

Budget 1010: Introduction to University Budgeting

Budget Planning Council
September 1, 2022

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This presentation is intended to provide a high-level overview of the Athens budget for members of the Budget Study Group, Budget Planning Council and other stakeholders with an interest in learning more about the budget.

Finance and Administration Log In Regional Campuses OHIO Online

OHIO UNIVERSITY Finance


Accounting Budget Purchasing & Payments PCard Travel Systems Resources Treasury

OHIO > Finance > Budget Planning and Analysis > Budget Book

Budget Book

- Budget Planning and Analysis
- Budget Book
- Budget Development Tools
- Budget Planning Council
- Student Fee Committee
- Staff

FY 2023



Links to Supporting Materials:

- [Capital Improvement Plan](#)
- [OHIO Fact Book](#)
- [Planning Unit Budgets](#)
- [Private Support](#)
- [Treasury & Debt Management](#)
- [Tuition Rates \(Bursar website\)](#)

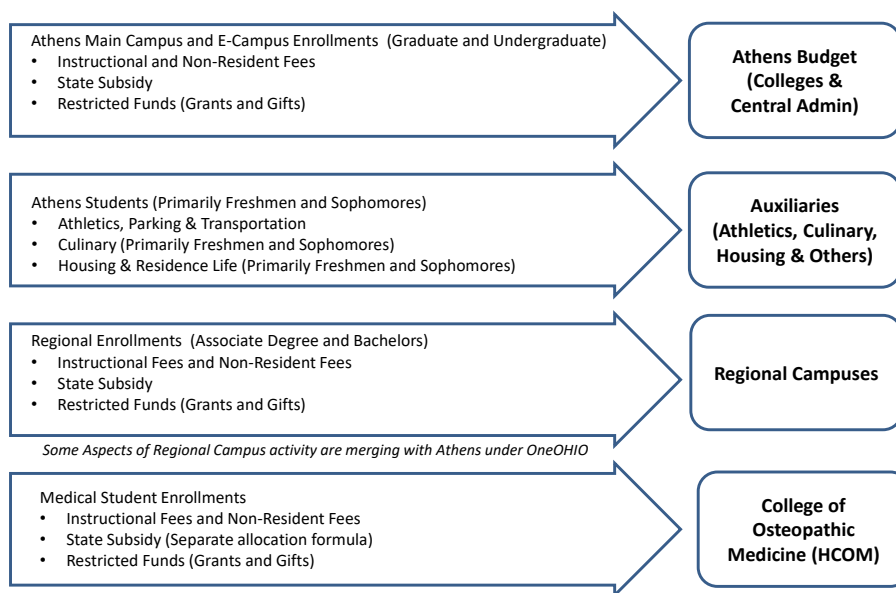
<https://www.ohio.edu/finance/budget/budget-book>

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The data supporting this presentation matches the information in the FY23 Budget book which can be found here: <https://www.ohio.edu/finance/budget/budget-book> This site also includes supplementary materials and information from prior fiscal years.

Four Major University Operating Units

Different Missions – Separate Funding Sources – Separate But Interrelated Budgets



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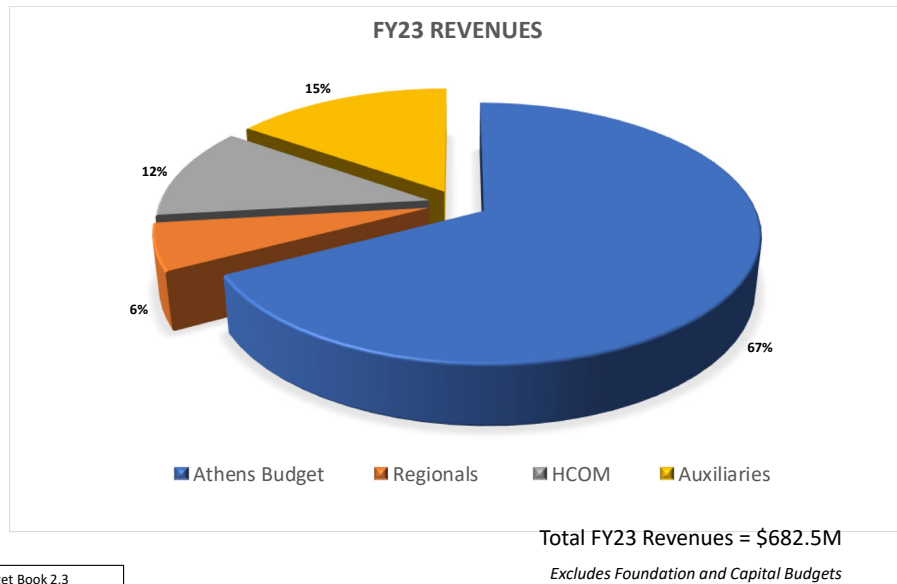
The budget for the entire university can be broken down into four major areas. Each area has a different mission and operates on different revenue streams. These four areas are:

- 1) The Athens Budget– this budget is the main budget that supports activity on the Athens campus and is supported by the tuition, fees and state subsidy associated with the courses that are taught on the Athens Main Campus and E-campus activity originating in the Athens colleges along with the restricted revenues associated with funded research and gifts.
- 2) Auxiliaries – this budget area is associated with auxiliary operations that are designed to operate on their own separate funding sources. The largest auxiliaries are housing and dining but include others like parking and Bobcat Depot. Athletics is included in this group but it has a mixed budget with part funded with its own revenue but it also gets funding from the Athens budget – the term “supported auxiliary” is sometimes used to describe this structure.
- 3) Regional Campuses – this is the budget for the five regional campuses. These units have separate tuition rates and their activity generates state subsidy. The One OHIO initiative will start to merge some aspects of regional activity into the Athens colleges so some additional interconnections are likely between the Athens and Regional budgets in the future.
- 4) Heritage College of Osteopathic Medicine (HCOM) – like regional campuses, the medical school has its own tuition rate. It receives a separate subsidy allocation from the state.

While these budgets are separate, there are interactions that take place between the Athens Budget and the other three areas since those areas are served by the administrative structure in Athens and some of their services (human resources, payroll, accounting, budget, etc.) are provided by Athens units. Overhead payments known as a “Contribution Margin” are made into the Athens budget to reflect this.

University Operating Budget: Revenue Components

Relative Proportions of Entire Budget



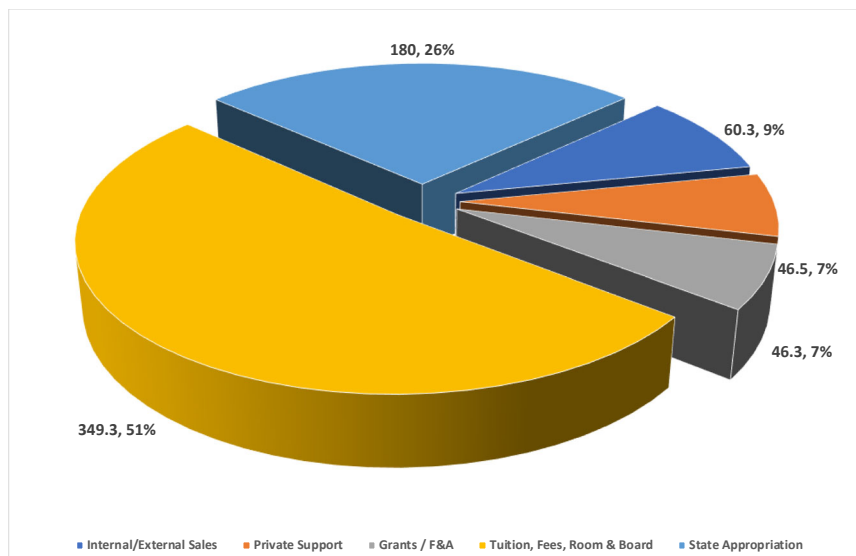
The relative sizes of the four major budget areas can be seen here. The largest area is the Athens budget which is over \$450M and 67% of the overall \$682.5M budget.

This view does not include the OU Foundation or Capital budgets. The Foundation is a separate organization with its own governing board, so its budget is not part of the annual budget process. The Capital budget is a separate allocation from the state which is restricted to large building projects. Those funds, therefore, cannot be spent on other things like salaries or travel.

There are still interactions between these other two budgets and the main university budget. For example, interest from the endowment of the Foundation supports activities (scholarships, professorships, etc.) in the university budget. In addition, there are impacts to the university budget from capital projects. While the funds to construct a building are in the capital budget, the cost to operate the building will end up in the university budget. In addition, not all building activity occurs in the capital budget. For example, the Ping Center and Baker University Center were funded by bonds that are paid off by additional student fees. Projects like this as well as deferred maintenance projects often do impact the main university budget and the university has recently created a strategy to use debt for building projects and deferred maintenance since the funds from the state are not sufficient to cover all of our renovation needs. Look for information about the Century Bond to learn more about this deferred maintenance strategy.

Major Revenue Sources

All Units– Athens, Regional, Auxiliaries and HCOM



Student Enrollment Drives Over 77% of the Budget

Budget Book
Section 3

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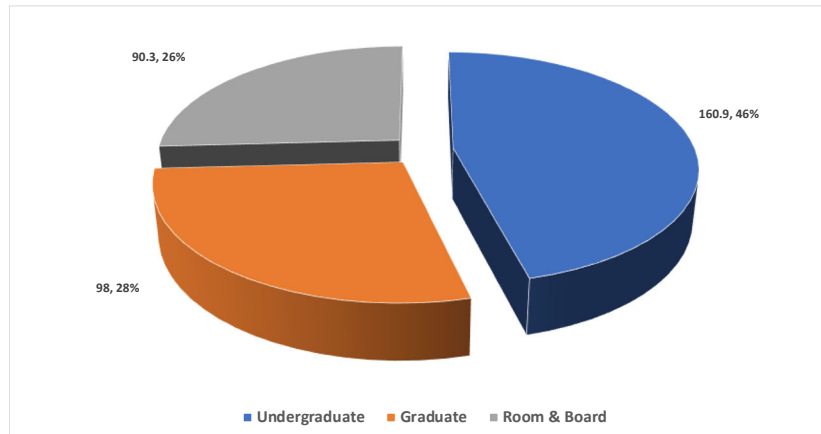
A budget is basically a plan for matching incoming funding or “revenue” to ongoing expenses and balancing those two sides of the equation.

