

Budget Model, Approach and Annual Process

Budget Planning Council
10/23/23

The purpose of this presentation is to explain the major components of the approach to budgeting and the annual budget process.

Budget Approach

- Budgeting is a resource allocation approach.
- Typically, a challenge of balancing limits on sources of additional resources (revenues) against the uses of those resources (expenses) that are constantly growing at an even faster rate.
- Our budgeting is decentralized with varying amounts of responsibility in the hands of units like colleges along with central control and coordination of many aspects that derive from the budget model used.

Budget Models

- A budget model is a representation of the resource allocation process.
- It shows how resources flow into the budget and how those resources are allocated out to the various budget units (colleges and administrative units).
- The way this flow occurs in the model defines the level of control at the central and unit levels and creates incentives that influence the resource allocation decisions at the unit level.
- The amount of transparency around resource allocation decisions and the amount of control a unit has over its resources varies across budget models.

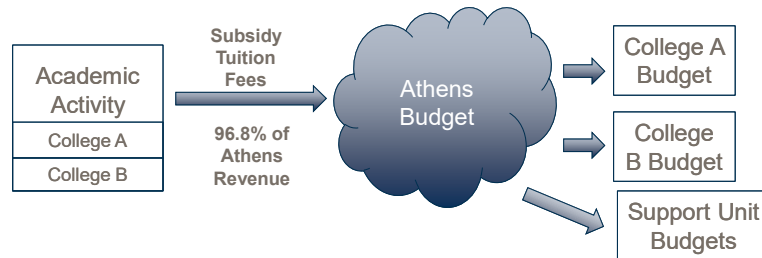
Budgets are planned allocations of resources. Different models will put different amounts of control and therefore responsibility at either the central or unit levels. The transparency of decisions varies as well as the amount of control a unit has over how resources that are allocated to the unit.

Transition from Incremental Budgeting

Issues

- A unit budget is simply last year's budget plus an increment (or decrement)
- No transparency
- No connection between academic activity and level of resource allocation
- No incentives – only lobbying central decision makers.

Incremental Budgeting



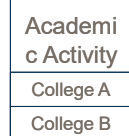
Prior to 2014 we had a budget model that was mostly incremental. While a few off-campus programs were set up to allow a majority of the tuition to flow directly to the college (primarily Executive MBA programs), the majority of the funding of a unit's budget came from a central allocation. This central allocation was fixed with no particular connection to the level of academic activity in the unit. Budgets were incremented each year to cover increases like raises or situations where new positions were allocated to a unit. There was no real incentive to a unit to increase its academic activity unless additional resources could be negotiated from the central decision makers.

2014 Transition from Incremental Budgeting to RCM

Goals

- Represent the resource flow for Responsibility Centers (colleges)
- Create transparency about resource allocation flow including revenue attribution and indirect cost allocation models
- Puts control and also responsibility and accountability at the unit level

Incremental Budgeting



Subsidy
Tuition
Fees

96.8% of
Athens
Revenue



College A
Budget

College
B Budget

Support Unit
Budgets

Goal of RCM



Revenue
Attribution

College A
Budget

College
B Budget

Support Unit
Budgets

Indirect Cost
Allocations

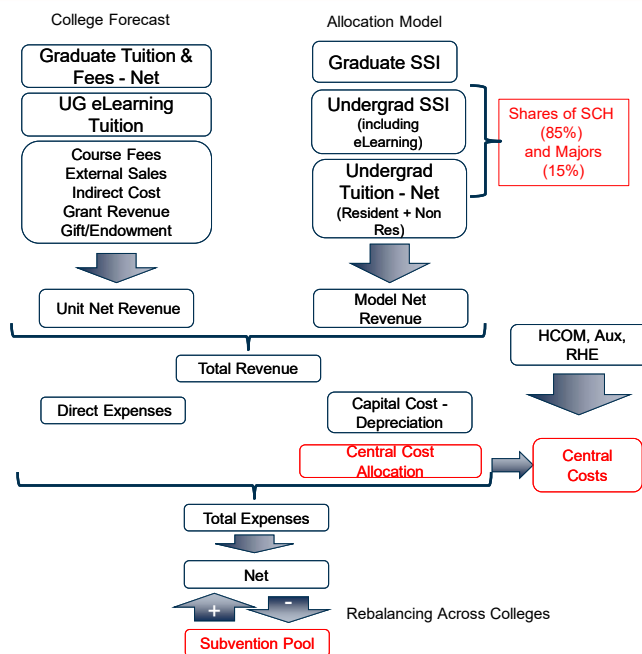
Resource allocation decisions and responsibility shifts to the local college level

In 2013 we started planning for a transition to Responsibility Centered Management. The basic concept was to represent the revenues associated with the academic activity in a college through a Revenue Attribution Model that used inputs such a weighted credit hour production and numbers of majors and to represent the distribution of central costs across units through an Indirect Cost Allocation model that used factors like FTEs and square footage to allocate central costs to the responsibility centers.

RCM Budget Model Structure 2014-19

Issues

- Revenue attribution was too complex to do projections, but all activity had an incentive
- Too much debate on central cost allocation for zero sum gain
- Central Costs lack transparency and incentives for efficiency
- Subvention Pool was a mystery and was used to basically hold everyone harmless – rebasing never occurred

