

# **Dealing With Budgets - Information for the New Chair**

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The purpose of this session is to provide a brief tutorial on departmental budgeting followed by a group discussion of selected topics. Each of us will present a few remarks on a topic, and then open the meeting for discussion.

## **Organization of Budgets**

- Show Me The Money
- Management Accounting In The Academic Department
- Common Budgets In Academia
  - Incremental
  - Zero-Base- ZBBS
  - Planning, Programming, Budgeting Systems-PPBS
- Examples of PPBS
- FTE Analysis as PPBS Approach
- Hypothetical Sample
- Additional Considerations

## **Show Me The Money**

- Next to faculty recruitment, retention most important function of Chair
- Like personal wealth: often not what you make but what you keep
- Who makes the budget decisions in your system?
  - Titled Position Vs. Budget Manager

## **Management Accounting In The Academic Department**

- Efficiency: Managers do the right thing
- Effectiveness: Leaders do things right
- Each Is Necessary: Both needed to be sufficient
- Management Accounting focus for effective decision making
  - Development
  - Reporting
  - Use

- No Management Accounting Play = Squandering Of Previous Resources – If you don't do it, the next level up will do it for you (example of “Doing It” to follow).

### **Common Budgets in Academia**

- Incremental Budgeting
- Zero-Base Budgeting (ZBBS)
- Planning, Programming, Budgeting Systems (PPBS)

### **Incremental Budgeting**

- Uses last years expenditures as a base
- Estimates and justifies increments above the base
- Requires little analysis or review of goals
- Widely used in universities due to convenience
- Low brainer

### **Zero-Base Budgeting-ZBBS**

- Objectives determine budget
- Each budget cycle requires determination of costs and benefits for each goal and the effectiveness of each program
- Incremental base is not taken for granted in ZBBS
- Problem is that in universities there is no such thing as Zero-Base Budgeting

### **Planning, Programming, Budgeting Systems (PPBS)**

- Incorporates concept of zero-base
- Budget based on cost of achieving institutional goals or outcomes during fiscal year rather than by the cost of maintaining organizational units (called departments)
- Difference from ZBBS is that PPBS contains a long-range planning component (~5 Years) with interim (yearly) goals

### **Examples of PPBS For Department**

- Start with five year goals in terms of
  - Students graduated
  - Scholarly/research productivity
  - National professional visibility/service
- Define Definite Outcomes

### **Budgeting Strategies For Departmental Support**

- Formula Based Budgets: Goal: Develop argument for additional faculty lines on the basis of formula based FTE analysis

- Student FTE drives faculty FTE in formula funded departments
- Can use FTE analysis to make argument for positions even if university on incremental budget process
- Process can become complicated but level of analysis dependent upon chair's knowledge of decision point individuals

### **Hypothetical Departmental Budget Request Process**

- Assumptions Underlying FTE Analysis
  - Normative Workload Factors: Student FTE needed to generate 1.0 FTE
    - Typical: 400 Student Credit Hours (credit hours per class X number of students in class) – Freshman/Sophomore
    - 300 SCH for Junior or Senior
    - 200 SCH for beginning graduate
    - 100 SCH for advanced graduate –
  - Example for Justifying 1/0 Instructional FTE Based on Above
    - One undergraduate course:  $3 \text{ CH} \times 54 \text{ Students} = 162 \text{ SCH}/400 = .405 \text{ FTE}$
    - One master's level course:  $3 \text{ CH} \times 20 \text{ Students} = 60 \text{ SCH}/200 = .30 \text{ FTE}$
    - One doctoral level course:  $3 \text{ CH} \times 10 \text{ Students} = 30 \text{ SCH}/100 = .30 \text{ FTE}$
  - Total FTE Justified = 1.05 FTE/YR

### **Additional FTE Allocation Considerations**

- Supervision: FTE must account for actual supervision time, student conference time, report review, general administrative time, etc.. It is best to relate time in some way to SCH if possible, since this is “coin of the realm”.
- Research: Administration: Support Personnel –FTE is usually based on some ratio to instructional FTE. For Example: 1.0 Research FTE for each 5 instructional positions; one administrative FTE for each 10 instructional FTE; and one support FTE for every four instructional FTE.
- The ratios must be varied as a function of the mission of the department as a reflection of the mission of the organization - R1 Vs. M1 University.

### **Rollover Accounts**

- State Accounts Usually Lapse
- Secret Is To Become Financially Independent Of University
- Rollover Accounts
  - Income Accounts

- Foundation Accounts

## **Fund Raising**

- Foundation Accounts
- Target Fewer – Larger Contributors
- Zip Code Scans
- Fun/PR Fund Raisers

## **Budget Related to Equipment**

- Dean needs to know that CSD is equipment intensive
  - Dean's background may influence understanding. Everyone is aware of how computer technology has changed the way we do business.
  - We have to point out that assessment of hearing, voice, and other disorders require sophisticated and expensive equipment. Likewise, computers and software packages for assessment and treatment of phonology, language, and fluency is also essential. Equipment is required for teaching speech and hearing sciences.
  - Sometimes new programs, particularly the higher level administrators of such, do not have a sense of what is necessary to run a quality program.
- Annual budgets need to include equipment
  - Three categories: clinic, teaching lab, research lab
  - Annual budgets should include equipment: new items, replacements, repairs, and calibration
- Start-up equipment for new faculty
  - **Often a golden opportunity to acquire equipment that will assist a new faculty member with their research**
  - In my experience, I routinely get from \$10,000 to \$60,000 for new hires, with an average of around \$23,000, depending on a person's interest area, need, and potential for gaining external funding. I approach the Dean with the thought that this is an investment which we anticipate will bring dividends, and I spell those out. The amount is also based on what I perceive the traffic is likely to bear at a given point in time.