This chart shows the major categories of revenue bringing funding in to support our operations. These categories include Tuition, Fees and Room and board from our undergraduate, regional, graduate and medical students. Academic activity associated with those students also brings in state support.

The remaining 23% of our revenue comes in from sales -9% (e.g. clinic revenue, royalties, special contracts, etc.), private support in the form of endowment proceeds and gifts (7%) and grant activity (7%). This reinforces the idea that we are an academic institution that is supported by student enrollment which means that changes in enrollment have a major impact on the budget.

Breakdown of Net Tuition and Fees

All Academic Areas– Athens, Regional and HCOM



We are primarily an Undergraduate Institution
These are net numbers so financial aid and graduate waivers are taken out

UG Tuition, Room & Board: 74% of Tuition & Fees

Budget Book 3.2

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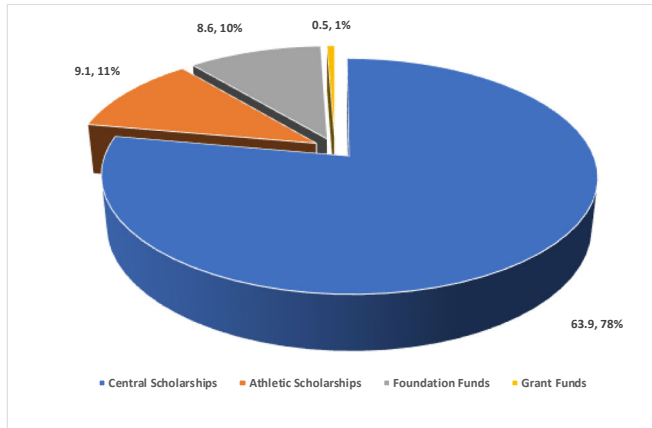
To further break down the revenues from tuition, and fees, this chart separates the amount for Room & Board Fee that go to Auxiliaries from tuition revenue.

Tuition revenue is broken down by revenues from undergraduate students (Athens, ECAM and Regional Campuses) and graduate students (Athens and HCOM).

Further note that the data in this chart shows “net” tuition which means that undergraduate financial aid is subtracted from the undergraduate tuition total and graduate waivers are subtracted from the graduate revenue.

From this presentation it is easy to see that most of our revenue comes from our undergraduate activity. This makes sense given that we have much larger numbers of undergraduate students compared to graduate.

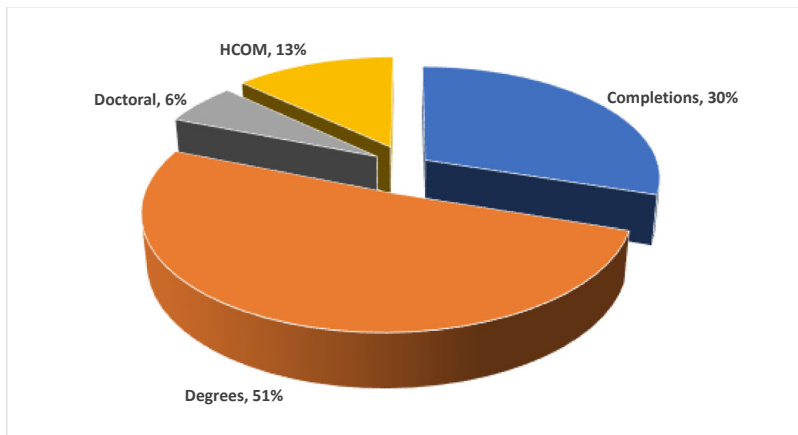
Undergraduate Scholarships



Of the total of 210M in gross Athens Undergraduate tuition, \$73M in operating funds (34.7%) goes to scholarships. Similarly of the total of \$76.3M in Graduate tuition (excluding HCOM), \$23.7M (31%) is waived for graduate assistants in programs on the Athens campus.

The scholarship budget is supported by a number of different sources. The majority (73M) of the 82.1M come from the operating budget for the central scholarship funding and athletic scholarships. These are supplemented by 8.6M in foundation funds and about 500K from grants . The 73M in operating funds is 34.7% of the total 210M in gross tuition revenue. Similarly at the graduate level, 31% (23.7M) of the 76.M in billed tuition is waived for students in Athens campus programs that are graduate assistants.

State Subsidy (SSI) Components



ODHE uses a performance-based funding model for non-medical subsidy. Our support is based on course completions (passing) and degree completions. Over half of our funding is associated with degrees (the 51% plus almost 60% of the Doctoral SSI) which means there is a delay between academic activity and the resulting funding.

Budget Book 3.1

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The second largest source of revenue is state subsidy. The state utilizes what is known as a performance-based funding where universities receive funding based on course completions and degree completions. This means that a student must successfully pass a course for those credits to generate subsidy. In addition, we do not receive the degree portion until the student successfully completes the degree. Notice that the amount we get is higher for the degrees as opposed to completions. This is a signal from the state that they want to incentivize universities to focus on helping students reach the finish line of successfully getting their degree.

