

Humboldt State University

Ad hoc Budget Policy Committee

Budget Policy Recommendations

Overview

The Academic Senate Executive Committee and the University Executive Committee met jointly on January 14, 2003 and requested that the President appoint an ad hoc committee to review current University budget policies. The committee's charge is to identify and develop budget policies and make recommendations that will result in a more efficient and open budget process at Humboldt State University.

Ad hoc Budget Policy Committee Members:

Saeed Mortazavi, Senate Finance Chair, Co-Chair
Carol Terry, University Budget Director, Co-Chair
Joan Berman, Librarian
Steve Carlson, Chair, ENRS
Randi Darnall Burke, Student Affairs
Chip Dixon, Professor of Computing Science
Karen Earls, Academic Affairs Budget & Institutional Data
Susan Higgins, Dean, Professional Studies
Emilia Patrick, Student Representative
Lori Rudebock, Fiscal Affairs

Budget Policy

The guiding principles by which budget policies will be developed, until such time that the HSU Strategic Plan sets goals for the university, include:

1. Protect and assure the quality of our academic programs and services
2. Provide clear and consistent priorities for funding
 - Encourage and reward sustained and managed enrollment growth
 - Allow for allocation of funding to meet changing enrollment demand
3. Develop and identify initial cost center level base budget within current funding levels and mission expectations using a consistent format
4. Provide a responsible university contingency reserve

These budget policies are meant to complement the mission and strategic plan for the University. It is recommended that on the completion of the new mission and strategic plan for the University, that these budget policies be briefly reviewed to assure proper alignment with the mission and strategic plan.

Purpose. This policy describes the annual operating budget policies and processes that will be used at Humboldt State University to create a more efficient and open budget process.

Annual Operating Budget. The University's annual operating budget is defined as planned revenues and expenditures categorized within current authorized funding levels and includes funding authority granted by the California State University System (CSU). (See *Glossary of Terms* for list of funds.) Also fundamental to this definition and to creating a more efficient and open budget process is the development of budget at each cost center level. These cost center budgets need to identify, at a minimum, salary and benefit funding for positions and other operating expenses.

Annual Operating Budget Policies.

The University shall have an annual budget process that is open and understandable by all.

The annual operating budget policies shall enhance the University's overall mission and strategic plan and shall ensure that planned expenditures are supported by appropriate resources. The annual operating budget planning process shall incorporate the budget process prescribed by the University. Budgets for funds under this policy shall be entered by the University Budget Office into the University's financial system at the cost center level by July of the new fiscal year or upon receiving final budget authority from the legislature and the CSU.

The budget detail shall be displayed in terms of positions, salaries, benefits and operating expense budgets at the cost center level. The University Budget Office shall provide quarterly financial status reports to the Executive Committee.

Divisional leadership shall develop written operating budget policies in such a way that the divisional policies complement the University budget policies. At a minimum, divisional policies shall include:

- Current year and base budget year salary and benefit funding during employee transitions and as new positions are established or modified.
- Current year and base budget year salary and benefit cost recovery during employee transitions and as new positions are established or modified.
- Roll forward policy

Each divisional policy shall become an addendum to the central budget policy and shall be posted with the University budget policies.

Budget Planning and Accountability

Humboldt State University has a fiduciary responsibility to the state, the CSU, and its campus constituents to effectively manage and use its financial resources. The President is ultimately responsible for the fiscal solvency of the University. Divisional leaders are ultimately held responsible for the fiscal solvency of their divisions. Deans of colleges and directors of major budget units are held accountable to the divisional leadership for their organization's fiscal solvency. Unit heads are held accountable to the deans/directors of major budget units for their individual cost center budgets.

The University is committed to effective resource management and accountability. Ongoing budget oversight is provided to ensure that resources and expenditures are occurring in general conformity with the budget plan. Throughout the fiscal year, the University Budget Office and each of the divisional unit heads, deans/directors, and unit heads shall monitor resources and

expenditures to determine whether the financial outlook for their accounts is unfolding as planned or changing in significant respects. If significant changes are detected, the divisional unit heads, deans/directors, and unit heads shall work with the University Budget Office to determine the underlying reasons for the changes and, if needed, appropriate corrective action shall be taken. Significant changes shall be reported to the Executive Committee.

