The University Budget Committee wants to help
UNIVERSITY BUDGETS

University Budget Committee
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With special thanks to
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UNIVERSITY BUDGETS

- Brandeis budget process
- Critical budget concepts
- Focus on Brandeis: Special topics

Link
**PROCESS: TIMELINE**

Late summer: Initial budget review - Assumptions?

October-November: Prepare unit budget requests

December-January: Review & adjust unit budget requests

February-March: Final adjustments

March or May: Trustee review & approval
Process details: Could change with new president

Key principles likely to survive
1. Build budget from the bottom up
2. Seek transparency
3. Academy should be “first among equals”
Who has authority in setting budget outline?
- For example: Number of students? How much financial aid?

Before 2011: Top-down
- Decisions from the center
  - Limited consultation with deans, department heads
  - E.g., “We expect your area to go grow 4.5%”
- Problem: What if assumptions aren’t realistic?

Since 2011: Bottom-up
- Key assumptions built on input from areas
  - How many students can you enroll of good quality?
Before 2011: Opacity
- Few were involved so few understood the process
- University community sometimes surprised
  - Lack of care for existing infrastructure
  - Golden parachutes

Since 2011: Enhanced transparency
- IPBC: Integrated Planning and Budget Committee
- New committee with university-wide membership
  - Chair: Provost
  - EVP Finance/Administration, CFO
  - Deans, Administrative department heads
Before 2011: Academy second fiddle
- Top dog under president: Chief Operating Officer

Since 2011: Academy “first among equals”
- Provost position restructured
- Provost chairs the IPBC
PROCESS: WHO?

Board of Trustees
Budget & Finance Committee

President
Provost
EVP Fin/Admin

Integrated Planning & Budget Comm
Fiduciary responsibility for University’s success

- Legally accountable for university sustainability
  - Examples
    - Liquidity
    - Risk management
    - Debt ratings

Actions

- Provide budget guidelines
  - How much debt?
  - What endowment draw? (Stay tuned)
- Review and approve budget in spring
President
- Responsible for process but not involved day-to-day
- Resolves differences between Provost & EVP Fin/Admin

Provost, EVP Administration/Finance
- Provost “first among equals”
  - Runs process chair of Integrated Planning & Budget Comm.
- They share responsibility for managing budget process

Integrated Planning and Budget Committee
- Reviews all budget requests
- Supported by unit budget managers
University Budget Committee

- Faculty (5) and administrators
  - incl. Provost, Dean A&S, CFO or Chief Budget Officer
- Chair represents faculty interests on IPBC

One requirement: Review budget and report annually

- With Lisa as Provost, this happens earlier to enhance faculty influence
- Faculty Survey on Budget Priorities clarified faculty concerns

What else? It’s up to the committee

- Proposal for employee minimum wage of $15.05
  - Largely adopted spring 2015
- Document on criteria for presidential compensation
  - On Faculty Senate website
- Statistical analysis of presidential compensation across the country
  - Trustees relied on this heavily in searching for new president
Influencing the Process?

- Current system’s goal: Level playing field
  - Bottom-up: Maximizes input from stakeholders
  - Transparency: Minimizes distortions

- Speak with your department head, division head, dean
  - About what?
    - Help them understand the needs you see
    - Help them represent those needs persuasively
      - Evidence, logic, etc.
  - When? By November

- Tell us about it on the Faculty Budget Priorities Survey
  - Comments reviewed carefully

- Remember: EVERY AREA has important unmet needs
Brandeis budget process

Critical budget concepts
- Illustration: Budgeting for a mansion
  - Operating budget
  - Capital budget
  - Balance sheet

Focus on Brandeis: Special topics
YOU INHERIT A MANSION!!
Your mansion is worth £100 million
  - And it’s on National Heritage List!
  - Which brings serious responsibilities for ...
    - Upkeep
    - High society

Fortunately
  - The mansion is popular for tourists, weddings, movie sets
  - AND you inherited financial wealth of £200 million!