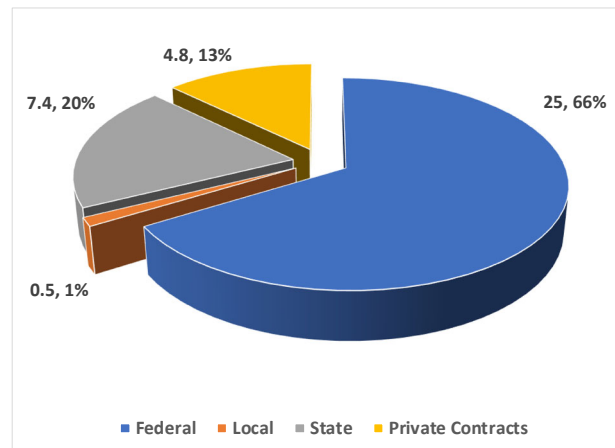
State subsidy is earned for the completions and degrees from students that are Ohio residents at the undergraduate level. Out-of-state and international undergraduate students do not generate subsidy. This is why the university charges a non-resident fee to these students – basically to substitute for the lack of state support.

At the masters and doctoral level, subsidy is earned on the vast majority of graduate students. This is why the non-resident fee is typically waived for graduate students on waivers and why the nonresident fee is low for off-campus graduate programs.

There are many other intricacies associated with how subsidy is allocated for multiple degrees, completion programs, transfer students and other circumstances that are beyond the level of this presentation.

Restricted Grant Funds

Must Be Used For Specific Purposes of the Grant



37.6M total includes facilities and administrative cost recovery (\$8.7M)

Private Contracts are primarily related to the Heritage Foundation Grant

Budget Book 3.3

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The remaining major areas of funding (external sales, endowment/gift and grants) are more straightforward with each contributing 7%-8% of our funding. One term typically used for grants and some gift/endowment is "restricted." A restricted funding source can only be used for a specific purpose. The funds for a grant are restricted to the purpose of that grant and can only be spent for that. The funds cannot be repurposed to pay for something else within the university. Some grants (typically certain federal grants) allow the university to charge an overhead fee called Facilities & Administrative (F&A) cost recovery. This recognizes that the university has costs to support the infrastructure to support research – lab facilities, accounting, etc. This overhead is earned as the dollars are spent on grant activity. Our earnings are around \$9M per year. These funds can be spent as the university wishes but we have a formula that splits these funds between the researchers (in research incentive – RI funds), the department/center, the college and the VP Research and we tend to invest these funds back into research activity.

Revenue Summary

How Things Appear in the Budget

Auxiliaries' revenue comes from room and board

Scholarships supported by Housing and Dining and Athletic Scholarships (\$9M)

HCOM has its own tuition (graduate) and SSI

Regional campuses have their own tuition and SSI

	Auxiliaries	College of Medicine	Regional Campuses	Athens Campus	FY23 Operating Budget
REVENUES (in millions)					
1	State Appropriations	-	26.2	188	180.0
2	Gross Undergraduate Tuition & Fees	-	0.1	23.2	249.3
3	UG Student Financial Aid	(22.0)	-	(6.0)	(88.1)
4	Net Undergraduate Tuition & Fees	(22.0)	0.1	17.1	161.1
5	Gross Graduate Tuition & Fees	-	50.3	-	126.5
6	Graduate Student Financial Aid	(0.0)	(5.0)	-	(28.7)
7	Net Graduate Tuition & Fees	(0.0)	45.3	-	97.9
8	Room & Board	90.3	-	-	90.3
9	Grants & Contracts	-	2.6	2.6	37.6
10	Facilities & Admin Cost Recovery	-	1.4	-	8.7
11	Endowment Distributions	0.2	1.8	0.9	33.9
12	Contributions	0.5	1.1	0.1	6.1
13	Investment Income	-	-	-	6.5
14	Internal & External Sales	17.2	0.7	0.2	60.3
15	Total Revenues	86.1	79.2	39.7	682.5
16	Spending Authorization	17.9	-	0.5	-
17	Total Revenues & Revenue Allocation	104.0	79.2	40.1	682.5

Auxiliaries external sales come from athletics (\$8M), Dining (\$4M), and Transportation/Parking (\$4.6M)

Support for Athletics

Support from the Endowment

Budget Book 2.3

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This is the way all the revenue sources just discussed appear on the budget presented in Section 2.3 of the budget book. You can see the various sources discussed previously down the left.

