New Budget/Management Strategies for Dealing with Austerity

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Presentation Outline

• Budget Climate
• General Budget Strategies
• Best Practices
• Practical Examples
Budget Climate
Financial Climate

• Increasing budget pressures since 2008
• Budget pressures felt across all states in both state and federal funding
• Opportunity – Availability and focus on external fund sources
Various Funding Models Across States

- State Support – How does this state support make it’s way to your organization?
- Use of Federal Funds – Salaries/Grant Programs/Equipment
- Carry over policy – Limitation in some states for carry over of state funds
- Organizational Structure – Varies from highly centralized to highly decentralized
General Budget Strategies
Budget Planning Strategies

- Short term reactions to budget pressures
  - Required in some cases
  - Create anxiety among faculty/staff
- Preferable long term approach/Forecasting
  - How much time do we spend on long term planning?
  - Much less painful
  - Time to gain support and create effective communication plan
General Budget Reduction Strategies

• Budget Freeze
  • Temporary solution
  • Discretionary spending freeze (Reduction in non essential expenditures, Travel Equipment etc)
  • Hiring put on hold – only fill critical positions
General Budget Reduction Strategies

• Across-the-Board Cuts
  • Advantages
    • Simplest and most expedient way to manage a budget reduction
    • Provides flexibility to individual unit manager/chairs/directors
    • Equitable – All units treated alike
  • Disadvantages
    • Does not differentiate between units that have more or less budget flexibility
    • Programs critical to the mission are not protected
General Budget Reduction Strategies

• Targeted Reductions
  • Targeted reduction in specific expense categories (Travel, Equipment Replacement, minor construction) – Justification needed
  • Targeted reduction in a program or service
  • Advantages
    • Can choose to protect mission critical functions
    • Align activities with strategic plan
  • Disadvantages
    • Reduces flexibility for unit leader
General Budget Reduction Strategies

• Program Eliminations
  • Careful consideration of the resulting impacts
    • What services does the unit provide that can be procured elsewhere
    • Are there significant stakeholder impacts?
    • What is the one time cost of the elimination
Best Practices
Useful Budget Reduction Strategies

- Use less dramatic means first
  - Avoid Reduction in Force if possible (Attrition, reduced salary improvement programs, etc)
- Share Information
- Ask for suggestions
Useful Budget Reduction Strategies

• Use contingency funds first
  • Any budget should have contingency funds built in
  • If making difficult decisions, contingency funds should be considered for the short term

• Ask for voluntary cutbacks
  • There could be creative solutions that have not been considered

• Make few promises
  • Credibility is important throughout this process – Keep all options on the table
Useful Budget Reduction Strategies

- Consider Outsourcing
  - Is the service to be outsourced part of the strategic vision?
  - Will outsourcing result in an increase in revenue or reduction of cost?
  - Can the quality of the service be maintained or improved?
  - Do the institutional policies (wage scales, personnel, financial) cause costs to be higher than if the service was contracted?
  - What will be the impact to employee morale?
  - Will the institution still maintain an adequate degree of control?
Practical Examples
Budget Planning - What can be done?

Revenue

Expenses

75% to over 90% in some cases is in Salary and Benefits
Increase Revenue?

- **Little to no control on state / federal funding**
  - Our control rests with the services we provide and the ability to communicate this to decision makers
- **Grants and Contracts**
  - Generational shift – Expectation of grants and contracts to run program
- **Adding fees for services that were formerly free (Internal and External)**
  - Internal fees are not just a shell game
  - Lab testing fees
- **New Sources of Revenue**
  - Land/Crop management
- **Development/Advancement focus**
Decrease Expense

- Operating Expense Budget
  - Utilities
    - Use capital funds to Invest in energy saving upgrades
  - Pooling University Purchasing Power (OSU - 1.3B Spend)
    - Equipment Maintenance Agreements – REMI – 25% Lower Cost
  - Office Supply – Office Max
  - Maintenance, Repair and Operations preferred vendors
  - Preferred Travel Vendors
Decrease Expense

- **Salary and Benefits**
  - Early Retirement Packages
    - Comes with significant up front cost
    - You cannot choose who takes advantage of the early retirement
    - Will replacements be rehired strategically?
  - Furloughs – Temporary solution
  - Changes to Benefit Plans
  - Limited Merit Increases
Decrease Expense

• Consolidation of Functions
  • Can economies of scale be generated by centralizing functions?
  • Can resources be reallocated to more strategic functions?

• OSU Examples
  • Farm Consolidation
  • Fiscal and HR Service Centers
Questions