Of course ...
  Just keeping track of all this is hard work
Operating budget: *Recurring* revenues & expenses

Capital budget: *One-time expenses* for major projects

Balance sheet: *Snapshot* of What-you-OWN & What-you-OWE
Operating budget: **Recurring**

<table>
<thead>
<tr>
<th>Recurring Revenues</th>
<th>£35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourists, movie sets, wedding</td>
<td>£25</td>
</tr>
<tr>
<td>Income from financial wealth (5%)</td>
<td>£10</td>
</tr>
<tr>
<td>Recurring Expenses</td>
<td>£33</td>
</tr>
<tr>
<td>Salaries (tour guides, bookkeeper) Other (heat, marketing) ...</td>
<td>£20</td>
</tr>
<tr>
<td>Debt service</td>
<td>£3</td>
</tr>
<tr>
<td>Depreciation (estimated)</td>
<td>£10</td>
</tr>
<tr>
<td><strong>Surplus</strong></td>
<td>£2</td>
</tr>
</tbody>
</table>

- **We smooth the budget**
  - Rather than take every year’s gains/losses from stock market
  - We take 5% of 3-year-average financial wealth

- **Depreciation funds are set aside for renewal/restoration projects**
  - Every year there’s something - if it’s not the roof it’s the heat....

- **Surplus serves as rainy-day funds**
  - What if there’s a financial crisis and tourism dries up?
Capital budget: **1-Time Expenses**

- New buildings
- Existing buildings: Major renewal / restoration projects
  - Anything that materially “extends asset’s useful life”

<table>
<thead>
<tr>
<th>1-Time Expenses</th>
<th>£16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renew: Turn mansion’s south wing into conference venue</td>
<td>£5</td>
</tr>
<tr>
<td>Restore: Replace leaky roof</td>
<td>£11</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>£16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings account (depreciation funds)</td>
<td>£13</td>
</tr>
<tr>
<td>Gifts &amp; grants</td>
<td>£ 3</td>
</tr>
</tbody>
</table>

- Ahem: Against all good advice we’ve adopted “run to fail”
  - Use everything until it dies
  - Cost would have been £6 if repairs had come before rot
### Balance Sheet: Snapshot

- Of what we OWN and what we OWE

<table>
<thead>
<tr>
<th>What We OWN (£ mns)</th>
<th>What we OWE + NET WORTH (£ mns)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings account 35</td>
<td>Debt 60</td>
</tr>
<tr>
<td>Checking account 15</td>
<td></td>
</tr>
<tr>
<td>Endowment (Financial wealth) 200</td>
<td>NET WORTH (OWN - OWE) 290</td>
</tr>
<tr>
<td>Mansion 100</td>
<td>Liabilities &amp; NET WORTH 350</td>
</tr>
<tr>
<td><strong>Total assets 350</strong></td>
<td></td>
</tr>
</tbody>
</table>

- **Savings account** includes
  - Depreciation set-asides from operating budget
  - Surplus set-asides for rainy day
- **Checking account** used for paying salaries, bills ....
UNIVERSITY BUDGETS

- Brandeis budget process
- Critical budget concepts
- Focus on Brandeis & Special Topics
  - Operating budget
    - Endowment draw
    - Administrative expenses
  - Capital budget
    - New vs. existing buildings
  - Balance sheet
    - Rainy-day fund (a.k.a. “quasi-endowment” or “reserves”)
**Operating budget:** **Recurring**
- Figures from 2015-2016, rounded off

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring Revenues</td>
<td>$330</td>
</tr>
<tr>
<td>Recurring Expenses</td>
<td>$328</td>
</tr>
<tr>
<td>Surplus</td>
<td>$ 2</td>
</tr>
</tbody>
</table>
### Operating budget: Recurring
- Figures from 2015-2016, rounded off