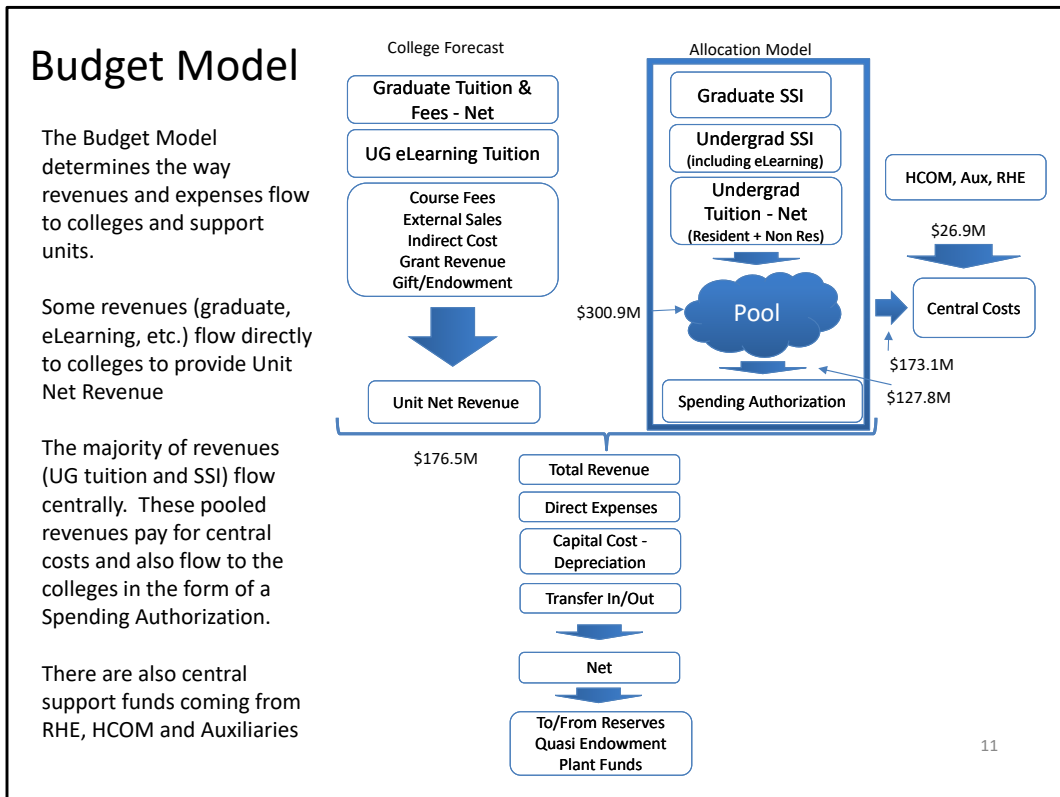
Here are some things to note

The primary sources of revenue for Auxiliaries (room and board), HCOM (SSI and graduate tuition) and Regional Campuses (SSI and tuition) are noted

Under auxiliaries, the scholarship entry of 22M represents 9M in Athletic scholarships and contributions from housing and dining to support central scholarships

Auxiliaries also have revenues form external sales - athletics (\$8M), Dining (\$4M), and Transportation/Parking (\$4.6M)

The Spending Authorization under auxiliaries shows funding from the Athens budget to Athletics



When looking at the budget for a college, the revenues that will be listed will follow this general budget model.

A college has two primary sources of revenue, direct revenues that flow to the college (Unit Net Revenue) and a share of revenues that are held centrally (Spending Authorization)

Unit Net Revenue represents areas where colleges have an incentive to increase activity in order to increase their resources. To the extent that colleges have been able to diversify their activity in these areas, they need less of the revenue coming in from centrally held revenues. Collectively college budgets are built with \$176.5M (58%) coming from unit net revenue and \$127.8M from revenues flowing centrally.

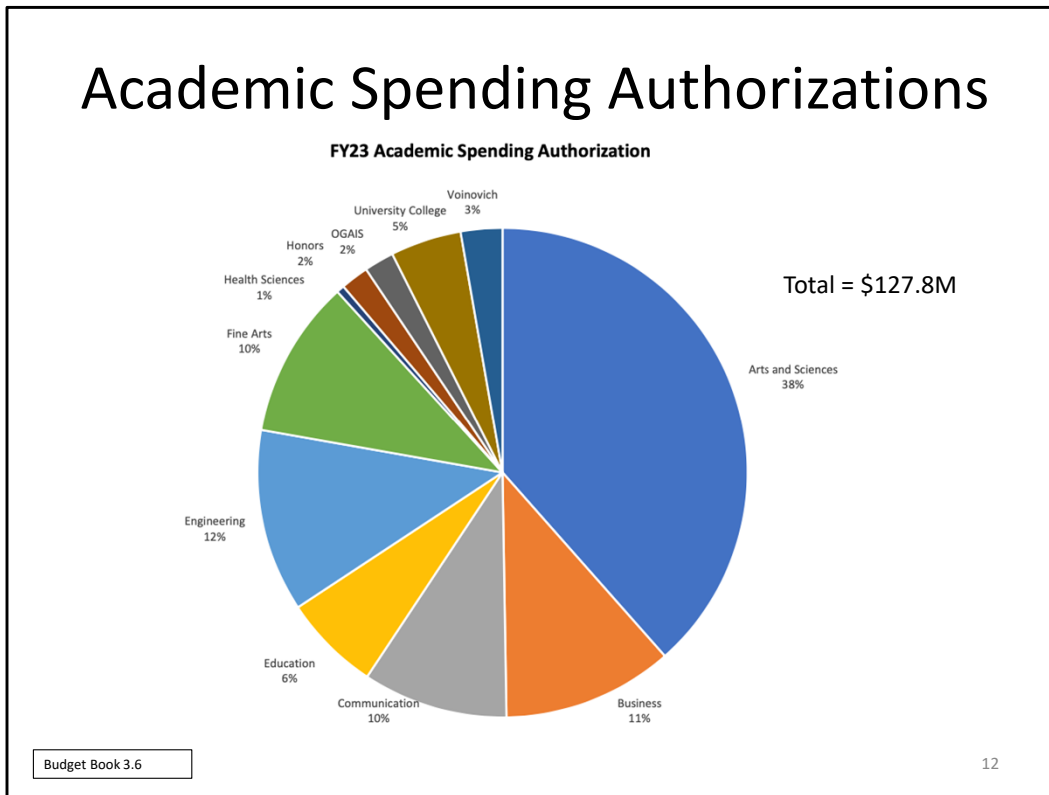
Colleges receive the tuition and fees from their graduate programs. Any tuition waivers the college provides to graduate students are subtracted from this revenue. For many colleges, graduate programs (particularly those in Athens) are structured with students having a graduate assistantship that provides a tuition waiver in exchange for work linked to teaching, research and/or administrative service. In these programs, there will not be much net graduate tuition flowing to the college. Some colleges have off-campus graduate programs (online or in locations like Dublin or a regional campus) where students pay tuition and net revenues are a much larger part of the revenues flowing to the college.