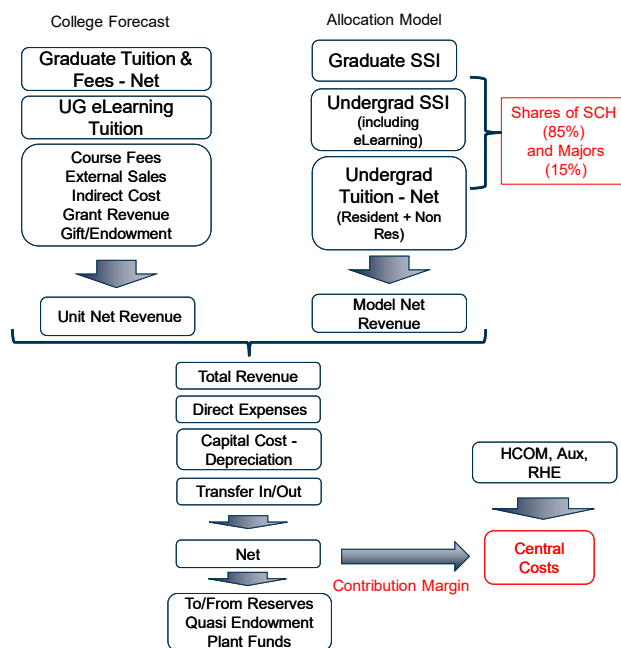


We ran our RCM model for five years. During this period, the revenue attribution and cost allocation models went through numerous changes. For example, SSI revenue was allocated through the model the same way that it came in from the state but over this period the state made many significant changes to its model which then created swings in responsibility center model that were not a result of actual changes in their academic activity. In addition, the factors used in the central cost allocation model kept changing and new concepts like deferred maintenance were introduced which then shifted costs across responsibility centers and affected their bottom lines. As a result, the net for a responsibility center kept changing and the subvention pool was used to counteract this. This meant that the model never stabilized to the point where units could operate under the inherent incentives.

FY20 Margin Model

Issues

- Revenue attribution was simplified but still an abstraction compared to “reality”
- Eliminates debate of central cost allocation
- Central Costs still lack transparency and incentives for efficiency
- Theory was that you “owed” your margin and if you could increase it with more revenue or reduced costs you would keep it

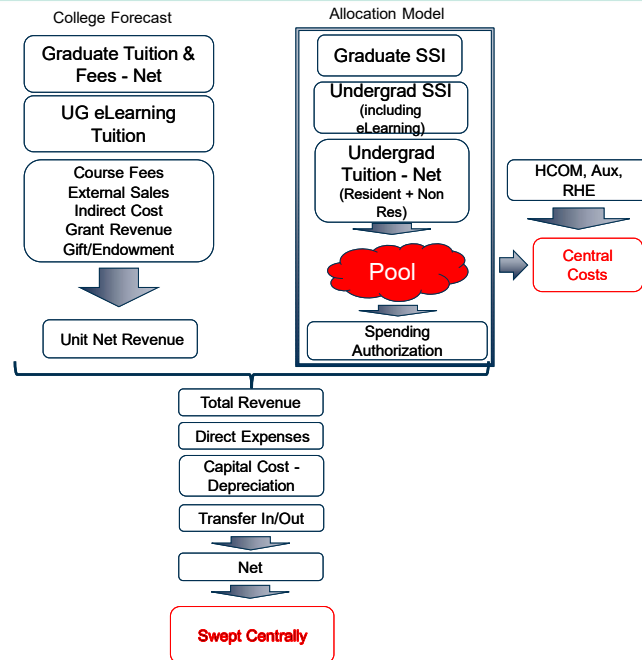


As a result of the challenges with the RCM model, particularly the lack of benefit of doing central cost allocations, the model was adjusted by removing that component while keeping the revenue attribution portion. In that portion, the allocation methodology was simplified to allow for better transparency in how revenues were flowing. This created what we called a Margin model. In this Model, all the revenues are allocated out to the responsibility centers. Their direct expenses to operate were then deducted from that and the remainder became a margin that was collected to pay for all the central costs. As long as a center could pay its margin, it would be able to retain the difference which created an incentive to both keep their costs low and to work to increase their revenues. If a unit could not meet its margin, then it would “owe” the difference and have to adjust their revenue or cost projections in the next budget accordingly.