<table>
<thead>
<tr>
<th>Recurring Revenues</th>
<th>$ 330</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net tuition, fees, housing/dining</td>
<td>180</td>
</tr>
<tr>
<td><strong>Gross tuition, fees, housing/dining</strong></td>
<td>275</td>
</tr>
<tr>
<td><strong>Financial aid</strong></td>
<td>( 95)</td>
</tr>
<tr>
<td>Sponsored programs (mostly research)</td>
<td>65</td>
</tr>
<tr>
<td>Endowment draw</td>
<td>40</td>
</tr>
<tr>
<td>Gifts &amp; related items</td>
<td>25</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
</tr>
</tbody>
</table>
Operating budget: **Recurring**
- Figures from 2015-2016, rounded off

<table>
<thead>
<tr>
<th>Recurring Expenses</th>
<th>$ 328</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; benefits</td>
<td>165</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>68</td>
</tr>
<tr>
<td>Sponsored research</td>
<td>55</td>
</tr>
<tr>
<td>Interest</td>
<td>10</td>
</tr>
<tr>
<td>Depreciation</td>
<td>30</td>
</tr>
</tbody>
</table>
ISSUE: ENDOWMENT DRAW

How much revenue from endowment each year?
- One view: A lot! University has important unmet needs.
- Another view: By that logic we could spend it all this year ...
  - ... which would be unfair to the future University

Standard compromise
- At a minimum, maintain endowment’s purchasing power
How much revenue from endowment each year?
- Standard compromise: Maintain endowment’s *purchasing power*

Rules of thumb
- **Pre-financial crisis**
  - Stocks & bonds could be expected to earn 8% / year
  - Inflation expected to be 2% / year
  - Maximum sustainable spending is 6% / year
- **Now**
  - Stocks & bonds can be expected to earn 6% / year
  - Inflation expected to be 1-2% / year
  - Maximum sustainable spending is 4-5% / year
Good news / Bad news

- **Good news**: Our endowment draw is 'way down from 1990s
- **Bad news**: Endowment draw still high at **5.9%**
  - Far above peer institutions (4.2% in 2015)
Perspective on endowment draw

- Swarthmore’s maximum allowable drawdown is 5.0%
  - February 22, 2016, statement

Due to market volatility and the negative returns experienced so far during this fiscal year, the endowment spending rate for 2016-17 and the next few years is projected to approach **5.0 percent, the outer limit of the College’s endowment spending policy** (italics added)
Comparison: Historical draw rates vs. 5% goal
- Assume $100 million in 1990, conservatively invested*

Historical stock, bill, bond returns and inflation rates

$118 $68 +74%

74% ⇒ Additional $650 mn value given $900 mn endowment
⇒ Additional $33 mn/yr revenue at 5% draw
ISSUE: ADMIN. EXPENSES

Are administrative expenses growing relative to all expenses?  NO

Consistent with Traquina’s info (next slide)
ISSUE: ADMIN. EXPENSES

Staff FTE per 1,000 Students

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B’deis</td>
<td>211</td>
<td>28 Peers</td>
<td>364</td>
</tr>
<tr>
<td>AAU</td>
<td>373</td>
<td>AAU Private</td>
<td>574</td>
</tr>
</tbody>
</table>

Source: IPEDS
**Capital Budget**

- **Capital budget:** *1-Time Expenses*
  - New buildings
  - Existing buildings: Major renewal / restoration projects

- **Representative capital expenses at Brandeis**
  - New buildings: Mandel Center, Shapiro Admissions, Science
  - Renovating dorms & classrooms: Castle
  - Sustainability: Install insulation, Replace aging steam pipes
  - Technology infrastructure
Perennial issue at universities: Balance between new & old buildings

Before 2011, capital expenditures focused on new buildings
  - Upside: Shapiro Campus Center, Mandel, Science, Admissions
  - Downside: Existing buildings deteriorated faster than they were repaired

Since 2011, focus on preservation & renewal
  - Upside: We’re working through the backlog of building troubles
    - Though progress is slow
  - Downside: Fewer new buildings
ISSUE: NEW BUILDINGS vs. EXISTING BUILDINGS

- Evidence for shift in capital budget focus
  - Before 2011: Focus on new buildings
  - Since 2011: Focus on preservation & renewal
Snapshot of what we OWN and what we OWE