In addition to graduate program tuition, tuition from undergraduate online programs running through eCampus also flow to the college. The remaining revenue flows coming to colleges include course fees (primarily only for graduate courses, aviation, study away and certifications under the tuition guarantee), external sales, grants and associated F&A and gifts.

In the Allocation Model box, SSI from Athens undergraduate and graduate programs and the net tuition from Athens undergraduate (\$300.9M) are pooled centrally and used to support central expenses (\$173.1M) and college budgets (\$127.8M – 42%) through what are called Spending Authorizations.

As this term implies, units are authorized to budget and spend these funds during the year. This is different from Unit Net Revenue which a college forecasts as part of the budget process. It is expected that if this forecast is not realized, the college will need to adjust its spending to keep their budget in balance.

Academic Spending Authorizations



The overall flow of central revenues to the colleges, varies by college with Arts & Sciences getting the largest allocation. The amount going to each academic unit is related to the size of their budget but also the amount of that budget supported by the unit direct revenue. For example, Health Sciences has the third largest budget but that unit brings in 98% of that budget from off-campus/online programs – primarily in Nursing.

Academic Unit Resource Distribution

<i>(in millions)</i>	FY23 Spending Authorization Budget	Unit Share of Spending Authorization	FY23 Net Revenue Budget	Spending Authorization as a Share of Net Revenue
Arts and Sciences	\$ 49.0	38%	\$ 63.6	77%
Business	14.3	11%	36.4	39%
Communication	12.2	10%	15.2	80%
Education	8.2	6%	15.5	53%
Engineering	15.4	12%	33.5	46%
Fine Arts	13.3	10%	15.9	84%
Health Sciences	0.7	1%	35.5	2%
Honors	2.4	2%	2.2	107%
OGAIS	2.5	2%	4.0	62%
University College	6.0	5%	5.1	117%
Voinovich	3.5	3%	20.0	17%
Regional Campuses	0.5	0%	40.1	1%
TOTAL	\$ 127.8		\$ 287.1	45%

College budget support from the central Spending Authorizations makes up 45% of academic budgets overall but there are large differences across colleges in the ratio of Unit Revenues to Spending Authorizations.

Budget Book 3.6

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In addition to the different amount of spending authorization flowing to each college, there is a very different ratio between the portion of the units budget supported by Unit Direct Revenue and Spending Authorization. Several colleges have less than 50% of their budget coming from the central spending authorization.

For example, Business is able to generate 61% of its budget from off-campus professional graduate programs and therefore needs a lower spending authorization. Engineering has a large percentage of the budget coming from grants but these are restricted so its dependence on its spending authorization is actually higher if only its unrestricted operating budget were considered. The Voinovich school similarly has a very large part of its budget coming from non-operating sources – grants and state appropriations. Other colleges are much more closely dependent on their undergraduate activity and therefore have a budget that comes mostly from the spending authorization – Arts & Sciences, Communication and Fine Arts.

Some units have spending authorizations in excess of their budget because of other sources flowing into the budget – The Honors percentage is more than 100% because it transfers funds out of its budget to cover tutorials for and University college is higher because part of its revenue is transferred out for learning communities

Expenses

How Things Appear in the Budget

		Auxiliaries	College of Medicine	Regional Campuses	Athens Campus	FY23 Operating Budget
EXPENSES						
19	Total Salaries, Wages, & Other Payroll	27.9	33.2	21.4	243.7	326.2
20	Total Benefits	9.6	11.4	8.0	91.9	120.9
21	Supplies, Services, & Capital Costs	29.6	15.0	5.7	128.6	178.8
22	Internal Principal & Interest	11.7	6.6	0.5	37.6	56.5
23	External Debt Service - Principal	-	-	-	-	-
24	External Debt Service - Interest	-	-	-	-	-
25	Depreciation	-	-	-	-	-
26	Total Direct Expenses	78.7	66.2	35.7	501.8	682.5
27	Capital Cost Allocation	1.4	0.7	-	(2.1)	-
28	Contribution Margin	9.6	11.8	5.5	(26.9)	-
29	Total Expenses & Expense Allocations	89.8	78.8	41.2	472.8	682.5
30	Results of Operations	8.2	2.1	(1.3)	(9.0)	-

Capital Cost Allocation is the methodology utilized to allocate some of the central debt service charges to colleges and auxiliaries. Some debt is charged directly to units like Auxiliaries, HCOM for Athens facilities. RHE debt service is allocated only to RHE

Here is where you see the flow of funds from HCOM, RHE and Auxiliaries to cover central costs.