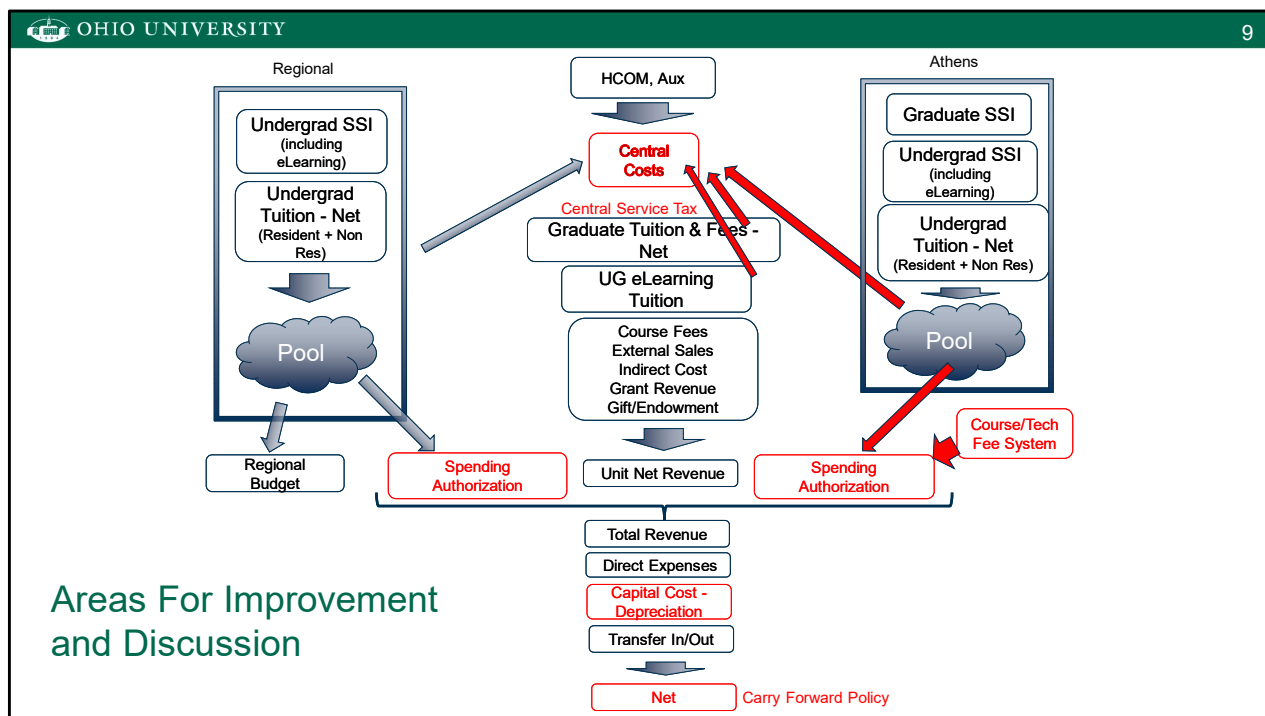
Current Hybrid Model

Issues

- Unit Net Revenue still functions as it did under RCM
- The allocation of SSI and UG tuition is a black box – unclear incentives
- Central Costs still lack transparency and incentives for efficiency
- Net at the end is swept centrally – no carry forward



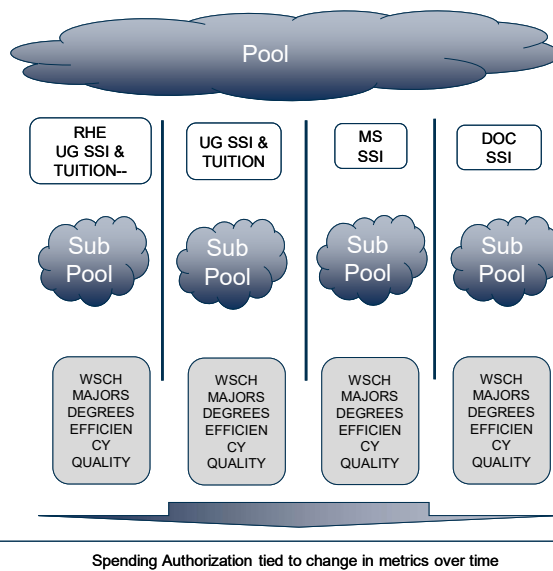
Following a presidential transition, the RCM model was discontinued so the Margin version of the model never really got fully implemented. The model then reverted to most of the revenues (SSI and Undergraduate Tuition) being aggregated centrally and both college and central administrative budgets receiving an allocation (spending authorization) from that pool. Some revenue streams are still allocated directly to the colleges (graduate and undergraduate online tuition) as they were under RCM so that is why this is referred to as a Hybrid model though the majority of the revenues now flow centrally. At this point, there is no connection between academic activity and spending authorizations which is basically an incremental budget again so there is no incentive built into the system to reduce expenses or to increase the academic activity associated with the central revenues.



The budget model is in the process of being reviewed this year. We are currently working on ways to create an incentive structure within this model by creating metrics to link academic activity to spending authorizations even if there are not specific representations of revenues in the budget model. In addition, we are looking at connections between revenues associated with graduate and online activity and the need to fund central services for things like marketing, recruiting and student support that are needed for these programs. A separate allocation associated with segmenting out revenues previously associated with course and technology fees is being considered since costs associated with those activities flow differently than those for general levels of academic activity. An additional part of restoring incentives is the need to restore some sort of full or partial carry forward process.

This hypothetical model also illustrates what would eventually be required if we wanted to integrate regional and Athens budgets together under One Ohio if we continue in that direction. The deferred maintenance allocation remaining from the old RCM model is also being removed

Academic Resource Distribution



To illustrate how we would need to create a connection between academic activity and spending authorizations, this diagram illustrates how we might create separate pools associated with revenues that are differential across various academic activities. For example, Doctoral SSI is associated with the level of doctoral activity in a college. Some colleges, like Business do not have doctoral programs. For each pool, we would need to derive a set of metrics that would measure the level of academic activity. Those metrics would then become associated with part of a unit's spending authorization. Some metrics, like weighted credit hours or enrollments, would apply to all colleges. Others, like research funding, might only apply to some. The goal would be to have a set of metrics for each college such that if a college increased its activity, its spending authorization should increase to provide the resources to support that increase in activity. Similarly, if academic activity decreases, then resources would also decrease. A college's metrics would be compared across time as opposed to comparing metrics across colleges. This gives a college a clear understanding of the incentives that are associated with its resource funding.

Budget Forecasting Shift FY22 to FY23

**Results of Operations
vs.
Use of Reserves**

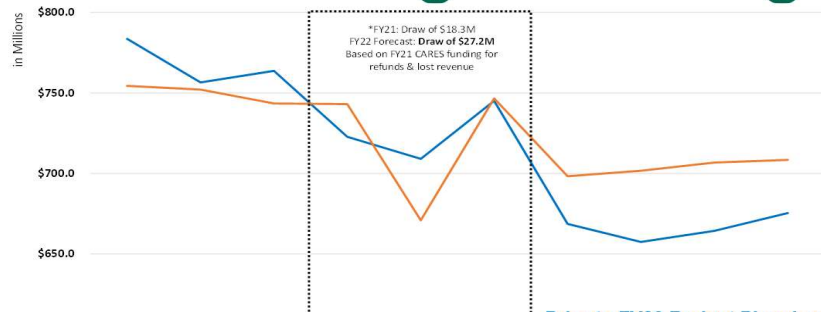
The purpose of this section is to explain how the emphasis in budget forecasting has shifted from a Use of Reserves summary of the budget to a Results of Operations summary.

