



Budgeting Basics for New Academic Chairpersons

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Doug Lees

Doug Lees (now Professor and Chair Emeritus) was previously Professor of Biology and Associate Dean for Planning & Finance in the School of Science. His chair role covered nearly two decades. Campus projects focused on student retention, graduation rates, student initiatives in Gateway courses, the development of the freshmen work program, the development of an MS Program for students seeking admission to professional health programs, and in establishing career-based internships for students in the health sciences. His scholarship includes research on yeast sterol biosynthesis and higher education topics such as department organization and structure, post-tenure review, faculty evaluation, and fostering change. He has published widely on these and other topics related to departmental leadership and has authored *Chairing Academic Departments: Traditional and Emerging Expectations* (Anker/Jossey Bass, 2006). Doug holds a BA in Biology from Providence College and a PhD from Northwestern University with a specialty in Microbiology.



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David Malik

David Malik is a Chancellor's Professor Emeritus of Chemistry and Chemical Biology. He has had a number of administrative roles, including a ten-year stint as chair of the Chemistry Department, almost three years as the Associate Executive Vice President for IU in statewide academic affairs, almost three years as Director of the IU Teaching Academy (FACET), and seven years as Executive Vice Chancellor for Academic Affairs (provost) at IU Northwest. Returning to IUPUI, he served as Interim Associate Vice Chancellor for UG Education and Dean, University College. After early work in disciplinary research in theoretical chemistry, his interests turned to academic and administrative issues, especially chair functions and roles, teaching practice and the scholarship of teaching and learning, and responsibilities from both departmental and institutional views. He has a BS degree in chemistry, MS in applied mathematics, both from California State University, and a PhD in Theoretical Chemistry from the University of California at San Diego.



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Jane Williams

Jane Williams is Associate Professor of Industrial/Organizational Psychology and the Associate Dean for Academic Affairs and Strategic Initiatives in the School of Science. She is also a former Interim Chair of Psychology. Her research focuses on performance management and feedback systems. She has done extensive training with teams and small groups on topics such as communication, conflict resolution, team building, and strategic planning. She co-led the strategic planning process in the School of Science at IUPUI and recently implemented a mentoring program for Associate Professors. Her School of Science portfolio includes working on professional development for faculty and addressing issues applicable to non-tenure track full time faculty. She received her MS and PhD in Industrial/Organizational Psychology from the University of Akron.



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Observations on Our Topic

- Sparse and random helpful literature on department budgeting
- Conflicting budget models with a lack of “feel” as to where to start
- Tightening budgets and emerging funding threats globally indicate the need for chair creativity and fiscal acumen
- A session on budgeting *at this conference* in 2018 has provided the following guidance:
 “Assume nothing and start at the beginning!”
And that is our approach today.
- Overarching questions from chairs: (1) How to get more finding and (2) How to get more policy flexibility?



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Selected Terms We Will Use

Salary Savings	Responsibility Center Mgmt (RCM)	F&A: Facilities & Administration
Hospitality	Responsibility Center	Fiscal Responsibility
Fungibility	Priorities vs Needs	Recommend vs Approve
Zero Base	Foundation accounts	Incremental Funding
Stewardship	Buy-outs	Disbursements
Indirect Cost Recovery	Carry-over	Assessments

Blue terms are especially important concepts to develop more options to optimize your priorities. Additional terms and definitions are included in slides at the end of the presentation.



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Session Objectives

- Importance of Dean-Chair Communication
- Introduce the basics of budgets and systems
- Help identify sources of budget funds and how allocations are determined
- Review common account types that chairs may likely manage
- Identify “local” questions for your dean and others: clarify availability of resources, your resource flexibility, your fiscal obligations, options and incentives to improve allocations.
- Explore opportunities with fungibility and carry-over options
- Explore options for you, your Dean, and fiscal officers to expand allocations or otherwise improve expenditure flexibility.



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Audience Queries

- **If you are a chair, what did you know about the department’s budget before your appointment?**
 Amounts, categories, flexibility, policies, or otherwise...
- **What did you wish you had known in advance?**
- **If you are about to become chair, what do you know (or have been informed) about the department’s budget?**



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Common Budget Models - What is yours?*

1. Historically-based incremented +/- annually according to available institutional funding
2. Zero-based, start from scratch, budget hearings (AKA “the begging system”)
3. Activity-based
4. Productivity-based (or Performance-based)
5. Centralized: done at a higher level
6. Responsibility-Centered Management (RCM)
7. Other?/Don't know?

* The institutional model does not necessarily apply at the department level, but represents an important perspective.



