements of Lutheran Higher Education into the curriculum and co-curriculum

- Achieve first rank levels of reputation for academic excellence: (PBK, PKP, disciplinary honor societies, Fulbright, Rhodes, Marshall, Truman, etc; faculty recognition, regional and national media coverage, etc)

- Build graduate programs and civic engagement programs to become an exemplar of a New American University

➢ Enhance Student Achievement & Success

- Ensure the incorporation of the core elements of Lutheran Higher Education into the curriculum and co-curriculum

- Enhance the value of the three areas of special distinction identified in PLU2020: discernment of vocation; international programs; and faculty-student collaborative research

- Assess how well we are doing at sending alumni into the world to live out our mission

- Be recognized externally for excellence in the co-curriculum

- Achieve first rank levels of retention and graduation

- Achieve external validation for excellence in career preparation and alumni networking

➢ Increase Leadership Capacity & Community Engagement

- Achieve first rank levels of professional development for all personnel

- Integrate leadership and service more richly and effectively in the academic and co-curricular programs

➢ Accelerate Strategic Enrollment Management & Marketing

- Achieve first rank levels of engagement between admissions and academics to ensure robust recruitment for robust programs

- Promote PLU's reputation for excellence in all appropriate and effective ways

These items constitute the current action plan to achieve both critical success factors of "The Box" and Integration. The next steps are 1) to decide the categories we plan to pay close attention to; 2) assign long-term, measurable goals to them; 3) assign mid-term milestone goals to monitor progress towards the long-term goals; and 4) ensure the entire university community is committed to the goals and prepared and resourced to achieve them.

Key activities of the near-term (Fiscal Years 2013-14 and 2014-15) include:

- Analysis and recommendations of the Budget Working Group
- Identification of Key Performance Indicators (KPIs) in all appropriate areas identified in PLU2020 (e.g., recruitment, retention, graduation rates; diversity, justice, and sustainability; fund raising; student success measures; internationalization; faculty-student collaborative research; discernment of vocation; community engagement; graduate program analysis and development, etc)
- "Rationalization of the current budgets," meaning establishing realistic budgets for each unit of the university and then requiring strict budget discipline to ensure the university remains solvent and on track towards the goals of "The Box"
- Setting of specific goals and milestones in the KPIs as part of the ongoing Strategic Plan

Key activities for the mid- and long-term (Fiscal Years 2015-16 to 2020-22)

- Monitor progress of KPIs
- Achieve the goals of "The Box" and Integration

Building on the work of PLU2020 and aiming for the goals set forth in "The Box" resolution and the spirit of "Integration," PLU will be able to realize the vision proposed at Fall Conference 2013:

> "As a university of the first rank, Pacific Lutheran University seeks to maximize the achievement of its mission and become an internationally renowned model of the New American University, integrating a distinctive liberal arts college with one of the Pacific Northwest's premier centers for professional education."

Thomas W. Krise, Ph.D.
President and Professor of English
Pacific Lutheran University

Appendix E: **Report from Internal subcommittee of the BWG**

List of issues to be addressed

Internal subcommittee of Budget Working Group

(Capital letters refer to the source of the comment; sources at end of document)

Problems

1. Total compensation has fallen behind that of our peers (A)
2. Deferred maintenance rising by $3.5 million/year (C)
3. No current linkage of budget process and planning process (D, E)
4. Limitations of a “one bucket” approach to budgeting (D, E)
    a. Reduced incentives for innovation and cost saving
    b. Insufficient training for budget heads
5. Limitations of incentive model (E, F)
    a. Assumes circumstances remain constant
    b. Our version has not been examined in years
6. Current budgets misaligned with actual spending patterns (F)
7. Conflicting views regarding year-end spending (D)
    a. Spend every dollar
    b. Return surplus to compensate for overspending in certain areas
    c. Very little - in most cases zero - accountability for eoy actions/results
8. Budget process lacks transparency (D, E)
    a. Ineffective Budget Advisory Committee
    b. Use of restricted funds to balance annual budgets
    c. Restricted annual fund gifts held centrally
    d. Chargeback systems are not uniform
    e. No process for review of S&P budgets
    f. Capital Improvements funding process has limited timeline, planning and connection to larger budget process
    g. Equipment funding process has limited timeline, planning and connection to larger budget process (better than Capital)

Constraints

1. Must maintain access for students with limited financial resources (A)
2. Must maintain the condition of our physical resources (A)
3. Must improve the condition of our physical resources (A)
4. 7-year timeline (A)
5. Must coordinate with work of SEMAC, President’s Council, Six Sigma, other Constituencies?
6. Absence of reserves means emergency expenses impact operating budget. This is exacerbated by significant deferred maintenance levels. (E, F)

Implications

1. New sources of revenue necessary (A)

2. Budget decisions should align with university mission (E)
3. Budget process should facilitate multi-year planning (E)
4. Budget process should be transparent (E)

Topic areas for recommendations/Questions to address

1. Linking the teaching mission and the budget process (B)
2. Measuring the return on investment for new programs and developing guidelines for using the proceeds for further program development (B)
3. Developing guidelines for ‘rolling over’ funds as a means of multi-year planning and budgeting (B, G)
4. Developing guidelines for using gate or box office receipts for further audience development (B)
5. Who should ‘own’ the budget process? (G)
6. What elements of RCM might be incorporated? (G)
7. How much and what form of accountability should be a part of the process?

A Board Resolution
B Krise memo to BAC creating the BWG
C “The Box” memo from Starkovich and Tonn
D Report from Larry Goldstein
E Forums
F Private conversations with Bob, Steve, others
G Presentation by Larry Goldstein to BWG

Vice presidents questionnaire

Background:

1. In your view, what has to happen to your budget to help the university attain long-term institutional sustainability?
2. What are the key metrics, ratios, or measurements that could be used as effectiveness or efficiency measures and how are these incorporated into your vision of meeting the university's long term strategic goals?
3. What are some potential sources of new revenue in your division? In your most optimistic view, how much new revenue might be generated? What barriers prevent you from going after them?
4. The president has suggested we need both to attract and to retain greater numbers of students to attain sustainable institutional budget goals. What changes in your division, if any, would be required to accommodate these additional bodies?