The University Budget Office and each of the divisional unit heads, deans/directors, and unit heads shall monitor and oversee operating funds ensuring that:

- year-to-date resources and expenditures are occurring in a manner consistent with the budget plans
- resource shortfalls and expenditure overruns are identified and resolved quickly
- deficit spending at the cost center level does not occur
- budget adjustments are reviewed and, if approved, entered into the University's financial system by the University Budget Office

Annual Budget Detail

The University shall have cost center level base budget allocations detailing positions, salaries, benefits and operating expenses. The University will use the position inventory salary and benefit data associated with each cost center's budget to create the salary and benefit budget for each cost center budget.

These budgets will be developed in a very collaborative process between divisional leaders, deans/directors, unit heads and faculty/staff. The cost center unit heads shall monitor and manage their budgets being careful not to deficit spend. Oversight and monitoring is also expected at dean/director levels just as it is expected at divisional levels. This management and oversight of a cost center, major unit, and division budget should never be viewed as an exclusive right, but a joint responsibility for collaboration, monitoring, concern, and management of the University's resources. Constant dialogue must occur at every level.

The cost center's budget shall not be viewed as an entitlement. From time to time it is expected that increments or decrements to the cost center budget may occur. These increments or decrements may happen, for example, as a result of policy decisions associated with the University budget process or changes in workload and/or divisional priorities. (See budget process document for further details of the process.)

Salary Budgets

Salary costs for positions are a major expense of the HSU budget. It is important to manage this expense effectively. A position inventory is an effective tool to provide managers with the information needed to make decisions on whether to recruit and refill a position vacancy.

The University Budget Office shall develop a position inventory to track each position's salary and benefit costs associated with each cost center's budget. The University Budget Office shall maintain this position inventory and provide monthly updates, during the academic year, to the various divisions. The University Budget Office shall work with key offices on campus to define the routing flow of personnel actions to assure that funding is available before recruiting for a new

position, refilling a vacant position or making modifications to a position that would result in a salary adjustment to a position.

This policy does not create an entitlement to an ongoing position. As each position becomes vacant, it is expected that unit head will provide analysis and justification for the continuation of the position and then meet with their dean/division head to obtain approval for continuation of the position prior to taking any action toward refilling the vacancy. Other increments or decrements may happen, for example, as a result of policy decisions made through the University budget process, changes in workload within a division or general salary increases.

Salary Increments

When the CSU funds authorized salary increases, it generally funds the increases proportionately to each university, based on available system-wide funds. The University Budget Office shall proportionately allocate the salary funding to divisions based on participating employee units and each division's budgeted salary base for that participating employee unit. In the event that CSU provided funding is not adequate, any additional funding required shall be the responsibility of each division. The University Budget Office and the divisional leadership shall make every effort to be informed about these funding initiatives and may request salary funding consideration during the annual University budget process.

Base Salary Savings (from employee turnover)

Base salary savings—the difference between the incumbent salary and new hire—shall revert to the divisional levels. The divisional leadership may delegate this policy to other levels in their organization with a written policy stating the level of delegation.

Responsibilities for Funding Initiatives Within Units

Base salary savings funding was formerly recovered at the university level to fund changes in salaries for various purposes. Decentralizing this funding source will require the divisions to carefully plan for and fund changes such as reclassifications, in-range progression increases, grade level changes, promotions (including faculty promotions), faculty early retirement program (FERP), overtime, and night shift differential. It will be critical for divisions to manage their position resources effectively and recover savings wherever possible to manage the salary changes during position turnover. The divisional leadership shall develop a written policy addressing the careful management and recovery of the salary savings funds.

One-time (current year) Salary Savings

Salary savings accrued in a current year—the difference between the vacancy and the fill—shall revert to the divisional levels. Unit head and division heads shall work closely together to assure cost center's viable operations in the interim. The divisional leadership shall develop a written policy addressing the careful management and recovery of one-time salary savings funds, and providing cost centers with adequate interim resources for their continued operation, especially during position transitions.