<table>
<thead>
<tr>
<th>What We OWN ($ mns)</th>
<th>What we OWE + NET WORTH ($ mns)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; liquid assets</td>
<td>55</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td><strong>30</strong></td>
</tr>
<tr>
<td>Long-term Investments</td>
<td>940</td>
</tr>
<tr>
<td>Property/Plant/Equip. net</td>
<td>340</td>
</tr>
<tr>
<td><strong>Historical cost</strong></td>
<td>690</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(350)</td>
</tr>
<tr>
<td>Other assets</td>
<td>50</td>
</tr>
<tr>
<td>NET WORTH</td>
<td>1075</td>
</tr>
<tr>
<td>Total</td>
<td>1415</td>
</tr>
<tr>
<td>Total</td>
<td>1415</td>
</tr>
</tbody>
</table>

University Financial Statement 2015. Endowment $915
“Pledged contributions” down since 2009
Endowment has two segments

- Gifts from generous supporters  $800 mn
  - Typically restricted in use
  - Roughly 2,000 individual gifts tracked individually over time

- Rainy-day funds (“quasi-endowment”)  $115 mn
  - NOT restricted in use
  - Sources
    - University surpluses on operating budget, set aside
    - Sale of Brandeis House
    - Sale of President’s house
During the financial crisis, Brandeis relied on rainy-day funds we had set aside earlier.

Brandeis Rainy-day Funds (a.k.a. “Quasi-Endowment”)

- Crisis: Down $30 mn
- Brandeis House: $115 Million

FY2008 to FY2015
Unrestricted access makes rainy-day funds special

- Rainy-day funds tide us over tough times
- Rainy-day funds let us borrow more cheaply
  - Our credit rating depends partly on these reserves
    - They help convince lenders we’ll be able to service our debt
Our rainy-day funds are not generous

- We run a lean operation
- Comparison with academic peers
  - Brown, Cornell, NYU, Tufts, Washington University

<table>
<thead>
<tr>
<th></th>
<th>Brandeis</th>
<th>Other Schools, Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spendable Cash &amp; Investments / Total Debt (ratio)</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Spendable Cash &amp; Investments / Operating Expenses (ratio)</td>
<td>1.2</td>
<td>1.9</td>
</tr>
</tbody>
</table>
We are using up our rainy-day funds for two reasons

1. Sometimes they fund outright deficits
2. We use them to draw more than 5% from the whole endowment

To illustrate: SUPPOSE .... (this is all just to illustrate)

- This year we need $50 mn from endowment, or 5.5% on $915 mn
- But we can draw **at most 5%** from restricted endowment funds
  - Restricted funds are $800 mn, so they can give us $40 mn
- The remaining $10 mn must come from unrestricted funds
  - Unrestricted funds are $115 mn
  - Implies 8.5% draw rate from unrestricted (rainy-day) funds
    - (8.5% = $10/$115)
- Average draw rate of 5.5% is thus
  - 5.0% on regular endowment and
  - 8.5% on rainy-day funds
BRANDEIS BUDGET: IN SUM

- **Process**
  - Fall to spring
  - Three principles: Bottom-up, Transparency, Academy

- **Concepts**
  - Operating budget: *Recurring*
  - Capital budget: *1-Time*
  - Balance sheet: *Snapshot of OWN and OWE*
BRANDEIS BUDGET: TOPICS

- **Operating budget**
  - Endowment draw: We’re far above our peers
    - More today means less tomorrow
  - Administrative expenses: Not exploding

- **Capital budget**
  - Currently, emphasis is on existing buildings
    - Addressing mountain of deferred maintenance

- **Balance sheet**
  - Rainy-day funds (“quasi-endowment”)
    - Critical for crises because use is unrestricted
    - Do we have enough?
Natural to wonder “Where’s the hole?”
- Why does Brandeis always seem short of funds?
  - Despite endowment, great students, top-notch researchers

Brandeis is unique among research universities
- Unique model: Small liberal arts research university
  - High priority on student learning as well as research
  - Small tuition base, high-cost research
- Commitment to access and social justice
- Large campus with aging infrastructure
- Young endowment, young alumni base

Unique model brings unique challenges