Budgeting culture and processes:

1. Budget transparency was raised as an issue in the open forums. In your view, is there sufficient transparency in the budget process among the VPs? If not, what additional information would you like to see?
2. Do you think the budget heads that serve under you have sufficient budget information? What do you think accounts for the perceived lack of transparency expressed in the forums? Do you have any ideas for addressing this concern?
3. How do you communicate budget information to your budget heads? How do they communicate with you? What changes, if any, would you like to see in this communication?
4. Who is responsible for monitoring budgets in your division?
5. What are your thoughts about designating a particular staff person to monitor budgets on a regular basis? (This could be someone either in your shop who takes this on as a duty, or someone in the Business Office.)
6. Are there any rewards for a budget head who (routinely) stays under or within budget? If so, please describe them. In your view, what form might such rewards take in the future.
7. Are there any penalties or sanctions for a budget head who (routinely) goes over budget? If so, please describe them. In your view, what form might such sanctions take in the future?
8. How much training and/or supervision is provided for budget heads in your division? Do you feel the training is adequate for your needs, or the implementation of the long term goals of the university? If a system of rewards and sanctions were to be implemented, would your answer change?
9. Since we probably will modify our practice of incremental budgeting, but not embrace RCM totally, what mix is desirable? That is, which features of RCM would you like to see implemented? Are these features you think are either unnecessary or harmful?

Our group's task is to make recommendations. What specific recommendations you would like to see included in our report?

PLU Budget Working Group – Internal Task Group: Tom Huelsbeck, Doug Oakman, Norris Peterson, Rob Riley, Allison Roberts

Objective: Survey senior administration to understand their perception of the strengths and weaknesses of the current budget process and goals for possible revisions.

Process: After studying documents and survey results from the forum, a set of questions was designed to elicit opinions from the vice presidents regarding the budgets under their control, adequacy of training, the PLU budget 'culture,' their views about revenue centered management, and any specific recommendations they would like to see as a result of our work. The questionnaire was sent to each of the VPs and where possible, personal interviews supplemented the questions. Written responses were subsequently requested and received.

Summary: Perhaps reflecting their range of experience as PLU vice presidents,[1] there is a wide range of opinion on most of the questions asked. However, there is moderate agreement that: divisional budgets needed to be 'rightsized' and then enforced; the budget process should be more inclusive and transparent; that the budget process should incorporate some form of incentive structure; and that additional training will be required as we move to new budget systems. All expressed in some format that budget accountability should be a standard job performance expectation.

Rightsizing and budget enforcement: There was general agreement that divisional budgets in recent years had increasingly failed to reflect current spending patterns, with some divisions consistently overspending and others expected to make up the difference. All agreed that the decision to realign budgets to reflect spending reality was necessary and have accepted the expectation that they would be held to these budgets. Several also understood that this process must be ongoing and that there must be contingency plans in place in the event that revenues fall short of budget expectations. There was wide support for a system that would alert budget managers to impending overspending.

Inclusive and transparent processes: While all believed that there was sufficient budget information provided, there was also strong sentiment for a budget process that is both more inclusive and transparent. Several called for better integration of budgeting, enrollment, and academic planning. Interestingly, while the question was not explicitly asked, two of the respondents expressed a desire for a process whereby deans and directors presented their proposed budgets to a representative committee.

[1] Lucy Morros temporarily holds the position of Vice President for Advancement. She felt it inappropriate to offer an opinion regarding the budget process given her short tenure at PLU.

Budget incentives: Each of the vice presidents surveyed expressed a desire for some form of an incentive structure, whether to control costs or to expand revenue, or both. All agreed that there should be some form of reward for divisions that can show savings, whether that takes the form of budget carry-forwards or something else. Other suggestions entailed incentives for revenue-generating activities, for grant writing, for program development, and to conserve physical space. There was general support for developing an institutional fund for new ventures. In each of these cases, there is an expressed or implied desire to push budget authority and control further down the administrative structure and to move away from the incremental and "one bucket" approaches currently in place.

Training: With the addition of several new senior administrators imminent, and with the move towards new budget realities, many of the vice presidents expressed the opinion that additional training would be required for budget managers. While there is substantial information available through Banner, not all personnel with budget responsibilities are fluent in its use. For example, many department chairs have two or three year terms and come into the position with little to no training.

Table of Organization

REVISED OCTOBER 2013

BOARD OF REGENTS

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Thomas Krise

University Pastors
Nancy Connor, Dennis Sepper

Affirmative Action EEO Officer
Teri Phillips

VICE PRESIDENT
Marketing & Communications
Donna Gibbs

- General Manager, KPLU
  Erik Nycklemoe
- Director, Web and CRM Development
  VACANT
- Art Director, Design
  Simon Sung
- Director, Content Development
  Barbara Clements
- Director, Customer Service
  Debbie Jenkins

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  Kathie Delph
- Executive Director of Gift Planning and Grant Development
  Doug Page
- Director of Advancement Services
  Laura Rose
- Director of Alumni and Constituent Relations
  Lauralee Hagen
- Director of Congregational Relations
  G. Lee Kluth

VICE PRESIDENT
Finance and Operations
Sheri Tonn

FINANCE

- Associate Vice President & Controller
  Robert Riley
  - Bursar
    Erika Burell
  - Director, Financial Services
    Patricia O'Donnell

OPERATIONS

- Director, Auxiliary Services
  Ginger Peck
- Director, Facilities Management
  David Kohler
- Director, Dining & Retail Services
  Erin McGinnis
- Associate Vice President, Human Resources
  Teri Phillips
- Director, Construction Projects
  John Kaniss
- Manager, Office of Finance and Operations
  Sue Liden

PROVOST
and Dean of Graduate Studies
Steven Starkovich

INSTRUCTION

- Division of Humanities
  James Albrecht, Dean
- Division of Natural Sciences
  Matthew Smith, Dean
- Division of Social Sciences
  David Huelsbeck, Dean
- School of Arts & Communication
  Cameron Bennett, Dean
- School of Business
  Nancy Albers-Miller, Dean
- School of Education & Kinesiology
  Frank Kline, Dean
- School of Nursing
  Terry Miller, Dean
- Multi-Disciplinary Programs
  - Chinese Studies
    Paul Manfredi
  - Environmental Studies
    William Teska
  - International Honors
    Michael Behrens
  - Publishing & Printing Arts
    Solveig Robinson
  - First-Year Experience
    Erin McKenna
  - Global Studies
    JoDee Keller
  - Scandinavian Area Studies
    Jennifer Jenkins
  - Women's & Gender Studies
    Lisa Marcus

ADMINISTRATION

- Associate Provost for Curriculum
  Jan Lewis
  - Center for Community Engagement and Service
    Joel Zylstra, Director
  - Center for Vocation
    Lynn Hunnicutt, Director
  - Women's Center
    Jennifer smith, Director
- Graduate Programs & Continuing Education
  VACANT
- Information & Technology Services
  Frank Moore, Associate Provost
- Ramstad Commons
  - Academic Advising
    Hal DeLaRosby, Director
  - Academic Assistance
    Leslie Foley, Director
  - Career Connections
    Catherine Swearinger, Director
- Registrar's Office
  Kris Plaehn, Registrar
- ROTC
  Kevin Keller, Lieutenant Colonel
- Wang Center for Global Education
  Tamara Williams, Executive Director
- University Assessment, Accreditation and Research
  Dave Veazey