Prior Emphasis – Use of Reserves

October 2021 Board Meeting

FY22 Forecast & Budget Planning

- FY22 Forecasting Adjustments:**
- +\$27.2M COVID Revenue Deferral
 - +\$3.1M COVID Expenses
 - -\$2.2M Net Tuition & Fees



Compares Revenues to Expenses + Transfers

	FY17 Actual	FY18 Actual	FY19 Actual	FY20 Actual	FY21 * Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast	FY26 Forecast
Revenues	\$783.6	\$756.5	\$763.8	\$722.7	\$709.1	\$745.1	\$668.6	\$657.4	\$664.3	\$675.4
Expenses & Transfers	\$754.4	\$752.1	\$743.5	\$743.1	\$670.9	\$746.6	\$698.3	\$701.7	\$706.7	\$708.4
Use of Reserves		\$4.4	\$20.3	\$(20.3)	\$38.2	\$(1.6)	\$(29.7)	\$(44.2)	\$(42.3)	\$(33.0)
Revenues: Excluding COVID					\$635.8	\$690.7	\$668.6	\$657.4	\$664.3	\$675.4
Expenses & Transfers: Excluding COVID					\$597.6	\$707.6	\$698.3	\$701.7	\$706.7	\$708.4

To understand the shift to a Results of Operations focus for budget forecasting, we will first start with the previous emphasis on Use of Reserves as the way forecasted budgets were evaluated to identify the future financial sustainability of the institution. As the enrollment declines continued from FY17 into FY20, strategies were implemented to use university reserves to phase in budget reductions by using attrition and buyouts. This created a need to focus on the capacity of reserves to be used in this way to avoid using reserves indefinitely to solve budget issue which would not be a strategy leading to financial stability.

This graph was presented to the Board of Trustees in October 2021 as the planning for the FY22 budget was beginning and prior to when academic and administrative units submitted budget projections for FY23. Notice that the two lines are Revenue and the combination of Expenses and Transfers. In the red box the net differences between the two lines is projected out into the future showing the rate at which reserves would be spent if the trends in the two lines remained as projected.

Use of Reserves

- Useful for understanding the balance sheet but not as useful for annual budgeting.
- An institution should have a certain level of reserves in case of emergency - 5-10% of operations. You typically don't want to dip into these funds to support ongoing operations.
- Reserves are also used to accumulate funds over time to pay for large expenditures like capital projects in Auxiliaries and IT.

This graph is useful for projecting potential future use of reserves based on assumptions built into that projection. It is not, however, as useful for assessing the balance between revenue and expenses needed when constructing the annual budget. Reserves play a specific role in the financial health of the institution. Reserves are accumulated in units that have large occasional expenditures that they need to “save for” over time. These are typically investments in facilities or equipment. Reserves are also important as a way to cover unexpected events – like a pandemic. If there is a sudden drop in revenues or large additional expenses, reserves can be used to cover the gap for a short period of time while more permanent solutions are implemented. This use of reserves should not be a long strategy for covering imbalances in the operating budget since eventually the reserves will be exhausted.

Working Capital & Reserve Trends

	FY18	FY19	FY20	FY21	FY22 Forecast*	FY23 Forecast*	
Working Capital	172.8	245.1	227.0	226.1	273.9	220.9	Cash & Liquidity Pools (Tiers 1, 2, & 3)
Working Capital	62.6	120.0	111.6	104.4	148.6	94.1	
Reserves held for Capital Projects	110.2	125.1	115.4	121.7	125.3	126.9	
<i>Auxiliary - Housing</i>	60.0	63.6	55.8	57.9	54.5	52.3	
<i>Auxiliary - Culinary</i>	21.9	24.4	23.5	21.4	22.4	20.9	
<i>Regional Campuses</i>	2.7	1.9	1.3	1.3	1.3	1.3	
<i>College of Medicine</i>	7.5	9.7	0.8	1.8	2.2	2.5	
<i>Information Technology</i>	11.2	17.9	24.8	29.3	33.2	37.1	
<i>Campus Recreation</i>	1.4	1.0	1.9	2.7	3.7	4.7	
<i>Other Repair & Replacement</i>	5.6	6.5	7.2	7.3	8.1	8.1	
Strategic Opportunity Reserve	24.6	22.9	23.0	32.6	35.0	41.8	Liquidity Pools (Tiers 2 & 3)
Diversified Investment Pools	124.6	89.8	73.3	110.3	115.7	123.4	Tier 4 - Operating Reserve & Student Investment Pool
Debt Contingency Reserve	34.9	40.9	61.2	63.6	66.2	68.9	Tier 4 - Debt Contingency Reserve
Total Working Capital	356.9	398.7	384.5	432.6	490.8	455.0	

* Forecasts provided by Treasury Department; excludes Century Bond net assets and associated reserve

The university has strong and growing reserve balances – particularly in Auxiliaries and IT where most of the reserve spending comes from.

The university currently has a strong and growing reserve balance. You will often hear that the university is in a strong financial position. These reserves and the growing trend in those balances are part of that. Strong reserves put the university in a better position to take on debt if needed for things like capital projects. The balances accumulating in the Auxiliary and IT areas represent accumulations targeted at renovating and building dormitories and upgrading in the large financial and student information systems. The Strategic Opportunity Reserve is an investment pool where the university supports investments in strategic efforts such as marketing/recruiting, TechGrowth, advising/retention, etc.

Issues with the Graph

- By combining Expenses and Transfers it is not possible to determine if the Use of Reserves represents planned spending on capital projects or a structural imbalance in revenues and expenses.
- The deficits on the Use of Reserves line were interpreted as a structural imbalance.
- You need to separate the balance of Revenues and Expenses – Results of Operations from planned Use of Reserves.

The challenge with the emphasis on Use of Reserves is that it mixes the planned use of reserves for units like Auxiliaries with any imbalance in the revenues and expenses. This structural imbalance would represent spending in excess of revenues which would require the use of reserves to balance. As indicated before this type of reserve use can help solve short term or unexpected shortfalls but is not a sustainable strategy for balancing a budget.

