

FY 2003/04 Strategic Budget Process Overview

Introduction

The Annual Budget Process provides for the collection, development and review of a wide range of information leading to the establishment of the FY 2003/04 University Operating Budget. As described in this overview, the Annual Budget Process includes, but is not limited to: identification of institutional initiatives; projection of revenue available for recurring budgets; verification of current unit base budgets; verification of current unit faculty and staff personnel position bases; and identification of significant revenue and expenditure issues. The Annual Budget Process supports strategic decision making regarding existing and prospective resource allocations within the context of FY 2003/04 Strategic Budgeting Principles.

Background

In preparation for the Commonwealth of Kentucky's 2002 Legislative Session, the Council on Postsecondary Education (CPE) recommended that NKU receive a \$5.2 million operating budget increase, over the 2002-04 biennium, to begin to address the University's \$26 million state support, benchmark funding objective. However, during the legislative session, CPE's initial budget recommendation for NKU was reduced to \$2.6 million in increased benchmark funding support for the biennium. The 2002 legislative session concluded without enacting an operating budget for the 2002-04 biennium, resulting in state agencies directed to operate under the Governor's Spending Plan. The Governor's Spending Plan did not include increased state funding support for NKU for the biennium.

Over the past few years, beginning in late 2000, the Commonwealth of Kentucky has experienced significant budget deficits. During FY 2000/01, FY 2001/02, and FY 2002/03, actual revenue was, or is projected to be, much less than budgeted expenditures. To address the problem, the administration initiated \$464 million in recurring expenditure budget cuts and used \$680 million in nonrecurring funds to cover budget shortfalls during the three-year period. Medicaid and postsecondary education budgets were cut 2% and all the rest of state government budgets were cut 5% (K-12 budget was not cut). The estimated revenue shortfall for 2003 and 2004 is projected to total \$500 million, and has yet to be resolved.

In FY 2001/02, the Commonwealth required NKU to reduce the University's operating budget 1.29% (\$537,500). In December of 2002, CPE advised university presidents to begin making preparations for a 2.6% and 5.2% budget cuts in FY 2002/03 and FY 2003/04, respectively. After CPE staff adjustments based on NKU's \$26 million benchmark funding objective, NKU's appropriation budget reduction would be \$731,400 (1.8%) in FY 2002/03 and \$1.6 million (3.7%) in FY 2003/04. Recently, administration has been advised that primary and secondary education may be exempted from budget reductions, requiring a 9.1% budget reduction in all other state agencies, including higher education. A 9.1% state appropriation budget reduction for NKU would be nearly \$4 million.

On January 17, 2003, a communication was shared with the University community regarding anticipated state budget reductions, as well as cost-cutting strategies to reduce current year expenditures. If NKU is required to reduce the University's operating budget by 9.1% (\$4 million in FY 2003/04) it will warrant additional cost-cutting measures.

Investment Strategy

Over the last few months, throughout our campus and community 35 conversations were conducted as a part of developing NKU's strategic plan for the next five years. The message that we heard was that the University is on the right track and that the region's demand for increased University services in support of the region's growth is greater than initially imagined. There were many suggestions, but the community needs can be summarized in four key areas:

1. To provide assistance in convincing elementary and middle school students, and their parents that the opportunities exist to continue their education beyond high school. We heard, especially in the rural communities, that this activity is important because many students and parents do not believe that higher education is an option available to them. These communities are worried about their children's ability to compete in what is quickly becoming a knowledge-based economy;
2. To provide companies with qualified graduates; and, in particular, the business community wants NKU to provide technical support, applied research, demonstration projects, and problem-solving assistance;
3. To assist local government and non-profit organizations in resolving the challenges of local communities, in addition to serving as a neutral convener of community leaders with respect to subjects of regional concern; and
4. To expand information technology, nursing, and education programs to meet the growing demand in the region.

In FY 1998/99, NKU administration, in conjunction with University-recognized governance groups, developed an annual strategic budget process, consistent with University-established budget principles, focused on the identification of existing University operations in critical need of funding support and investment in the University's enduring budget priorities established during the initial Vision, Values, and Voices strategic planning process. As a result, University funding needs have been identified. Planning and budget are more closely linked, and considerable progress has occurred in achieving University strategic objectives.

Therefore, despite the certainty of reductions in state budget support in both the current and next fiscal year and the likelihood of limited funding to address University funding priorities, administration has committed to a budget process for FY 2003/04, focused on the identification of initiatives warranting investment in the budget priorities listed below and the identification of areas in crucial need of increased funding support. The objective of the investment strategy proposed for FY 2003/04 is intended to maintain the momentum NKU has gained over the past few years as a result of investing in the University's strategic priorities.

FY 2003/04 University Strategic Budget Priorities:

1. Competitive Compensation for Faculty and Staff;
2. University Infrastructure (including, but not limited to University web development, phone switch replacement, library, and parking expansion);
3. Growth-Related Investments (marginal growth that requires little or no additional investment and targeted growth areas that require front-loaded investments but will produce substantial new revenue);
4. Program & Service Enhancements (new educational programs or enhanced programs and services associated with summer, weekend, graduate, and distance education);
5. Recruitment & Retention (enrollment management initiatives);
6. Enhance Academic Quality (tenure-track faculty, library, advising, co-op, student research with faculty);
7. Enhance Facilities & Campus Environment (renovations, campus technology); and
8. Strengthen Campus Experience (Student Life/Support).