VICE PRESIDENT
Admission & Enrollment Services
Karl Stumo

- Dean of Admission
  Dave Gunovich
  - Director of Recruitment
    Melody Ferguson
  - Director, Graduate Admission
    Rachel Christopherson
  - Director, International Recruitment
    Hiro Kuroiwa-Lewis
  - Director, Multicultural Recruitment
    Melannie Denise Cunningham
  - Director, Transfer Admission
    Sean Lacy
- Director, Financial Aid
  Kay Soltis
- Director, Student Services Center
  Sue Drake

VICE PRESIDENT
Student Life and Dean of Students
Laura Majovski

- Director, Career Connections (Dual reporting with the Provost)
  Catherine Swearinger
  - Director, Academic Interships
    Maxine Herbert-Hill
  - Director, Disability Support Services
    Paula Burns
- Dean, Student Development
  - Director, Student Involvement and Leadership
  Eva Johnson
  - Director, Diversity Center
    Angie Hambrick
- Associate Dean for Campus Life
  - Executive Director, Residential Life
  Tom Huelsbeck
  - Director, Residential Programs
    Jes Takla
  - Director, Campus Safety
    Greg Premo
- Director, Athletics
  Laurie Turner
- Director, Health and Counseling Centers
  Matt Freeman

PACIFIC LUTHERAN UNIVERSITY

PR-4

List of committees and their composition and function

CAPITAL IMPROVEMENTS COMMITTEE

MEMBERSHIP:

Vice President for Finance and Operations (chair); one academic dean (selected by Dean's Council); Registrar; one representative from the Instructional Resources Committee; Athletic Director; Executive Director of Residential Life; Director of Facilities Management; Director of Construction Management; Director of Dining and Retail Services; Director of Disability Support Services.

GENERAL PURPOSE:

To advise the university administration on matters related to priorities for campus capital improvements for buildings and grounds.

SPECIFIC DUTIES:

1. Review and, as appropriate, investigate annual requests for capital improvements to academic, administrative, and athletic buildings and grounds. Recommend project priorities and funding allocations to the administration.
2. Tour campus facilities and identify possible campus improvements.
3. As needed, solicit and review preliminary feasibility reports, including cost estimates, from the Director of Construction Management or the Director of Facilities Management, as appropriate.
4. Develop multi-year strategies for improving campus facilities.

EQUIPMENT COMMITTEE

MEMBERSHIP:

Associate Provost/Information & Technology Services (chair); one representative from each of the university's administrative divisions (Academic Affairs [by convention, the Provost], Finance & Operations [by convention, the Chief Financial Officer], Development & University Communications, and Student Life); one representative from the Instructional Resources Committee; the Associate Vice President for Finance/Controller.

ADVISORY MEMBERSHIP:

Information & Technology Services (I&TS) Computer Purchasing & Services Coordinator, Natural Sciences Division Network Systems Administrator, and I&TS User Support Team Lead. Consistent with Article IV, Section 4, Subsection 4b, g and h of the Faculty Bylaws, advisory members shall have the same rights and privileges as any other member of the committee except the right to make motions and to vote.

GENERAL PURPOSE:

To recommend to the President's Council an allocation plan for the Central Equipment Fund for the coming fiscal year. The amount of the fund, which may vary from year to year, is set by the President's Council as part of the university's budget formation process.

SPECIFIC DUTIES:

1. Receive in late winter the ranked equipment requests from each administrative division for the following fiscal year (e.g., receive requests in February 2011 for possible purchase in the fiscal year that begins June 2011).

2. Review and analyze the requests; seek clarification, gather additional information as warranted. Coordinate proposed allocations with other funding sources and agencies (e.g., Technology Initiative Fund, I&TS and other operating budgets).
3. Recommend allocation of the Central Equipment Fund to President's Council.
4. The Associate Provost/I&TS administers the Central Equipment Fund after allocations are approved by President's Council, and oversees preparation of information and materials for the committee.

STRATEGIC ENROLLMENT MANAGEMENT ADVISORY COMMITTEE

MEMBERSHIP:

Vice President for Admission and Enrollment Services (co-chair); Provost (co-chair); Associate Provost for Undergraduate Programs; Associate Provost for Graduate Programs and Continuing Education; Vice-Chair of the Faculty; two faculty members from the faculty standing committee on Admission and Retention of Students (ARTS); one faculty member from the Educational Policies Committee (EPC); Registrar; Director of Academic Advising; Director of Academic Budgeting and Planning; Director of University Assessment, Accreditation and Research; Director of Financial Aid; a representative from Admission and Enrollment Services appointed by the Vice-President for Admission and Enrollment Services; a representative from the Student Life Division appointed by the Vice President for Student Life; a representative from Finance and Operations appointed by the Vice President for Finance and Operations; a representative from Marketing and Communications appointed by the Vice President of Marketing and Communications; a student appointed by the President of ASPLU; and the President of the university or an appointed representative.

REGULAR ATTENDEES:

A staff member from the Office of Admission and Enrollment Services will attend meetings for the purpose of recording minutes for the committee.

GENERAL PURPOSE:

The Strategic Enrollment Management Advisory Committee is a university standing committee whose general purpose is to lead the development and the ongoing reevaluation of a strategic enrollment management (SEM) plan and advise the administration on matters related to the implementation of the SEM plan with the goal of helping the institution achieve and maintain the optimum recruitment, retention, and graduation rates of students, where optimum is defined within the academic context of the university.

SPECIFIC DUTIES:

1. To develop and continually reevaluate a strategic enrollment management plan that establishes goals and strategies for enrollment.
2. To recommend goals and strategies for institutional marketing that are consistent with the SEM plan.
3. To establish enrollment goals and recommend strategies within the context of generating targeted levels of net tuition revenue and to recommend policies on financial aid.
4. To establish enrollment goals and recommend strategies that consider both undergraduate and graduate student enrollments with consideration given to important subpopulations of students including continuing students, first-year students, transfer students, international students, post-baccalaureate students, and non-degree seeking students.
5. To establish enrollment goals and recommend strategies that consider the demographic characteristics of the student population including, but not limited to, the racial and ethnic diversity of our student population, as well as the geographic representation, gender diversity, and socioeconomic status of our students.