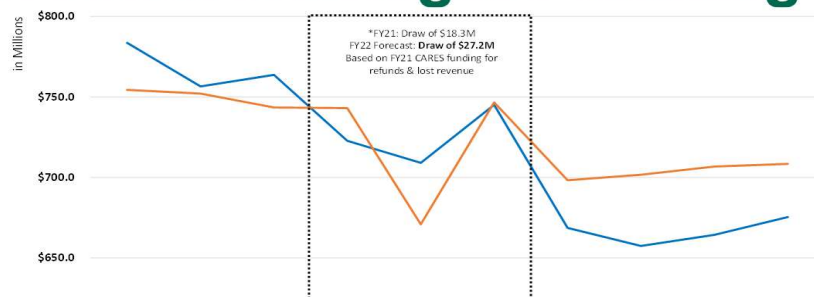
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How much of these deficits is the structural deficit?



Prior to FY23 Budget Planning

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If you look at the reserve use in the first three years, you can see that the university added to reserves during these years when we were starting to feel the effects of the enrollment decline that started in FY17. FY20 was the disruption from COVID where we instantly lost room and board revenue and we dipped into reserves to balance. In FY21 we bounced back but this was due to the influx of federal and state stimulus funds and the decline in expenses triggered by fewer people on campus and fewer people traveling. So, during the COVID years in the box, it is not really possible to assess the ongoing financial stability of the institution.

The future projections in the red box are a forecast based on assumptions. At this point we were still in the pandemic and there was no prediction of enrollments rebounding or students returning fully to campus. So, the revenue forecast was extremely conservative while the assumption was that expenses would bounce back.

The Use of Reserves view then forecasted \$30-40M in reserve use in this scenario would come true. But by combining Expenses and Transfers, the orange line is a mixture of planning spending of reserves with the use of reserves to balance the revenue-expense gap. This structural imbalance is important for the budget process of balancing revenues and expenses but this graph does not tell you what that

structural imbalance is. Without this distinction, the assumption on campus and with the trustees was that we were headed towards completely running out of reserves in a couple years.

Results of Operations – FY23

Here are the same numbers with Expenses and Transfers separated so you can see the equivalent Results of Operations

October*	FY23	FY24	FY25	FY26
Revenues	668.6	657.4	664.3	675.4
Expenses	677.2	681.5	686.4	690.5
Non-Operating Transfers	21.0	20.1	20.3	17.9
Use of Reserves	(29.7)	(44.3)	(42.3)	(33.0)
<i>Operating Results Equivalent</i>	<i>(8.6)</i>	<i>(24.1)</i>	<i>(22.1)</i>	<i>(15.1)</i>
* Noted in presentation that these figures are prior to FY23 Budget Planning				

As noted, these are the results for future years projected in October BEFORE the planning for FY23 (and beyond) began. The purpose of that planning is to address the structural imbalance once you know what that structural imbalance really is.

Here you can see what the underlying Expenses and Transfers are and the resulting Use of Reserves from the graph. By separating out the planned use of reserves we can arrive at the actual structural deficit. The deficits in FY24 and FY25 are driven by the projection that room and board revenue would not recover assuming the pandemic would limit the return to campus as well as uncertainty about the potential return of enrollment levels. Based on this view the FY23 budget process required a solution to an \$8.6M structural imbalance between revenues and expenses as opposed to nearly \$30M.

The \$20M in transfers represents units like Auxiliaries predicting spending on future building projects. These units had been accumulating reserves to pay for these projects. If, in future years, it turned out that they did not have the reserve funds to do these projects then they would have to reduce their planning so they fit within whatever reserves they had available.

Results of Operations Goals

- Results of Operations is the “true” balance between Revenues and Expenses.
- A negative Results of Operations should only exist for brief periods and only with a plan to quickly come back into balance.
- Normally you want a positive Results of Operations so that you have funds to add to reverses for future capital projects.
- Reserve Use to support capital projects with accumulated funds will always be controlled since projects are not started until the funds are accumulated.

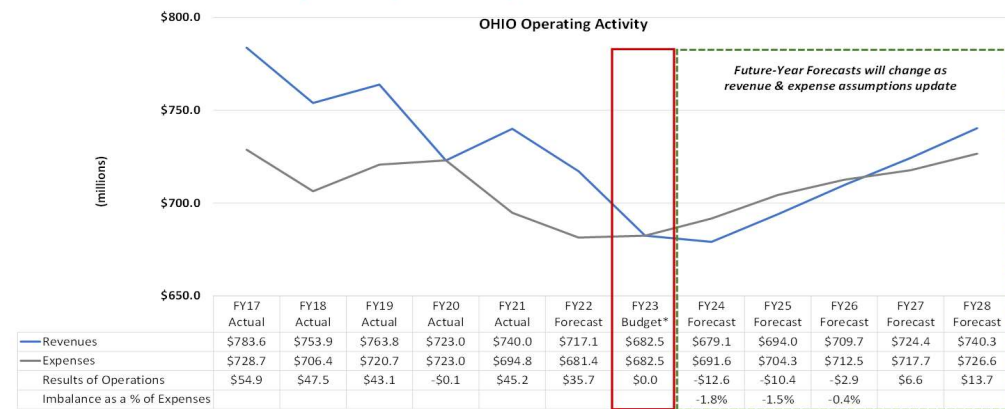
During the budget process last year, the shift was made from summarizing the budget in terms of Use of Reserves to Results of Operations. This allowed us to focus on the structural imbalance which is really where the focus of the budget process needs to be. Typically, you want to have a positive Results of Operations so that units like Auxiliaries can put funds aside to build reserves for future capital projects. A negative Results of Operations will impact reserves to balance the budget and should occur infrequently and only for short periods of time.