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Audience Exercise

What are the sources of income* that our *universities receive* that form a basis for departmental budgets?

- 1.
- 2.
- 3.
- 4.
- 5.
- ...

*excludes auxiliary (athletics, TV contracts, spirit wear, etc.) income



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Operational Budget (OB/DB) vs Personnel Budget (PB)

- OB is the allocation for routine, repeating expenses such as office supplies, laboratory materials, travel, hourly wages, capital purchases, guest speakers, and, in some cases, grad student/adjunct instructor stipends/salaries.
Items where the chair has expenditure flexibility are often called the Discretionary Budget (DB).
- PB contains salaries and fringe benefit funds for all full-time faculty and staff.



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OB/DB Queries for the Dean

Impacting Budget Size

- What sources of academic income are used to establish department budgets?
- Which are used to set my budget? Are all the appropriate sources on the list?
- Are sources represented in a proportional, quantitative manner (or formulaic)?
- What other factors influence my budget?

If answered, you will know (or be able to estimate) what proportions of tuition and various fees come back to you, whether fee allocations are separate calculations from the tuition split, how to influence your allocation, proposing new fees, etc.



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OB/DB Queries for the Dean

Budget Sharing and Responsibility

What does the Department vs Dean (or others) pay for? Are any categories subsidized?

Items for which the answer may vary; all can be substantial:

- adjunct compensation
- new faculty start-up
- space allocations (with rent?)
- remodeling/renovations/maintenance
- major equipment acquisition
- graduate student stipends or tuition subsidies
- student initiatives (recruitment, retention)
- salary increments and options to impact change



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OB/DB Queries...

Information on Status and Analysis

- Is a comprehensible, monthly budget report provided to chairs?
- Is help available from a knowledgeable fiscal person in the unit to understand terms used in the report?
- Is expert analysis of the budget encouraged for chairs to help improve expenditure judgements?

You may need staff help to extract the numbers you want to know (e.g., category balances, end-of-year projections, etc.) in order to address needs or reallocations. Consulting with other chairs is often helpful.



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OB/DB Queries...

Discretionary Options for Reallocation

Fungibility: Allows for the movement of funds among expense types and/or classes, giving a chair great flexibility in proper stewardship.

- Is your budget provided as a lump sum, or distributed into set expenditure categories?
- Can you move funds between categories, or does it require budget office or dean approval?
- What conditions allow for transfers among categories or accumulating funds for an opportunity?

Rationale: Fungibility helps resolve problems or address unanticipated needs that arise.

If deficits occur, fungibility reduces potential for year-end negative impact since other category surpluses can cover them.



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OB/DB Queries...

Fiscal-year-end Options

At the end of the year, what happens to a surplus or deficit in the department account?

- The “use-it-or-lose-it” approach results in wasted resources and end-of-year spending frenzies.
- How do I accumulate/set aside funding for larger purchases or future special expenses?
- Reality: Administrative attention is drawn to idle dollars in accounts or large end-of-year surpluses. Is this a sign of over-funding?

End-of-Year status: Surplus or deficit? What is institutional policy, and is “Carry-over” possible?



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Carry-over

Does the dean consider requests for carry-over fund use based on departmental needs, strategic plan items, or unanticipated circumstances?

- Prepare a justification of the use of carry-over funding that supports both unit/department strategic plans.
- Reinforce your efforts to build improved stewardship of institutional funding.
- Show how the benefits of carry-over will be fiscally valuable to the Dean and unit.



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Carry-over...

If fungibility exists, some strategies to use when carry-over is *disallowed*. Budget Offices often limit expenditures in last month of fiscal year to suppress “spending”.

- Plan purchases well-ahead ahead of fiscal year end for essential, future needs: materials, supplies, or services
- Opportunity to fund meritorious projects that are on hold.
- Pool resources with other departments to purchase something that department needs understanding that this may need to rotate to other departments in the future.



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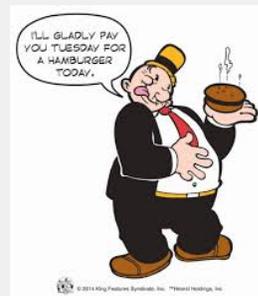
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Deficit strategies

Solutions may be addressed by carry-over policies which can allow solutions into the following Fiscal-Year (FY). You need to anticipate any FY deficit and the reason for the deficit in your conversations with Dean.

Will deficits be addressed by the institution or unit? (upper limits, frequency, justifications)

Can a deficit be resolved over a multi-year time frame?