6. To establish enrollment goals and recommend strategies that consider matters pertaining to retention.
7. To establish enrollment goals and recommend strategies that consider enrollment demand and capacity at the university and program level.
8. To ensure that the SEM plan incorporates the most contemporary data and information available and that the plan is informed by an analysis of market demographics, the practices of institutions that compete with the university for students, regional economic dynamics, and other relevant data.
9. To recommend policies on facility-related issues as they affect enrollment.
10. To integrate the SEM planning and ongoing evaluation processes into the university's strategic planning process.

UNIVERSITY BUDGET ADVISORY COMMITTEE

MEMBERSHIP:

President, provost, vice president for finance and operations (chair), one member each from the Educational Policies Committee, the Faculty Affairs Committee, and the Instructional Resources Committee, one of the faculty representatives to the Board of Regents, two budget heads selected by the president, one from the College of Arts and Sciences, one from the professional schools; two students selected by the Associated Students of PLU; and two members of the administrative staff selected by the Administrative Staff Council.

GENERAL PURPOSE:

To assist the president in the development of the university's annual budget.

SPECIFIC DUTIES:

1. To elicit such information from such sources as are appropriate to executing the committee's general purpose.
2. To meet with such bodies and such individuals as are appropriate to executing the committee's general purpose.
3. To make such recommendations to the president and to such other persons or bodies as are appropriate to executing the committee's purpose.
4. To regularly consult with and report to the bodies represented in the committee's membership.

UNIVERSITY LONG-RANGE PLANNING COMMITTEE

MEMBERSHIP:

President (Chair), five faculty, elected from the faculty at large for staggered three-year terms; two members of the President's Council selected by the president; two members of the administrative staff selected by the Administrative Staff Council for staggered two-year terms; three students selected by the Associated Students of PLU (with consideration given to continuity of representation). A vice chair shall be elected by the committee from among the members, excluding members of the President's Council.

ADVISORY MEMBERSHIP:

President's Office Representative. Consistent with Article IV, Section 4, Subsection 4b, g and h of the Faculty Bylaws, advisory members shall have the same rights and privileges as any other member of the committee except the right to make motions and to vote.

General Purpose:

To study and analyze key issues and to recommend policy regarding future directions and priorities of the university.

SPECIFIC DUTIES:

1. To examine, as appropriate, all aspects of university program and activity.
2. To elicit information from any and all sectors of the university, as appropriate to subjects of inquiry.
3. To make recommendations to standing decision-making bodies of the university for their consideration and action.
4. To coordinate the development and implementation of comprehensive strategic planning.
5. To create and oversee such subcommittees as necessary to assist the committee in the performance of its duties and in the absence of other university bodies to provide such assistance.
6. To regularly consult with and report to the bodies represented in the committee's membership.\

COUNCILS

PRESIDENT'S COUNCIL

The President's Council consists of the president, the provost and dean for graduate studies, the vice presidents for admissions and enrollment services, advancement, finance and operations, marketing and communications, and student life, the director of administration; and other advisory members as may occasionally be selected by the president. President's Council serves in an advisory capacity to the president and meets weekly, or as determined by the president.

ACADEMIC DEANS' COUNCIL

The Academic Council consists of the provost, the associate provost for undergraduate programs, the associate provost for information and technology services, the deans of the divisions/schools, the director of academic advising, the registrar, the director of academic budgeting and planning, the director of university assessment, accreditation and research, the executive director of the wang center for global education, and the chair of the faculty.

GRADUATE COUNCIL (AND GRADUATE PROGRAM COMMITTEES)

Graduate studies at PLU are overseen by the provost and dean of graduate studies and by the Graduate Council. The council is chaired by the provost and dean of graduate studies and includes the directors of the graduate programs in each of the divisions and schools that house such programs, along with the vice president for admissions and enrollment management as well as other specific graduate program support staff in the office of admissions and the registrar's office.

Graduate committees from each department, division, and school that houses a graduate program administer policies governing graduate studies in their respective department, division, or school.

The purpose and functions of the graduate committee of each unit offering graduate programs are as follows:

1. To recommend to the provost and dean of graduate studies which students shall be admitted or denied admission to graduate study.
2. Guided by the Graduate Council, to provide for uniformity of standards between departments and schools concerning prerequisites, course requirements, language requirements, and research requirements.
3. To assist the director of graduate studies for that unit in distributing the graduate student load among faculty members.

4. To advise the provost and dean of graduate studies regarding allocation of graduate scholarships and assistantships.
5. To advise the provost and dean of graduate studies in resolving any problems referred from any graduate student’s advisory committee.
6. To recommend policy concerning other matters pertaining to the graduate program and serve in an advisory capacity to the provost and dean of graduate studies in any other matters related to graduate education.

Appendix F: **Report from External subcommittee of the BWG**

17-school cohort information

External interviews were conducted with the following peer institutions:

School	Quarters vs. Semesters	Location	Student Population	Net Endowment	Operating Budget (Unrestricted)	Long Term Debt	Net Tuition and Fees
Gonzaga	2 semesters	Spokane, WA	7850 (4850 undergrad; 2500 grad; 475 law)	$167,334,000	$190,868,000	$135,445,000	$137,509,000
Linfield	2 semesters + winter term	McMinnville, OR	2664 (three campuses)	$88,191,895	$67,766,689	$41,805,762	$44,280,120
Pacific Lutheran	2 semesters + j-term	Tacoma, WA	3462 (3142 undergrad)	$79,585,706	$102,740,284	$55,854,612	$63,816,189
Seattle Pacific	3 quarters	Seattle, WA	4000	$58,725,000	$100,989,000	$61,045,000	$72,597,000
Seattle U	3 quarters	Seattle, WA	7500 (4600 undergrad)	$184,731,000	$226,655,000	$136,514,000	$165,446,000
University of Portland	2 semesters	Portland, OR	3800 (3250 undergrad)	$122,153,000	$112,867,000	$74,136,000	$69,261,000
University of Puget Sound	2 semesters	Tacoma, WA	2600	$283,009,000	$97,609,000	$78,694,000	$66,813,000
Whitworth	2 semesters + j-term	Spokane, WA	2900 (2600 undergrad)	$108,080,939	$70,352,235	$80,342,931	$48,505,445
Willamet
tte	2 semesters	Salem, OR	2800 (2000 undergrad)	$220,625,000	$100,151,000	$62,386,000	$61,439,000

Other peer institutions that are a part of the 17-school cohort include: Belmont University, Butler University, California Lutheran University, Capital University, Drake University, Drury University, Elon University, Hamline University, University of Evansville, Valparaiso University, and University of Redlands.