New Emphasis – Results of Operations

April 2022 Board Meeting – **AFTER BUDGET PLANNING**

FY23 Budget & Multi-Year Planning

Multi-Year Revenues & Expenses (in millions)



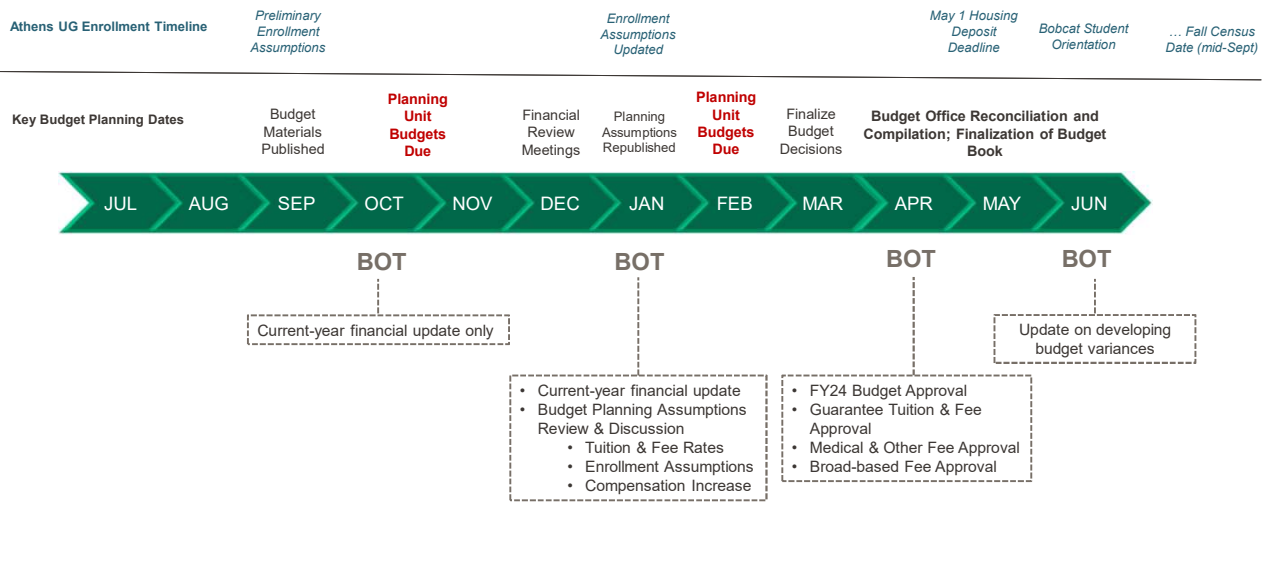
* Excludes COVID FY23 contingency budget of \$1.0M

When you put all of this together the university budget has a balanced Results of Operations. This again includes the conservative enrollment assumptions from April. Those assumptions were also better than November since we had seen a return to on-campus instruction coming out of the pandemic so the revenue line is much better at this point and the structure deficits in FY24 and beyond are much smaller than the November scenario. Normally you want to have positive Results of Operations in order to put “savings” into reserves so the balance in FY23 and the negatives in the future need to be turned around and hopefully the stronger enrollment from this fall is the start of that.

Budget Process and Preparing for FY25 Cycle

This section illustrates how the development of the annual budget is an iterative process based on a set of assumptions that evolve over the course of the year.

Timeline – FY24 Budget Process



To illustrate the iterative nature of the budget process this timeline show the major steps. The graph on the previous slide was the result of planning unit submissions in November. From that point unit March, strategies are implemented to close the gap. These typically include refinement to the enrollment assumptions as we move from just applications in the fall to admits and enrollments in the spring. On the expense side, things like buyouts, changes to raise assumptions and even layoffs are used to achieve balance.

Budget Model

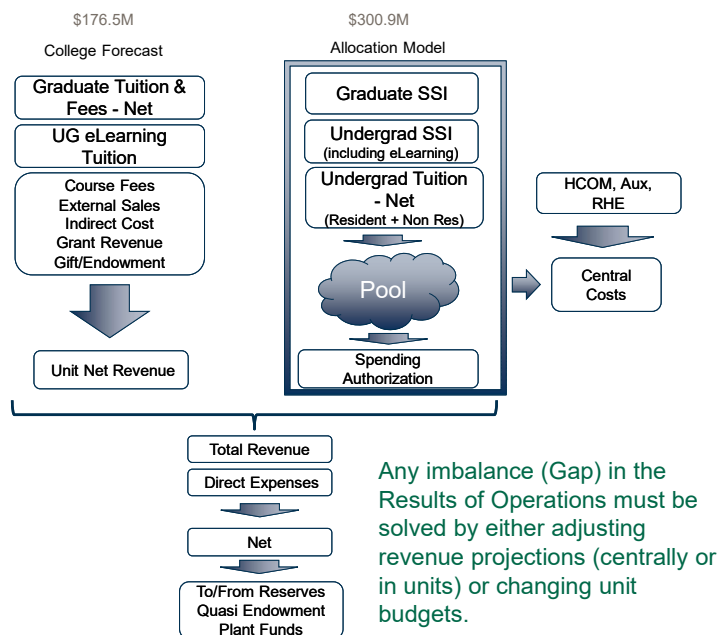
The Budget Model determines the way revenues and expenses flow to colleges and support units.

Revenues (graduate, eLearning, etc.) flowing directly to colleges to provide Unit Net Revenue are forecast by the colleges. **Bottom-Up**

Revenues (UG tuition and SSI) flowing centrally are pooled to pay for central costs support colleges in the form of a Spending Authorization. These revenues are projected centrally. **Top-Down**

Expenses are projected at the unit level driven by central assumptions (raises, health care), and local unit needs. Additional expenses (utilities, financial aid, debt) are projected centrally.

To determine Results of Operations, we need to bring planning unit forecasts together with central projections to see how revenues and expenses balance.



The budget development process is both bottom-up and top-down. Many projections depend on the academic and administrative planning units. They control the forecasting of certain revenues (e.g. off-campus graduate and e-learning revenues) and have the details on retirements or staff turnover. Units control one third of the projection. The remainder is controlled centrally. The projections from these two areas must then be combined to get to the overall balance between revenues and expenses.