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Personnel Budget (PB)

- For most of us, PBs are much larger than the OBs, often up to 70-80% of total budget with little flexibility.
- Each PB item (person) represents a combined salary plus fringe benefit cost.
- Higher Education is a people-based enterprise.
 - * More so in the Arts/Humanities (A&H) than in the Sciences
 - * PBs can be targeted when income decreases (fees or appropriation)
 - * A&H chairs need to consider fiscal impact of more students with pre-college credit

The PB total is usually stable and difficult to influence, but *not necessarily* impossible.



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Some Factors Impacting HE Budgets

- Online education from multiple sources will likely reduce net income for universities since student acquire credit hours before and during matriculation
- Required AP Exams for HS honors students reduces the net credit hours needed to graduate
- Dual credit earned in HS will reduce enrollments most likely in general education or introductory courses
- Performance metrics are guiding legislative appropriations for public HE and are difficult to control



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PB Queries for the Dean

Faculty/Staff turnover: What becomes of funding (salary savings) while positions are vacated due to faculty/staff departures?

- Staff lines can be refilled quickly, but faculty lines may remain vacant longer.
- Are the dollars available for department use or are they reclaimed centrally? Be prepared to address.
- Under what circumstances can the department use all or part of the funds?

Seizing on opportunity to reallocate budgets for department priorities.

- Can you modify faculty-staff balance to reflect needs?
- Consider rank options for replacements?



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Exploring Paths to Budget Expansion

Opportunities for enhancing funds available to the department are described on the next few slides

- Incentivization and Performance Metrics
- External sources (grants and gifts) for funding departmental (campus) mission
- Indirect Cost Recovery (overhead, F&A) for external funding
- Exploring new program or credential development that may impact funding
- Gifts and Contributions to Foundation accounts



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Seeking Incentives

Incentivizing budgets allows for quantitative improvements through improving outcomes resonant with institutional/academic unit priorities.

- If the department improves performance metrics that result in additional income, will the funding source share in the additional funding? Examples might include increasing:
 - Undergraduate (or graduate) majors?
 - Total credit hours taught by department?
 - Number of degrees awarded?
 - Retention rates in high-risk courses?
 - Overhead income from external funding?



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Grant Income and benefits

External funding may be available as a department as well as for individual faculty.

Partial displacement of Principal Investigator AY salary with grant direct costs creates “salary savings” for the department.

Also: Proposals often fund students as part of the project (replacing need for local dollars).

Example. A faculty member on a 12 month appointment lands a grant where he/she has budgeted, and says he/she will devote, 20% of his/her time to it. This means that 20% of faculty member's academic salary + fringe benefits will be paid by the grant.

Most universities will return part of the displaced dollars to units/departments to incentivize this practice. Explore the availability of this practice on your campus.



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Grant Income...

In the example, the 20% FTE now paid by the grant (called “buy-out”) could be accompanied by a reduction in other faculty responsibilities (typically teaching or service).

- Is there a buy-out policy on the campus that would further incentivize proposal submission?
- If there is no policy, draft a proposal that would fund the full cost of the faculty effort and not just the cost of an adjunct.



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Grant Overhead (F&A)

Every institution here is eligible for grants: both research and educational grants from public and private sources.

Most institutions return dollars in amounts proportional to the amount of F&A to academic units (and possibly PIs).

Often, there are few or no associated costs or restrictions beyond those imposed by the university Budget Office on these funds! Policy change opportunity?



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Summary

- Identified features of budget systems that can help formulate departmental strategies to understand and optimize income and expenditures in your budget.
- Suggested queries to your dean or other administrators that can drive modifying policies to improve use of existing budgets.
- Introduced concept of fungibility as an important option for flexibility in the use of budgets or shifting categories funds.
- Discussed “carry-over” strategies to better use your budget and address flexibility for multi-year spending.
- Suggested “incentivization” strategies to tailor your efforts to improve institutional income with impact on your departmental budget.



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ADDENDUM: Additional Fiscal Things Chairs Should Know About

1. Faculty Grant Accounts and Caveats
2. Philanthropy and Foundation Accounts
3. Advisory Boards
4. Alumni



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Grant Accounts: Caveats

Are these not the responsibility of the individual PIs? (answer: Yes...and not always!)

e. g. Risks if a faculty member over-spends a grant by \$20K. Who covers this cost?

In many cases, it is the next “level” up and the department becomes liable (*you need to verify local policy with your Dean*).

Chairs should make expectations clear to faculty and provide extra oversight to ensure irresponsibility and careless tendencies are minimized in fiscal matters.