Synopsis of peer CFO interviews

PLU Budget Working Group - External Task Group – Ann Auman, Lisa Henderson, Ron Noborikawa, Shawn Warwick, Kory Brown

March 6, 2013

Objective: Survey university finance personnel to build a foundation of budget model understanding and options.

Process: Individual members of the task group interviewed CFOs and Budget Directors at nine universities in the region to understand their current budget model, characteristics, process and outcomes. Where applicable, discussion of model changes and motivations were included. Interviews followed a semi-structured format using an interview guide developed to provide consistency across the interviews. Interview transcripts are available for review. Interviewers prepared briefs outlining their findings. Finally, a synopsis of the briefs is included below.

Synopsis: With two universities in their first year of implementing a new budget model to one with 37 years of history following the same process, the sample provided tremendous variation in characteristics, processes, accountability and outcomes. This synopsis highlights five areas where PLU can learn from this survey. These include: 1) Budget Model Drivers, 2) Organization to Execute, 3) Interesting Characteristics, 4) Accountability and Outcomes, 5) Implications for PLU.

<u>Budget Model Drivers</u>

Among the many shared in the interviews, four drivers repeatedly surfaced through many of these interviews. These include: a) integrating the budget and strategic plan, b) enhancing revenue, c) better understanding of program performance, and d) improving transparency.

Integration: Several universities acknowledged the desire to more closely link the budget activities to the priorities set by the strategic plan. At least three universities used Future Perfect forecasting software that aims to link strategic initiatives to planning. At least two universities had tied measures directly to the strategic initiatives to which budget heads were held accountable.

Revenue Enhancement: Consistent with PLU's driving interest, at least 4 universities had the stated objective of the budget process to enhance revenue through activities like distributed decision authority/budget control and department-level incentives.

Understanding of Program Performance: With clearly articulated measures in areas like quality of outcomes, revenue, costs and demand, several universities wanted to understand the performance and contribution margin of major programs (including graduate, professional and non-academic programs). At least one university had moved from understanding to action by implementing a quintile approach to assessing performance (programs in the top quintile were eligible for enrichment, bottom quintile programs were due for zero-based budgeting and possible austerity).

Improving Transparency: Especially with the few universities transitioning leadership (but almost universally described in all interviews), the process drivers hoped to enhance transparency of budgets, decision-making and accountability. Several universities described the difficulty in moving budget knowledge beyond budget heads.

<u>Organization to Execute</u>
Three general forms of organizational structure used to drive the budget process were described in the interviews. These included: a) Top-down (President's council/budget office driven), b) Budget-head driven, and c) Task/Working group driven (stakeholder representatives).

Top-down (Seattle U, Seattle Pacific, University of Portland, Linfield (with involvement by budget working group consisting of VPs and Pres at UoP and Linfield)): Centrally driven, these universities have been following an incremental budgeting model for many years. Some attempt to move at least influence lower in the organization through cost centers and a budget working group).

Budget-head (Willamette, Whitworth, ISU): While not RCM, these universities have programs where the budget office works directly with budget heads in the establishment of annual budgets, assisting in transparency and aggregating the budgets. These schools tend to support departmental incentives focused on revenue enhancement, enrollment enhancement and two of three schools have carry forward opportunities.

Task/Working group (UPS, Gonzaga): While the President's office retains influence, much of the decision-making and control are delegated to committees consisting of key stakeholders (faculty, staff, students and administration) at UPS and primarily VPs at Gonzaga. Spending authority is generally at the unit level (although it's not RCM). Some units need to be self-supporting.

<u>Interesting Characteristics</u>
The following characteristics represent some of the characteristics of the budget model/process that were deemed interesting by the task group. They are presented in random order.

- *Incentives* – Department-level incentives were generally used at universities where decision authority had moved lower in the organizations. They were generally focused on revenue enhancement through enrollment and other programs. Incentives were typically not used at the other universities (Seattle U was an exception with soft incentives for a few). No school reported specific individual-level incentives beyond using merit pay increases for outstanding performance (at least one school didn't use cost of living increases at all).

- *Carry Forward* – Gonzaga, UPS, Seattle Pacific, ISU and Willamette incorporated some form of carry forward (almost always for defended strategic initiatives…otherwise it stayed in the general fund). Several universities claimed to have had no impact to future budgets if they underspent their unit's budget.
- *Training* – Universities that moved decision-making lower in the hierarchy described training as a key issue as decision-making, revenue generation and accountability moved lower in the organization.
- *Requests with payback > 1 year* – These proposals generally moved to the top of the organization if the unit was unable to realize payback within the budget cycle.

Accountability and Outcomes

Our interviewees felt very confident in their processes as it related to creating a sense of accountability and providing results that did not overextend the allocated budgets of the various units. They generally believed their systems and reporting methods resulted in little (if any) budget overspend. Budget variance report frequency ranged from daily feedback through dashboard systems to weekly meetings with budget officers to monthly/semi-annual (and in one case annual) reports. Overspending just didn't seem to happen in the universities interviewed. As universities push decision-making lower, they reported that unit heads are seeing more opportunity to influence both revenue and expenses, enhanced transparency (throughout the university community), better alignment to strategic goals, and increased university engagement in the budget. Biggest challenges focused on lack of available training, expanding knowledge beyond the budget heads, working with inferior assumptions made at annual budget origination and cost-cutting can be very difficult to implement when decision-making is extended into the organization.

Where a budget model change had recently been implemented (University of Portland, Willamette, ISU), universities were universally pushing budget control and decision-making lower in the organization and experienced substantial skepticism throughout the university, communication difficulties (especially by the VPs), and unmet training requirements for budget heads. However, each CFO/budget director felt the positives (outlined in the paragraph above) outweighed the difficulties.

Implications for PLU

Individual members of the task group have suggested the following implications for PLU.

1) Strategic planning based budgeting (essentially demonstrating how budget heads are contributing to the university budgets through changes in spend) need to be developed.

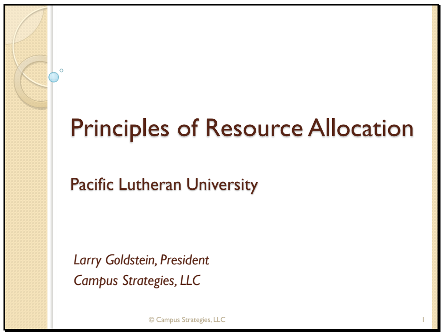
2) Transparency can come through the working/task group budget drivers (especially when involving the various stakeholders), expanded decision-making and control, and increased frequency of budget reporting.
3) Carry forwards would allow units discretion to save for strategic initiatives.
4) Executive change allows for shifts in processes and political deals of the past.
5) More granular understanding of unit performance could enhance transparency.
6) Department-level incentives must be well-articulated and tied to the strategic plan initiatives.
7) Assessment of performance to clearly-defined measures could result in different methods of accountability (e.g. bottom quintile at ISU was subject to zero-based budgeting, top quintile received enrichment).