Historical Budget-to-Actuals

All Operating Units (All Sources)

	FY18 Budget	FY18 Actuals	FY19 Budget	FY19 Actuals	FY20 Budget	FY20 Actuals	FY21 Budget	FY21 Actuals	FY22 Budget	FY22 Forecast*	FY23 Budget
State Appropriations	\$ 164.8	\$ 166.0	\$ 167.7	\$ 172.0	\$ 175.5	\$ 176.3	\$ 169.0	\$ 186.9	\$ 187.3	\$ 187.3	\$ 180.0
Net Undergraduate Tuition & Fees	241.1	239.0	235.7	231.5	224.9	213.2	173.7	183.8	173.5	169.9	164.0
Room & Board	92.9	92.2	91.4	90.9	87.7	68.4	68.7	25.9	77.6	79.8	84.5
Net Graduate Tuition & Fees	87.1	87.0	96.3	93.2	100.7	96.5	97.8	97.7	96.4	97.6	98.7
Grants & Contracts	51.3	43.5	45.6	49.3	52.2	57.3	71.4	100.3	46.8	79.4	45.5
Private Support	44.0	45.5	48.9	43.4	49.1	44.4	53.9	53.2	55.4	45.5	45.4
Other Revenues	63.8	80.5	66.0	83.5	68.6	66.9	60.4	92.1	56.0	81.6	60.4
Total Revenues	\$ 745.1	\$ 753.9	\$ 751.5	\$ 763.8	\$ 758.7	\$ 723.0	\$ 695.0	\$ 740.0	\$ 692.9	\$ 741.2	\$ 678.5
Salaries, Wages, & Other Payroll	\$ 369.9	\$ 354.6	\$ 373.8	\$ 356.9	\$ 366.7	\$ 361.0	\$ 328.3	\$ 319.1	\$ 332.9	\$ 327.2	\$ 336.9
Benefits	122.6	113.1	121.8	120.1	122.8	121.2	121.9	113.8	115.3	115.3	121.1
Non-Compensation Direct Expenses	197.5	188.6	195.0	186.4	199.4	168.1	196.7	199.6	191.4	204.8	179.7
Internal Loan P&I	51.1	49.0	54.1	53.2	68.1	71.6	61.0	62.7	63.2	65.4	56.0
Total Expenses	\$ 741.1	\$ 705.2	\$ 744.7	\$ 716.5	\$ 757.1	\$ 721.9	\$ 707.9	\$ 695.2	\$ 702.8	\$ 712.8	\$ 693.7
Total Funding Transfers	0.0	1.1	(0.0)	4.2	0.1	1.1	(0.0)	(0.4)	(0.0)	0.0	0.0
Results of Operations	\$ 4.0	\$ 47.5	\$ 6.8	\$ 43.1	\$ 1.6	\$ (0.1)	\$ (13.0)	\$ 45.2	\$ (9.8)	\$ 28.4	\$ (15.2)

Variances to Budget

Results of Operations \$ 43.5 \$ 36.3 \$ (1.6) \$ 58.2 \$ 38.2

One area the FY23 Budget Planning Process focused on was the variance between budget and actual across fiscal years – if we have consistent funds budgeted that are not spent, we could have an opportunity to reduce budget without affecting the actual need for funds

* FY22 Forecast based on Nov 19, 2021 submissions. Assumes \$6.1M FY22 expenses associated with VSRP 2022. Note: CARES/HEERF funds reflected in Grants & Contracts, as well as Other Revenues and Non-Compensation Direct Expenses (offsetting amounts) based on accounting treatment.

As part of the FY23 budget process, we looked at the historical balance between budgeted expenses and the actual amount spent. With the exception of FY20 which is anomalous because the effect of the pandemic, we have consistently under spent the budget. This implies that one way to close the gap between revenues and expenses could be to budget lower expenses since we don't need all of the funds we put into the budget. We could basically decrease budgets and not affect actual unit spending needs.

Historical Budget-to-Actuals

Faculty & Staff Payroll Trends

	FY18 Budget	FY18 Actuals	FY19 Budget	FY19 Actuals	FY20 Budget	FY20 Actuals	FY21 Budget**	FY21 Actuals	FY22 Budget	FY22 Forecast	FY23 Budget
Faculty Salaries	\$ 144.6	\$ 141.7	\$ 147.3	\$ 141.6	\$ 144.7	\$ 140.9	\$ 129.6	\$ 126.8	\$ 130.0	\$ 124.0	\$ 130.0
Staff Salaries/Wages	182.9	168.7	181.4	170.7	178.0	169.5	157.3	158.3	162.2	158.7	166.1
Subtotal: Faculty & Staff Payroll	\$ 327.5	\$ 310.4	\$ 328.7	\$ 312.3	\$ 322.7	\$ 310.3	\$ 286.9	\$ 285.0	\$ 292.2	\$ 282.7	\$ 296.1
Furlough-Adjustment**							11.2				
Furlough-Adjusted Faculty & Staff Payroll	\$ 327.5	\$ 310.4	\$ 328.7	\$ 312.3	\$ 322.7	\$ 310.3	\$ 298.1	\$ 285.0	\$ 292.2	\$ 282.7	\$ 296.1

*Excludes "Other Compensation" line, which contains historical VSRP/ERIP expense costs; salary savings reflected in Faculty FY21 figures

**FY21 Budget included OTO furlough cost-savings of \$13M -- \$11.2M salaries & \$1.8M associated benefits. Furlough was ended in April 2021, and refunds provided to employees for the impact of the first 3 quarters of FY21

Variance to Furlough-Adjusted Budget	(17.1)	(16.4)	(12.4)	(13.1)	(9.6)
Actuals as a % of Furlough-Adjusted Budget	94.8%	95.0%	96.2%	95.6%	96.7%
Total Compensation (Including 16.189% variable benefits)	(19.9)	(19.0)	(14.4)	(15.2)	(11.1)

Personnel costs make up such a large portion of the budget. When units create their budget, they assume that they need 100% of the funding for their positions. In reality, it is almost impossible for larger units to be fully staffing all year and spend their entire budget. Actual compensation expenditure trends 4-5% below budget. So, at the macro level, we decided to budget 97% of compensation in all units with the provision that if a smaller unit does not experience that level of savings, they are not expected to cut expenditures to achieve it. The next step for FY24 will be to look at non-compensation expenses in a similar way.