## **Budget Related to Faculty Development**

- For programs to be both current and dynamic, the careers of the faculty must be nurtured and developed.

- One of your primary roles as a Department Head is to help this happen with faculty. Remember, to be a good chair you must be willing to sublimate a portion of your own career in that of your faculty.
- Assist faculty with their work – teaching, research.
  - Graduate Assistants – recruits students and assists faculty
  - Travel monies –
    - Budget – basic allotment
    - Incentives to present - additional
    - Sources: Annual budget
    - Grants – research to an individual; training grants to department
    - Alumni contributions
- Grants
  - Tremendous incentive: buy-off of teaching; travel monies, research assistance; publications
- Don't overlook state level meetings for professional stimulation, source of presentations, including students, etc.

## **SALARY INCENTIVE POLICY AND PROCEDURES**

School of Allied Health  
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### Critical Assumptions

- Enhancement policy is compatible with policies of the funding agency
- Salary released through grants is returned to P.I.'s Department
- Chairperson has control of released funds

### Policy for Faculty Salary Incentives

The first priority in utilizing grant salary-release money is to assure that there are adequate replacement costs for any release time (i.e., if replacement costs and salary enhancement are greater than the total funds released by the grant, the salary enhancement will be reduced accordingly).

The maximum salary enhancement will be equivalent to a cap of 25% of the faculty member's base salary for 12 months (e.g., if a faculty member is earning \$50,000/year, the maximum new salary would be \$62,600/year).

### **Determination of Salary Enhancement: Time Reduction**

A salary reduction will be necessary for each month that the faculty member is “released” by the grant. Salary reduction will be 1/3 of the monthly salary times the number of months released (up to 3 months).

Example: If the number of months released = 2, the new appointment will be for 10 months with a salary reduction of 2/3 of 1 month’s salary.

### **Determination of Salary Enhancement: New Salary**

The new yearly salary will be computed based on the new monthly salary.

Example: A faculty member earns \$50,000/year (\$4,166/month) and has received a grant which contains salary support for 2 months (\$8,332). The faculty member will then have a 10-month appointment and his/her salary will be reduced by 2/3 of the monthly salary (\$2,777 in this example). The new 10-month salary becomes \$43,223 (\$4,722/month and \$56,667/year). Salary enhancement = \$6,667 (13%) with \$1,665 left over for other uses.

## **CASE 1**

- P.I.’s grant allows for 20% salary release time (base salary = \$52,217/year; amount released = \$10,982).
- 20% release time corresponds to 2.5 months (therefore, adjusted salary will be based on a 9.5 month appointment).
- Maximum allowable enhancement is \$9,161.

Base salary is reduced for each month P.I. is released by 1/3 of the monthly salary times the number of months released:

- Base salary: \$52,217/year or **\$4,351/month**
- Number of months released: 2.5
- 1/3 of monthly salary X months released:  $\$1,450 \times 2.5 = \mathbf{\$3,626}$
- Adjusted salary for 9.5 months:  $\$52,217 - \$3,626 = \mathbf{\$48,491}$
- New 9.5 month salary: \$48,491
- New monthly salary:  $\$48,491/9.5 = \$5,115$
- New 12 month salary based on adjusted monthly salary:  $\$5,115 \times 12 = \$61,378$
- New yearly salary: **\$61,378**
- Salary enhancement:  $\$61,378 - \$52,217 = \mathbf{\$9,161}$  (17.5% of base salary)
- Leftover release dollars:  $\$10,982 - \$9,161 = \mathbf{\$1,820}$  (used for clerical support)

## **CASE 2**

- P.I. Earning \$50,000/year receives an NIH First Award that provides for a 50% salary release (\$25,000)
- P.I. qualifies for maximum salary enhancement of 25% (\$12,500)
- Amount of release remaining after enhancement = \$12,500
- Summary of budget for salary release:

<u>Item</u>	<u>Amount (\$)</u>
Salary adjustment for P.I.	\$12,500
Graduate Teaching Assistant	4,000
Secretaries	4,000
Administrative Assistant	2,000
Dept. Operating expenses	2,500
TOTAL	\$25,000

### **ADVANTAGES OF THE SYSTEM**

- Motivates faculty to apply for grants
- Tangible rewards (financial and other) for obtaining grants
- Helps Department/University maintain competitive salaries for funded researchers
- Allows for investment of leftover dollars back into Department/P.I.'s laboratory

### **AREAS OF CONCERN**

- Salary reverts to base when grant expires
- P.I. must understand/accept that budget for release dollars must be negotiated with and approved by Chair
- Chair must insure that replacement costs and other department needs are covered before approving salary enhancement
- University must insure that policy is in compliance with granting agency policies.