Appendix G: **Goldstein visit materials and reports**

Brief biography – from *A Guide to College & University Budgeting: Foundations for Institutional Effectiveness* by Larry Goldstein

Larry Goldstein is president of Campus Strategies, LLC, a management consulting firm providing services to colleges and universities as well as organizations serving higher education. He previously served as NACUBO's senior vice president and treasurer and as the University of Louisville's chief financial officer. His campus experience covered 20 years in financial administration, including positions with The University of Chicago, the School of the Art Institute of Chicago, and the University of Virginia.

Goldstein, a certified public accountant, earned a Bachelor of Accountancy degree from Walsh College and a Master of Science degree from the University of Virginia. He is a recipient of NACUBO's Daniel D. Robinson Accounting Award in recognition of his contributions to higher education accounting and financial reporting.



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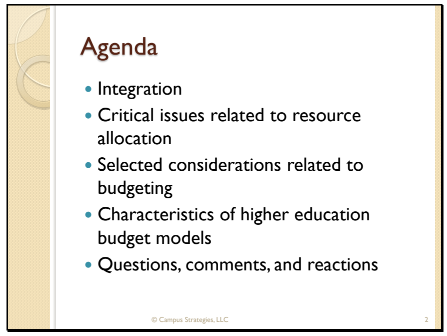

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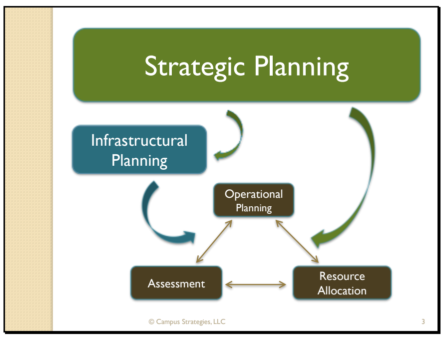

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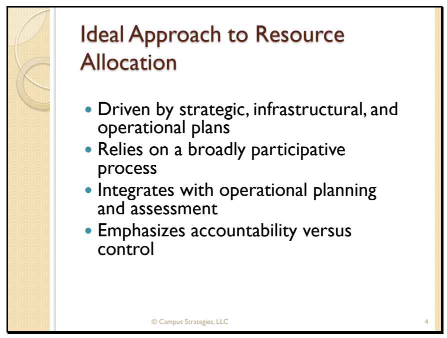

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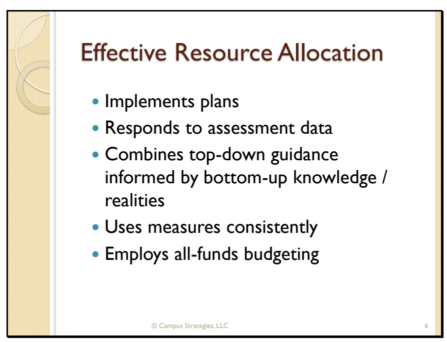

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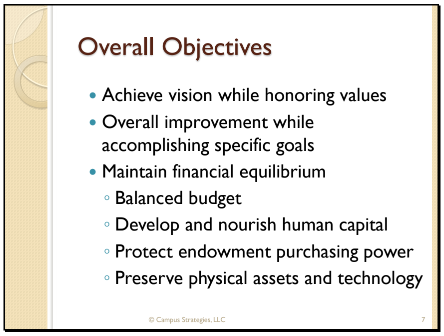

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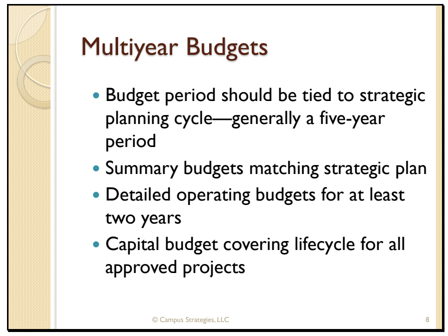

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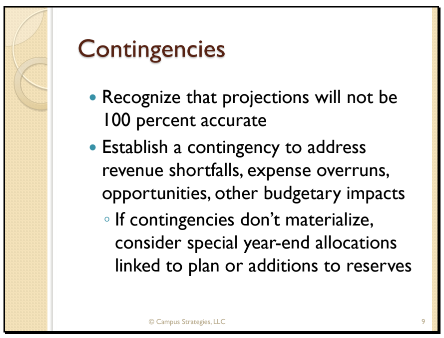

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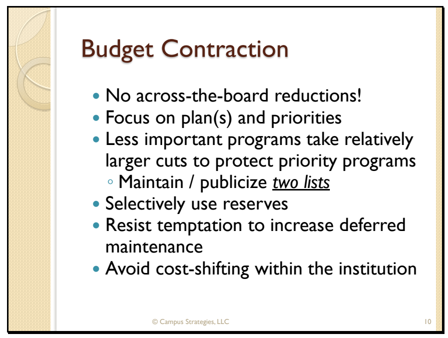

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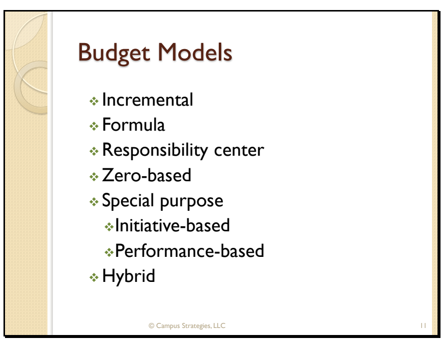

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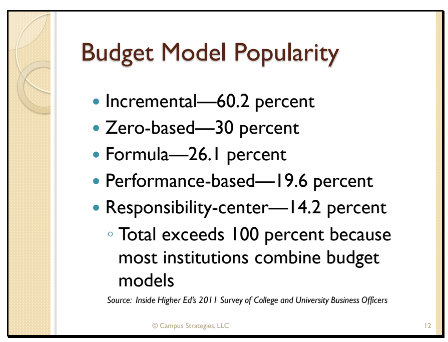

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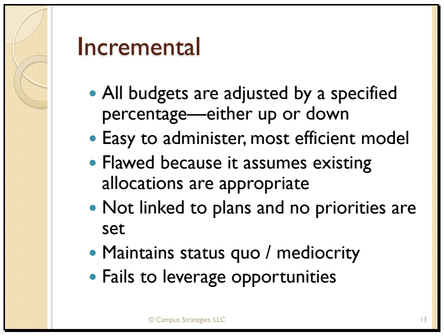