Responsibilities for Funding Initiatives Within Units

One-time salary savings will be necessary for units to cover temporary staff, temporary replacement faculty, recruiting expenses, moving expenses, settlement costs, lump sum

cashouts, etc. At no time will one-time (current year) salary savings be used to fund permanent and ongoing expenditures, including permanent positions. It is even conceivable that a vacancy may not create any salary savings. For example, when a vacancy is created by a retiring faculty with a faculty early retirement program (FERP) agreement or when there is overlap with a staff position, it is plausible that there may be no savings. The units will need to be cognizant of these issues and set aside funds to cover these contingencies appropriately.

Funding for Employee Benefits

Benefit costs for positions are a major expense of the HSU budget and have traditionally been managed centrally. The divisional choice to create a salary expense is directly linked to the cost of benefits. The division making a choice to rehire, promote, or create new positions must be accountable for the full cost of that decision.

Therefore, the benefit costs associated with each position in the position inventory, shall be decentralized and funded as part of each cost center level budget. Changes (savings or costs) associated with turnover, salary increments and other salary adjustments affecting benefit costs shall become the funding responsibility of each division. The University Budget Office shall work carefully and closely with each division to assure a smooth transition.

University Contingency Reserve

Funding History.

The University Contingency Reserve funding source has historically been generated through the centralized policies to fund salaries and benefits for positions on campus. The savings from positions being terminated, reduced to vacant level, reclassified or retired was captured at a June 30 snapshot and redistributed to fund divisional new hires, new positions, and the contingency reserve. This centralized funding process was misunderstood and confusing to the campus. Further, the June 30 snapshot tended to underfund divisions such as Academic Affairs, which may have had vacant positions during the June 30 snapshot. The old method was not a widely understood policy.

The new budget policy recommendation is twofold. First, the salary and benefit savings remains with the division and the division recycles that savings per its division policies. This policy means that a June 30 snapshot does not remove position savings from a division. Second, it recommends that the University Contingency reserve, formerly funded by centralized position savings, be made whole by establishing a base budget allocation.

The university must responsibly plan for unforeseen funding initiatives that come up throughout the year, despite best planning efforts. A contingency reserve budget is a university's way of planning a buffer for a margin of uncertainty. It is important for the university community to understand that the University Contingency Reserve will be used to fund unforeseen divisional and university initiatives as approved by the Executive Committee and the President.

University Contingency Reserve Policy.

Approximately two and four tenths percent of the University's state allocation shall be established as a reasonable base budget funding level for the University's contingency fund. A base budget contingency reserve of one and two tenths percent shall be established with an initial budget

reallocation from divisional budgets for the fiscal year 2004-2005. Starting in fiscal year 2005-2006, an additional base budget allocation of a third of one percent per year shall be added to the University Contingency Reserve until the goal has been reached. Once fully established, maintaining the base budget contingency reserve level at the funding goal shall be considered a funding priority during the annual budget process. The university contingency reserve funds shall be allocated by the President and the Executive Committee. Allocations from this reserve shall be reported during the annual budget process.

All University Funding

The “All University” or general university expenses that are not the direct responsibility of any administrative area shall be centrally budgeted. Individual expense items may vary from year to year, but an itemized listing of the funds budgeted shall be shared with the university community during the annual budget process.

Financial Aid Grants

The State University Grant and Educational Opportunity Program funding is allocated as restricted funds to the campus and cannot be used for any other purposes. Balances remaining in these accounts will be rolled forward to the following fiscal year and reallocated for their original purpose.

Work Study/Perkins Loan Program

Work Study On/Off Campus is primarily funded from a federal award and partially offset by cost center matching funds as well as private reimbursements. Funding for the program will continue to be allocated as a general university program.

Reporting Accountability

As part of the annual budget process, each division shall provide:

- information on all sources of funds available to their division
- description of how any funds allocated in the previous year’s annual budget process were used
- explanation of year-end balances (surpluses or deficits).

Identification of Peer Institutions

It is critical to identify peer institutions to use as a measure against characteristics that define an institution. HSU shall undertake a study to identify peer institutions based on academic, enrollment and financial criteria. This data shall serve as information to guide our institutional decisions.