When looking more closely at spending that is below budget, compensation was one of the main area where this was occurring. Units naturally will build a budget assuming that 100% of their positions are filled throughout the year. In reality, especially with larger units, it is impossible to be 100% staffed for the entire year. People are continually leaving and being hired and this churn keeps the actual spending on compensation are around 95-95% of budget. It is not possible to predict exactly which positions will be unfilled but at the planning unit level it is fairly predictable that 5-6% of the budget will not be needed. So, starting in FY23, we have introduced a vacancy savings factor of 3% into all units budgets. While not all units will achieve this level and others will exceed it, on average this is a conservative estimate of the likely savings at the macro level. This included a provision that if a smaller unit does not experience that level of savings, they are not expected to cut expenditures to achieve it.

The next step for FY24 will be to look at non-compensation expenses in a similar way.

FY24 Budget Forecasting



- Now focuses on Results of Operations
- Projecting beyond next year was always very inaccurate when you look at historical budget to actuals.
- Uncertainty is much higher given the transition out of COVID, more unpredictable enrollment patterns and legislative changes

Here is what the FY24 budget looks like under Results of Operations. In addition, we are no longer trying to project the full budget out an additional four years. We still make longer term projections of enrollments and expenses but we do not try to forecast the entire budget since those forecasts have become extremely unreliable given factors such as COVID, larger swings in enrollment and uncertainty about legislative actions around subsidy and tuition caps. This uncertainty creates affects our budget assumptions which then create large swings in the budget, particularly as you try to got beyond the next year.

FY24 Operating Budget

All Funds, Operating Activity (in millions)	FY22 Results	FY23 Forecast	FY24 Budget
Net Tuition & Fees; Room & Board	347.5	353.5	363.4
State Appropriations	187.3	185.6	182.3
Gifts & Endowment Distributions	43.7	55.4	45.5
Grants & Contracts	81.1	55.8	64.1
Investment Income	0.5	6.6	7.1
Internal & External Sales	58.5	72.5	61.9
Total Revenues	\$ 718.6	\$ 729.5	\$ 724.3
Compensation	444.5	457.0	473.1
Supplies, Services, & Capital Costs	165.6	191.2	193.9
Debt Service	66.7	56.9	51.7
Total Expenses	\$ 676.8	\$ 705.1	\$ 718.7
Results of Operations	\$ 41.9	\$ 24.4	\$ 5.6

Assumptions

- 4200 freshmen
- 0% tuition cap
- 0% increase in SSI

*FY23 Forecast as of August 2023

This is a high-level summary of the FY24 budget when it was created last May. At that point in time, the legislation had not passed the biennial budget, so we did not have a reliable assumption for tuition rates or SSI. In addition, we had only experienced one year of higher enrollment so we did not have much certainty about whether we would be able to duplicate that so our enrollment assumption was higher at 4200 but not all the way up to 4500

FY24 Budget Update

The State Budget approval and higher incoming class enrollment netted overall favorable variances to our FY24 budget planning assumptions:

- + \$1.3M Net UG Tuition Rate +3%, (budgeted 0%)
- + \$3.2M SSI increase +1% (budgeted 0%)
- + \$2.7M +300 incoming students* (budgeted 4,200)
- \$4.9M Change in Debt Service
- + \$2.3M Total Change**

* Does not include incremental expenses associated with the additional students which will slightly offset revenues.

All Funds, Operating Activity (in millions)	FY24 Budget	FY24 Forecast	Operations Impact
Net Tuition & Fees; Room & Board	363.4	367.4	4.0
State Appropriations	182.3	185.5	3.2
Gifts & Endowment Distributions	45.5	45.5	-
Grants & Contracts	64.1	64.1	-
Investment Income	7.1	7.1	-
Internal & External Sales	61.9	61.9	-
Total Revenues	\$ 724.3	\$ 731.5	\$ 7.2
Compensation	473.1	473.1	-
Supplies, Services, & Capital Costs	193.9	193.9	-
Debt Service	51.7	56.6	4.9
Total Expenses	\$ 718.7	\$ 723.6	\$ 4.9
Results of Operations	\$ 5.6	\$ 7.9	\$ 2.3

Once we got into this academic year, we were able to change our assumptions and do a forecast for FY24 which was presented at the October Trustee's meeting

Assumed 4,200 students for the incoming cohort, trending to 4,500 – 4,525 students.

Revenues for each 100 additional students:

+ \$0.9M Undergraduate Tuition Net Revenue

+ \$2.0M Room & Board Gross Revenue

Additional students will result in increased expenses across campus which will slightly offset revenues.

Quick math for the additional 300 students which does not include additional expenses to support the higher number of students:

+2.7M UG Tuition Net Revenue

+6.0M Room & Board

In addition, some internal loans within units were not correctly included in the initial budget so that expense is also being updated in this forecast.

Additional funding requests for FY24 will be evaluated throughout the year.

Preliminary FY25 Planning – New Cycle

Adding 1.3M for 3% Tuition Rate Increase

Adding 7M for 2% Raise Scenario

Fall Budget Submission 10/30

- Scholarship expenses will likely continue to go up
- This assumes we can keep the freshman class size stable
- We already know that graduate and OHIO Online revenues will be challenging
- There will be additional inflation of health care expenses
- We are having to add staffing in response to enrollment (instructional capacity, advising, etc.)



As we now begin the FY25 budget process, our budget does not have any cushion. We already know that the ability to add new revenues will be constrained while our expenses will inflate. This will create a gap when we compile all the budgets submitted in the fall cycle and the challenge will be to close that gap to create a balanced FY25 budget.