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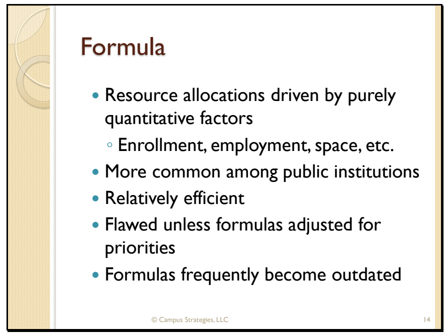

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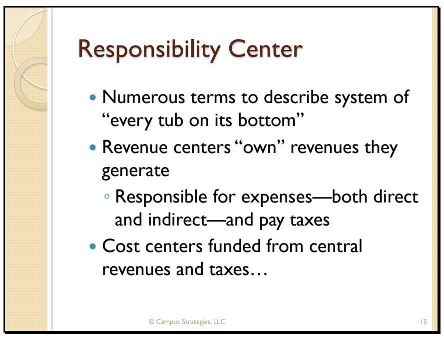

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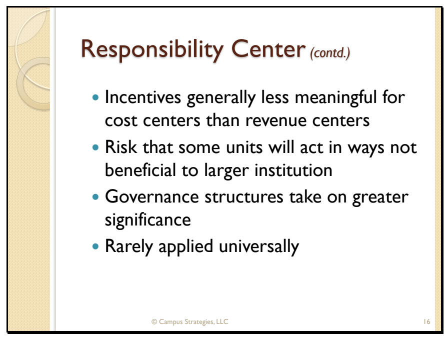

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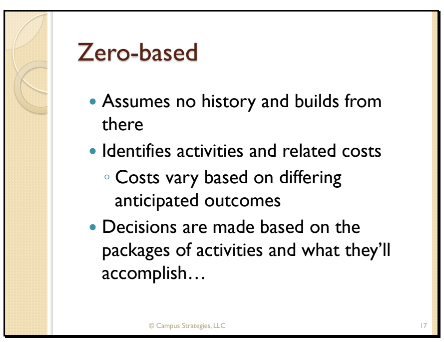

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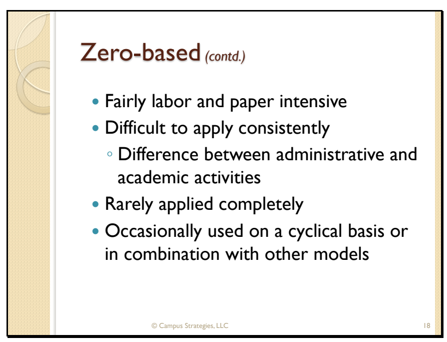

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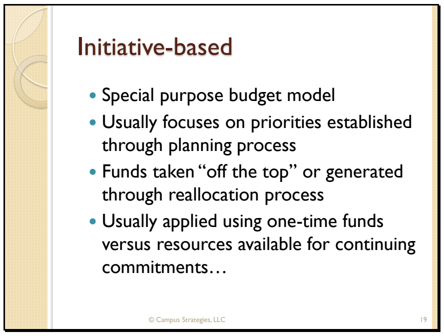

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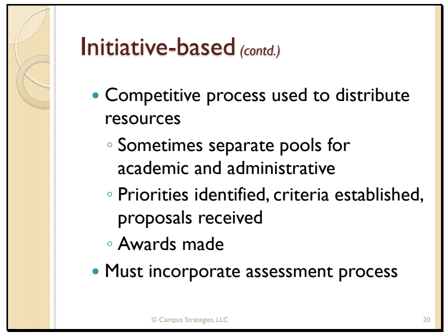

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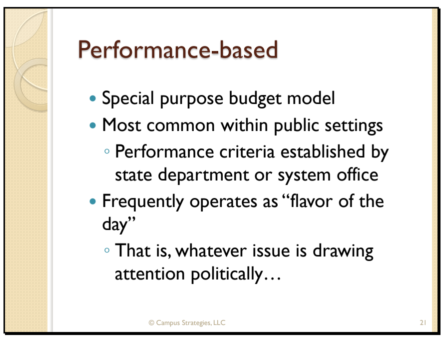

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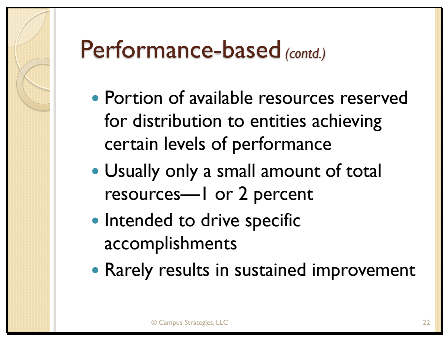

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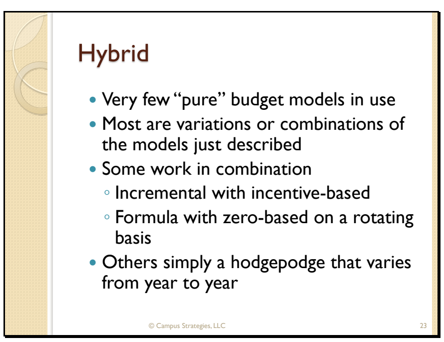

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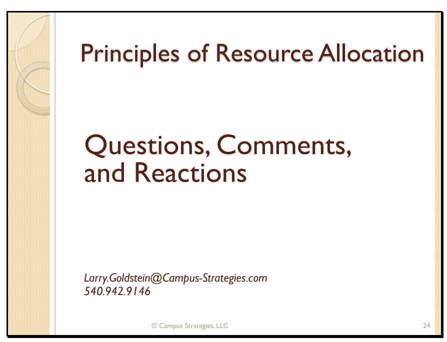

Slide 24

Critical Budget Model Issues

Critical Budget Model Issues

Pacific Lutheran University
Budget Working Group
October 31, 2013

Larry Goldstein
President, Campus Strategies, LLC

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Slide 1

Critical Budget Model Issues

Agenda

- Process owner(s)
- Process issues
- Technical issues
- Model assessment
- Questions, comments, and reactions

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Slide 2

Critical Budget Model Issues

Process Owner(s)

- President
- Chief academic officer
- Chief financial officer
- Other •

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Slide 3

Critical Budget Model Issues

Process Issues

- Bottom-up, top-down, or combination
- Budget advisory group
- Budget cutting (when necessary)—across-the-board, freezes, targeted, or combination
- Calendar
- Decision criteria…

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Slide 4

Critical Budget Model Issues

Process Issues *(contd.)*

- Guiding principles (e.g., transparency, openness, inclusivity)
- Hearings / reviews
- Linkage to plans / assessment processes
- Participants
  - Administrative Staff Council…

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Slide 5

Critical Budget Model Issues

Process Issues *(contd.)*

- ASPLU
- Cabinet
- Deans
- Department heads
- Directors
- Faculty
- Other •

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Slide 6

Critical Budget Model Issues

Technical Issues

- All-funds approach (i.e., unrestricted and restricted)
- Budget balance carryovers permitted?
- Budget contingency; if yes, at what percent /amount?
- Gross or net budgeting for revenue-generating units?
- Line-item or pool budgeting?...