Glossary of Terms

Division/Divisional leaders – refers to the major units or executive levels of the University including President’s division, Academic Affairs, Administrative Affairs, and Student Affairs

Deans/directors – Titles vary from division to division, but the term is meant to generally describe the managers of a major budget units reporting directly to a Divisional leaders.

Unit heads -- Titles vary from division to division, but the term is meant to generally describe the managers of a cost center reporting directly to a manager of a major budget unit.

Cost center – refers to a functional unit related to a specific program or function and is comprised of detailed budget information including personnel salaries, benefits and unit operating expenses related to that functional unit. Examples: English, Financial Aid, Economics, Anthropology, Geology, Mathematics, Wildlife Management, Plant Operations-Custodial Services, Career Development, University Budget Office, Cashiering.

Employee Units – refers to the Higher Education Employer - Employee Relations Act (HEERA) designation/collective bargaining units the CSU position salary classes have been assigned to.

Budget – A budget represents a proactive, initial plan of action for a list of proposed activities. It represents your best plan for the year. A budget contains a list of proposed activities, each with their associated cost expressed in whole dollars. A budget helps to anticipate the revenue and associated cost of an operation. It is a means of tracking revenues and expenses to assure that resources are being used effectively to meet the goals of the University. A budget also helps to assure a proposed activity is in compliance with the legislation for the state. A budget also helps to identify an appropriate level of funding for a cost center or function by making it possible to compare the operational units within other universities. A budget is not a reactive plan of action that allocates budget to cover expenses that have already occurred.

Funds for purposes of the annual operating budget process – Those funding sources include general fund state and other receipts including reimbursements for financial aid and other State/CSU receipts, and revenue primarily comprised of the following:

State University (student) Fees, student health fees, mandatory paper fees, non-resident student tuition, application fees, miscellaneous revenues including transcript fees, library fines, late registration fees, bad check fees, late fees and independent operations fees. Also included within the scope of the state budgets are cost center recharges (chargebacks).

The preceding fees are sources currently combined to create the HSU’s “state” operating budgets. The CSU allocation is primarily based on an authorized level of full-time equivalent students enrolled on an annual basis. Occasionally, the allocations from the CSU are restricted

to a specific purpose. Restricted funds cannot be used for initiatives other than their intended purpose and will not be used as part of HSU's annual budget allocation process.

Lottery trust funds are provided specifically for instructionally related initiatives. These trust fund balances will be reported as part of the annual budget process, but will have a separate budget allocation policy.

Other trust funds, also established for restricted purposes, will be reported as part of the annual budget process, but will not be within the scope of this budget allocation policy.

Other revenue and fees not included in the University's annual state budget allocation process, but included for reporting purposes are as follows: enterprise funds including University Center, Foundation, and Associated Students; auxiliary funds including housing, continuing education, parking; Instructionally Related Activities (IRAs) and other incidental fees.

University Fees Associated with the University Annual Budget Process

CSU Budget to HSU

GFS	63,159,200
State Fees	15,045,076
Student Health Fee	1,151,150
Mandatory Paper Fee	81,500
Non-Resident Fees	2,284,200
Application Fees	369,875
Misc Fees	131,400
Other Revenues (wkstdy/Fed Reimb)	740,151
Subtotal Fees/Reimbursements	4,758,276
Reimbursed Activities	4,416,648
Total Fees/Reimbursements	9,174,924
Total CSU Budget Allocation	87,379,200

HSU "State" Budget Allocation

GFS	63,159,200
State Fees	15,045,076
Student Health Fee	1,151,150
Mandatory Paper Fee	81,500
Non-Resident Fees	2,284,200
Application Fees	369,875
Misc Fees	131,400
Other Revenues (wkstdy/Fed Reimb)	740,151
Subtotal Fees/Reimbursements	4,758,276
Reimbursed Activities	-
Total Fees/Reimbursements	4,758,276
Total HSU "State" Budget Allocation	82,962,552

Reporting Purposes
Reimbursed Activities
Trusts
University Center
Foundation
Associated Students
Housing
Continuing Education
Parking
IRAs
Other fees