The “Bottom Line” of the budget is the **Results of Operations** – revenues minus expenses.

The FY23 budget balances to zero but note that the Athens and Regional budgets do not balance – there is still work to be done to bring those budgets into balance.

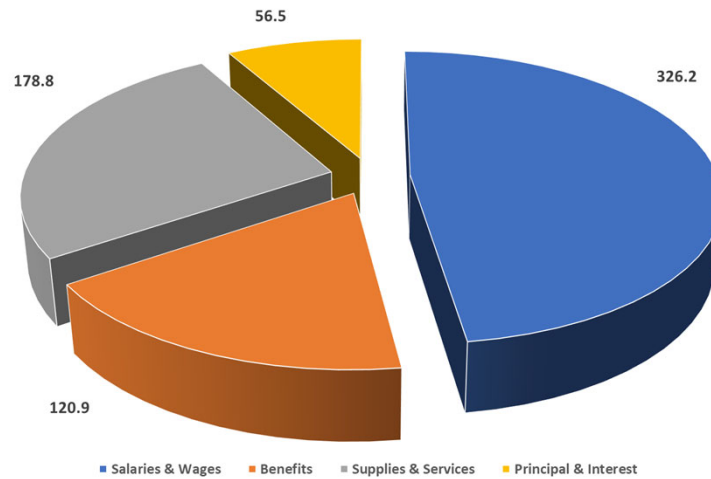
Budget Book 2.3

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This shows that high level summary of expenditures from section 2.3 of the budget book. The major expenditure categories are shown in the left column. Two new concepts illustrated here are highlighted. First the Contribution Margin row shows flows (basically overhead payments) from HCOM, regional campuses and auxiliaries flow into the Central Admin & Operations columns to show how these support some of the central costs.

The other highlighted area is the Capital Cost Allocation. This shows that the External Debt that is charged primarily to the colleges and central administration also get support from HCOM and auxiliaries for their Athens campus facilities

Major Expenditure Categories



Total FY23 Budgeted Expenses = \$682.5M

People (Salaries and Benefits) Drives 65% of the Budget

Budget Book 2.3

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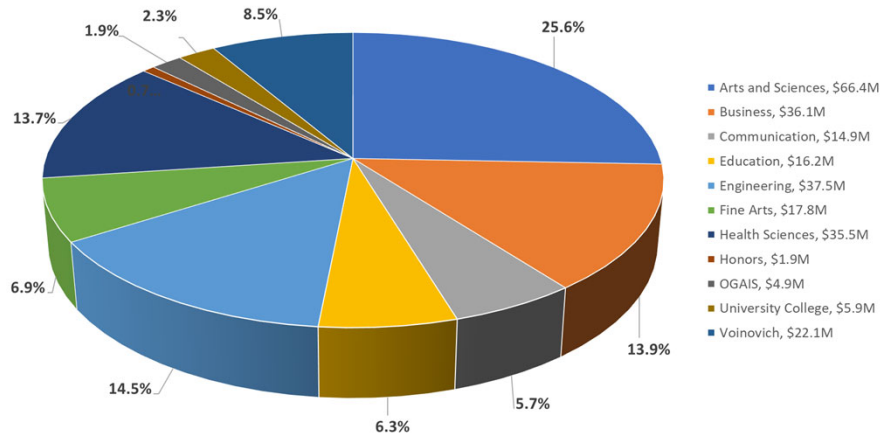
In addition to revenues, the other major part of a budget is expenditures – basically the things on which we spend the incoming funding. This chart gives you a high-level view of the major expenditure categories.

The principle & interest category is the amount we have to spend each year to pay for our debt. While the university has occasionally taken out debt for major projects (the convocation center, baker center, the IT network, etc.) we have implemented a major effort to invest in our deferred maintenance issues through the creation of the Century Bond. While beyond the scope of this presentation, the Century bond basically involves adding \$13M to the operating budget to service debt that is being used to pay for ongoing projects to address deferred maintenance issues like replacement of windows, roofs, HVAC, plumbing, etc. since the state capital funding is not sufficient to handle all these costs and without investment we were in danger of falling further behind in maintaining our facilities to the point where we were experiencing building failures like what happened with Lindley a few years ago. This is a constant pressure on our budget driven by the fact that we are a residential campus which means a significant amount of our cost will always be related to facilities. With increases in this area of the budget, there are fewer dollars to go to other parts of the budget such as people.

This chart also shows that with salary and benefit costs, the majority (65%) of our budget is related to people. Being a residential campus also means that we have a large need for people to run this type of operation.