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Slide 7

Critical Budget Model Issues

Technical Issues *(contd.)*

- Multiyear budgeting; if yes, for what period?
- Reallocation mechanisms
- Sponsored program overhead recoveries distribution
- Treatment of vacancy savings
- Other issues to be surfaced through data gathering •

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Slide 8

Critical Budget Model Issues

Model Assessment

- Formula; if yes, what factors to be considered (e.g., enrollment, staffing, space)?
- Hybrid
- Incremental / decremental
- Initiative-based; if yes, through reallocation or "off the top?"
  - What portion of budget will be subject to initiative distribution and what factors will be used to create pool?...

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Slide 9

Critical Budget Model Issues

Model Assessment

- Performance-based; if yes, what performance factors (e.g., outcomes, credit-hours produced, sponsored activities, citations, service)?
- Responsibility center
- Zero-based •

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Slide 10

Critical Budget Model Issues

Critical Budget Model Issues

Questions, Comments, and Reactions?

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540.942.9146

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Forum Results

Combined Forum 4-5 Most Important Statements

1. **What are the most significant concerns with the current approach to resource allocation?**

   Decisions frequently made quickly in response to immediate needs/events rather than strategically –
   Decisions are made based on relationships rather than objective information
   Lack of sufficient funds for all that we want/try to do
   Little/no training for budget heads
   Lack of connection to strategic plan
   Lack of transparency
   Our dependence on tuition
   No incentives for new revenue generating ideas/programs
   No ability to roll over savings
   Lack of explanation regarding priorities and decisions

2. **What are the most valuable features of the current approach to resource allocation that should be retained?**

   Computer equipment is distributed across campus
   Desktop computers are funded on a regular cycle
   People who are highly committed to the mission and role model it (staffing)
   Budgets are reliable aiding future planning
   Low time commitment
   Involves chair
   Perceived stability

3. **What is your greatest hope or aspiration for the Resource Allocation Model employed at PLU?**

   Incentives and Carry forwards
   Outdated programs will be evaluated and possibly eliminated
   Transparency of process
   Fear about cuts in staff can be removed and replaced by understanding of value placed on the unit
   Enhance transparency and clarity in current model
   Revenue sharing opportunities
   Clear guidelines on process
   Adequate tools, training, and time to move to new process/model

4. **What specific criteria should drive PLU resource allocation decisions?**

   Does the resource align with the vision and values of our mission
   University's strategic plan
   Potential to generate new revenue while fulfilling/fitting PLU's Mission

University's mission
How likely program is to increase/generate revenue for PLU
Quality of curriculum
Mission/value statement
Strategic plan and top 5-6 priorities along with infrastructure planning

5. **What is your greatest hope or aspiration for the university's next resource allocation model?**

That it will be inclusive and hear all voices- not only revenue generating voices
Transparency in how it was developed and how it will be implemented
Multi-year planning, not year to year
Adequate recognition of our greatest asset: Human Capital
Make hard decisions
Stop doing some things

CAMPUS STRATEGIES, LLC

Pacific Lutheran University
Summary of Interview Results For Meetings
from October 30 through November 1, 2013

Campus Strategies, LLC was engaged to assist Pacific Lutheran University with its efforts to develop a new resource allocation model. As part of this process various meetings with campus stakeholders were conducted. Additionally, meetings were facilitated with the Budget Working Group charged with the development of the new model. This summary details the key discoveries from the meetings. The content is limited to those issues that were heard sufficiently often to suggest that they represent widely held views/perspectives.

- PLU's approach to resource allocation has not been linked with a comprehensive planning process.

- PLU relies on a "one bucket" approach to managing its budget such that both revenue increases and budget savings are owned centrally. Individual units do not benefit from efforts resulting in enhanced financial performance. That is, the current model does not incentivize individuals to undertake efforts that would enhance the university's overall financial position. (It should be noted that there are some sporadic incidents of specific situations in which revenues are or have been shared with the unit generating the revenues, but only on an exception basis.)
- Depending on the person(s) interviewed, two conflicting perspectives about budget management were offered. One group described pressure to return a portion of allocated budget to central administration to help with the one-budget results. Others indicated an operating approach that encouraged spending every dollar allocated to avoid creating the impression that resources are unneeded. Observations about these two perspectives are that some funds are wasted as year-end approaches to avoid the appearance of excess funding. For others, the perspective is to operate suboptimally to be able to contribute to a modest year-end surplus at the institution level.

- Traditional revenue-generating areas—Advancement and Enrollment Management—have enjoyed greater flexibility in terms of overspending under the theory that they will earn it back.

- Stakeholders complained of two operating principles that affect their involvement. First, the institution has not historically shared much information about budget matters (other than salaries, which are available in the library). The specifics related to the annual budget and its linkage with plans suffers from a lack of transparency. Second, advisory committees established to influence resource allocation decisions are not adequately utilized. Too often, there is a feeling that the process represents going through the motions of seeking advice without actually doing so. This issue was particularly sensitive for some groups that provided guidance on issues but there did not appear to be any response to that guidance. (Several anecdotes were shared of specific items not being addressed while resources appeared to go to other areas deemed less important.)

- Recent history reflects flat purchases and services (P&S) budgets. No increases have been provided on a systemic basis and no process exists for making needs known.

- The chargeback process (i.e., cost recovery for services) on campus does not seem to work effectively. There is no clear management of the process and it appears that some units are charged for some items while others are not. Moreover, some services are paid for centrally while others are subject to chargeback with no understanding of the reasons for the differing treatment.

- There is an expressed concern about the manner in which restricted funds are used to help balance the budget on what appears to be an after-the-fact process.

- Concern was expressed about the fact that annual fund gifts are held centrally even when they are provided for restricted purposes.

- There appears to be very strong interest in a new approach that will create incentives to grow the resource base using a model that will enhance transparency and increase stakeholder participation in the allocation of resources.

Prepared and submitted on November 13, 2013 by Larry Goldstein, president, Campus Strategies, LLC