Fixed Cost Projections

Fixed costs are a collection of expenditures over which the institution has limited direct control such as utility rates, major institutional service contracts, and rates for existing fringe benefits. Administrators responsible for managing activities associated with such fixed costs have the primary responsibility of projecting these costs for the annual budget period. After review by the Office of Enrollment and Financial Planning and any further clarification by the area vice president, fixed cost expenditure increases/decreases will be factored into the institutional revenue and expenditure projections as a priority funding issue. Due to the priority funding of institutional fixed costs, central controls are placed on the expenditure of fixed cost dollars.

Central Revenue Forecasting

It is the responsibility of the Office of Enrollment and Financial Planning to forecast and project revenues from all central general revenue sources. Included in this category are: student tuition and fees, state appropriations, and certain other sources of general revenue. For certain general revenue sources, the Office of Enrollment and Financial Planning will ask the responsible manager most closely associated with the particular revenue source to prepare revenue projections for review.

Revenue Supported/Auxiliary Enterprise Units

Changes in the revenue and expenditure relationship of all direct revenue-supported budget units are considered during the Annual Budget Process. For example, if an auxiliary enterprise unit proposes to adjust the central revenue support for the upcoming budget year, an explicit communication for the change in revenue/expenditure relationship must be forwarded to the Office of Enrollment and Financial Planning.

Special Revenue Lines

A number of revenue codes have been established that have a relationship to a specific expenditure line in a specific budget unit. These are referred to as “special revenue lines”. While the budgets for these linked revenue codes and expenditure lines might not be set for the same amounts, they are designed to increase or decrease in tandem. Any projected increase or decrease to the revenue and expenditure line item is budgeted in the base in the affected units during the Annual Budget Process.

Operating Base Adjustments

A listing of base adjustments approved during the current fiscal year will be available on the Office of Financial Planning web site (<http://access.nku.edu/financialplan/>). Budget managers should review this list closely. If a base adjustment approved during the year does not appear on the list, please communicate the necessary change to the Office of Enrollment and Financial Planning.

Position Base Review

The Office of Enrollment and Financial Planning has budgetary position control responsibility for the staff position base. Primary responsibility for the faculty position base resides in Academic Affairs. During the course of a fiscal year, actions may occur which result in permanent changes to the University faculty and staff position base. All permanent changes to both the faculty and staff position bases require approval by the President.

Faculty Position Base

Academic Affairs maintains an active, approved list of budgeted faculty positions reflecting any permanent changes made during the year. The Office of Enrollment and Financial Planning works closely with Academic Affairs to verify the revised faculty position base budget.

Staff Position Base

The Office of Enrollment and Financial Planning will provide information regarding base budgeted staff positions to the vice presidents for review and verification. The information will reflect all approved position actions affecting the permanent base (through the issuance date). All budgeted fringe benefit expenditures are viewed as a component of the compensation cost of each budgeted position based upon the complement of benefits applicable under current policies.

It should be noted that the salary component of any vacant position is budgeted at the base rate established by the Office of Human Resources unless otherwise requested in writing by the appropriate provost/vice president.

Budget Request

The Annual Budget Process provides for institutional consideration of: proposed reallocation of current base budgets within and/or between units under a major area; proposed reallocation of current base budgets between major areas; proposed new or amended revenue sources; proposed expansion or reduction of existing programs or services; and proposed new initiatives, programs, or services that are not in the current base budget; and proposals for non-recurring expenditures for the budget year. Any such proposal is expected to demonstrate and document its relationship to the university's strategic direction and priorities.

Permanent internal reallocations within and/or between units under a major area are generally at the discretion of the major area vice president. At the same time, it is essential that consultation occur among major areas prior to implementation of reallocation initiatives when such initiatives have potential impact beyond the major area considering the implementation of such an initiative.

Any proposed reallocation between major areas is anticipated to be jointly identified by the major areas affected. Such proposals will be reviewed by the President relative to institution-wide implications. All reallocations between major areas must be approved by the President.

Proposed new or amended revenue sources/fees are accommodated through the Annual Budget Process. The fee review process considers the impact of fee proposals on both those who would pay the fees and the institution. Additionally, the budget process provides for consideration of proposals related to charge-back services or activities delivered internally by institutional units to other institutional units.

In summary, proposed recurring and nonrecurring new initiatives, programs or services, as well as proposed reallocations, are expected to be identified and reviewed during the Annual Budget Process.

Presentation to the Campus Community and Board of Regents

All budget decision making occurs within a broad context of statewide higher education issues and priorities, University strategic directions and priorities, continuing institutional commitments, and constituent concerns. One or more forums are anticipated with the campus community focusing on institutional directions and resource issues impacting the FY 2003/04 budget. Finally, it is anticipated that the President will present the annual budget recommendation to the Board of Regents for approval at the April meeting.