The final category for Supplies & Services which includes travel and general non-personnel costs and is about 26% of the budget

Academic Unit Direct Expenses



Total = \$259.2M

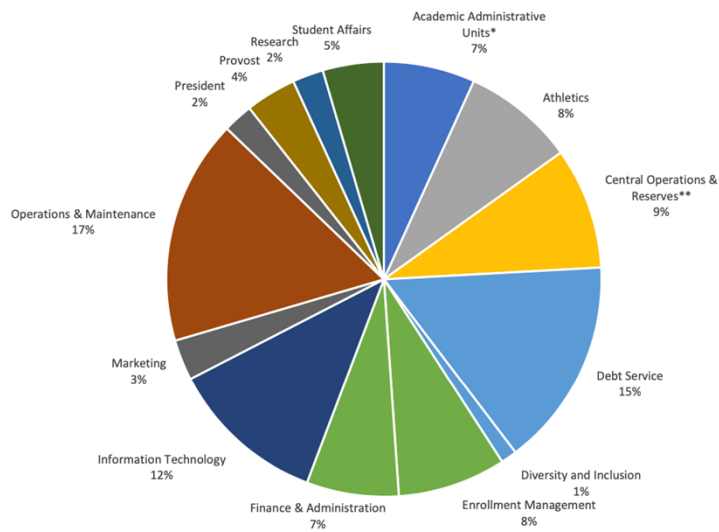
Planning Unit Budgets

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To provide a rough idea of the relative size of the various academic units, this chart shows the direct expense budget for each college. The largest unit is Arts & Sciences. Business, Engineering and Health Sciences are similar in size at around 13% of the total.

Administrative Unit Cost Distribution

FY23 Central & Administrative Spending Authorization



Total = \$215.5M
 These units also support their budgets with \$31M in other revenues from grants, endowments and internal/external sales

*Athena, Child Development Center, ISFS, Kennedy Museum, Library, Marching 110, WellWorks, & WOUB
 ** Provost Reserves, Institutional Reserves, Central Accounting, Program Support, Staff Governance, & Airport

Another way to divide up expenditures is by the units that are funded. This chart shows the major administrative units and the amount of spending authorizations (SSI and tuition) that goes into their budgets. The full budgets are larger than this since these units bring in another \$52.8M in other revenues to pay for some of their costs.

The largest unit is Operations & Maintenance at 17% and another 15% is related to debt service which combined again illustrate that a large part (32%) of our administrative costs is related to space driven by the residential nature of our campus

Glossary

- **Fiscal Year** - The University's fiscal year begins on July 1 and ends on June 30 of the following calendar year.
- **Fund** - An income source established for the purpose of carrying on specific activities or objectives, in accordance with special regulations, restrictions or limitations.
- **Restricted Funds** - Funds whose use has been restricted by an external agency or individual. These funds are limited to support specific purposes and/or units. Examples include certain research awards and gifts.
- **Unrestricted Funds** - Refers to funds that have no external limitations on their use. Examples of unrestricted funds include *Tuition, State Subsidy, Fees and External Sales*.
- **Budget** - The annual plan for the expenditure of estimated resources to support the University's priorities and operations.
- **Operating Budget** - Detailed projection of all estimated income and expenses based on forecasted revenue during a given period (usually one year) to support the operations of the university, including instruction, scholarships and financial aid, and administrative activities.
- **Capital Budget** - Budget/plan for capital assets and infrastructure such as facilities, renovation, information technology, and certain equipment. Appropriations from the state of Ohio are the primary source.
- **Revenue** - Inflow of funds from sales, services, fees, gifts, or other external sources, including the state of Ohio and tuition.
- **Expenditure** - The use of funds to pay for activities related to the operation of the university
- **Base Budget** - Represents resources that are consistent and reasonably anticipated to continue from year to year. For example, salaries for permanent positions are expected to be base funded.
- **One-time Funds** - Resources that cannot be anticipated on a long-term or consistent basis and therefore should not be allocated to support ongoing expenses. Reserves are an example of one-time funds
- **Reserves** - Funds that are not expended during the course of a fiscal year are "carried forward" typically in the form of segregated accounts within each unit's budget and some central areas like healthcare and worker's compensation.
- **Transfers** - Represents financial activity between units within the university for services rendered or in to or out of the operating budget from other areas like plant funds or reserves.
- **The State Share of Instruction (SSI)** - Unrestricted funding that supports a portion of instructional and administrative costs incurred by campuses. Uses an outcome-based funding model based on course and degree completion.
- **GAAP** - Generally Accepted Accounting Principles

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This Glossary includes commonly used terms that we will encounter often during the year.

Glossary

- **Facilities and Administrative Cost Recovery** - An overhead charge the university can include with a grant (mostly federal grants) to pay for costs of facilities and other infrastructure needed to support research activity.
- **Endowment** – money set aside to be invested with the intent that interest earned from the investment will be brought into the operating budget to fund various activities. The university endowment is managed by a separate entity called the OU Foundation that has its own governing board.
- **Quasi Endowment** – operating funds that are set aside by a unit into an endowment that is invested along with the university endowment. The term “quasi” indicates that the funds do not belong to a separate entity and it is possible to bring those funds back and spend them in the future in case of an emergency.

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This Glossary includes commonly used terms that we will encounter often during the year.