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Foundation/Gift Accounts

- **Restricted vs unrestricted accounts; honor the former.**
- **Principals can be invested (chair input) with defined returns.**
- **Unrestricted funds have wide spending flexibility.**

Extravagant spending can dampen the enthusiasm for future donations and undermine the work of the development staff.



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Philanthropic Opportunities for Your Budget

Foundation accounts often offer more liberal use policies

Scholarship Accounts can be used to enhance recruitment (⇒ incr. enrollment ⇒ incr. income).

Endowed chairs/professorships free up resources in your personnel budget.

Foundation accounts may be used to purchase major equipment and free up dollars in the OB/DB (and offer donor naming possibilities).

Usually not ideal for regular operating expenses.



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Advisory Boards

Boards serve many roles for the institution and its students including philanthropy

Often, members pay dues while serving and many donate because they “believe”.

Employer Partnerships

Relationships with potential employers can offer synergies with internships or employment.

Alumni

Enthusiasm often creates donors, newsletters, student mentors, real life scenarios, etc.

Chairs have emerging expectations to play greater roles in effective fund raising.



Appendix

Brief List of Budgeting Terms

Account Restrictions: limitations on the potential expenditures either in transaction limits or item/service exclusions

Assessments: a “tax” on school/college accounts by the budget office to cover campus costs

Budget Office: In this context, a central office responsible for establishing rules and regulations of the budget and accounting process

Buy-Outs: Often a faculty account used to offset a work expectation, such as a research account reducing the teaching load of a faculty member.

Carry-Over: Unencumbered funds in accounts at the end of the fiscal year that can be transferred into the following budget year for use.

Disbursements: Payments to a vendor for services or supplies or equipment

Discretionary Budget: Parts of the budget that can be used for variable items or services

Encumbrances: Expenditures for a known good or service that has not yet been paid by a specified account.

Expense Types/Classes: Description of a budget expenditure, such as travel, rent, equipment, etc.



Brief List of Budgeting Terms...

Facilities & Administration (F&A) Charges: University-established (and negotiated with the Federal Government) “overhead” on external grants to cover institutional costs. The total account will include direct costs (for the use of the principal investigator) and indirect costs that are collected by a university entity. See *Overhead/Indirect Cost Recovery* below.

Fiscal Responsibility: Chain of responsibility for account management at each level for an expense, such a department, school, college, and campus. Each area has a designated manager for approving (recommending) an expenditure with the accompanying responsibility.

Foundation Accounts: Accounts containing charitable-giving funds, donations, gifts, and other monetary contributions. These accounts often follow different rules than regular university accounts.

Fungibility: Ability to move funds in one expense area (e.g. travel or part-time compensation or equipment) and use it in another expense area.

Fiscal Year (FY) vs Calendar Year (CY): FY may be the same as a CY, but the budget is usually inclusive of a single, full academic year. CY use is rare in academia.

General Accounts: Common name for the accounts used by a campus for its regular operation.



Brief List of Budgeting Terms...

Hospitality: Either an account type or expense type that represents spending for food with allied limitations on permissible purposes or items. For example, student-only purposes or disallowed alcoholic beverages.

Income Types/Classes: Income to the university that comes from student fees and/or tuition, external scholarships, state appropriations or Foundation funds.

Incremental Funding: Budget model where changes in the annual budget are reflected in a simple percent in any or all budget categories.

Operational Budget: Budget portion typically used for equipment, supplies, travel, programs, etc., but not permanent personnel.

Overhead/Indirect Cost Recovery: Collectively called F&A for use in supporting university operation and infrastructure. The total funds collected from external grants are often shared with the receiving units and may provide additional funding to operate your department.

Recommend vs Approve: Authority to commit funding for a purchase are often described by a person’s role in recommending an item or actually approving the expense. Approval may require several approvals from different fiscal personnel.



Brief List of Budgeting Terms...

Responsibility Center (RC): In the RCM model, it is the level that has broad authority to allocate funding in any way useful, important, and appropriate to the level success (academic RC) or is a university unit that assesses the academic RCs for services provided (service RC).

Responsibility Center Management (RCM): The model that gives budgetary authority to a lower level of management where the optimal and most informed decisions are made.

Salary Savings: Surplus funds that accumulate in the personnel budget when permanent positions are vacated or when an external entity assumes all or part of their salary and benefit costs.

Stewardship: Responsibility in the use of funds in accounts. Each approver for use of funds has an expectation for good stewardship, often involving a "certification" that approver understands the use of funds at their level.

Zero Base: Budgeting model where at the end of the fiscal year, all remaining funds (or deficits) in accounts go to a central budget office. The new fiscal year starts fresh with a new budget allocation.

