

All Funds Budgeting

Background

Rutgers University began the process of implementing an all funds budgeting (AFB) system for distributing financial resources to academic units¹ in the 2004-2005 academic year with the establishment of the AFB Task Force. Following the recommendations of this universitywide committee, the piloting of AFB occurred during the following academic year. The implementation of an all funds system of budgeting at Rutgers continues the reform of the budget process that began with a significant revision of budgeting rules. Before AFB, the budget process at Rutgers was centrally directed and most budgeting decisions were loosely coupled with major academic initiatives. AFB has shifted the focus of budgeting decisions to a more local level of administration while encouraging the strategic investment of resources at the local, campus and institutional levels of organization.

AFB has enabled the university to implement a budgeting and planning process that is consistent with its institutional character of a highly decentralized structure. Its operation is also reflective of President McCormick's [*five key values*](#) that guide the advancement of academic goals at Rutgers.

But perhaps just as importantly, the AFB model is a necessary institutional response to the ongoing trend seen nationwide in the continuing decline of state funding for public higher education. Over the past two decades, public support for higher education has been dropping precipitously. During this period, state support for higher education through direct appropriations has decreased from \$8.50 per \$1,000 of personal income to \$6.59 in FY07, for a 22% decline since the 1980s.

In New Jersey, the percentage of New Jersey state appropriations going to higher education has declined by almost 50% (8.51% to 4.82%), with total state support (appropriations, fringe benefits, and grants and contracts) for Rutgers decreasing to 38.5% of Rutgers annual non-capital revenues in FY 2007 from 45% in 2001, representing a 15% decline in support in just six years (trying to obtain a longer trend line).

This erosion of public funding of higher education has moved institutions such as Rutgers from one that is state supported to one that is - at best - state-assisted² has required a more strategic planning response to how a large public research institution such as Rutgers generates and distributes its resources.

All Funds Budgeting (AFB): What Is It?

- AFB is a comprehensive financial framework to facilitate more strategic resource allocation decisions.

¹ The AFB model will soon be used in administrative areas of Academic Affairs.

² The President Emeritus of the University of Michigan, James Duderstadt, has even gone as far as asserting that state universities are moving if in fact they haven't already become simply state related and state located institutions.

- All revenues and expenditures are planned and budgeted – these include tuition, state appropriations, restricted income and expenses, direct and indirect research, gifts, and endowment.
- AFB is a process of identifying goals and concomitant fiscal strategy for accomplishing those that advance the university's vision.
- AFB approaches the budget as the quantitative representation of what's important and all resource allocation decisions as supporting what is important.
- It is a means to a greater awareness of the financial ramifications of activities. AFB values accountability in lieu of control and supports a broadly participative process.
- AFB supports the Rutgers tradition of strongly decentralized organization of its academic units.
- AFB facilitates the advancement of major academic goals and reflects the key values that guide the university administration in that effort.

Objectives of AFB

- Greater understanding of all sources of revenues that support unit budgets. AFB
 - brings more attention to increasing revenue that units have greater control over
 - supports the transparent distribution of institutional resources
 - provides decanal units with enhanced managerial tools to effectively integrate planning, resource allocation and accountability/assessment activities
 - has greater incentives to increase certain revenues by equitable and more aggressive allocation to generating units
 - enhances understanding of effects of actions on revenues, e.g., the enrollment-tuition link and the effects of tuition discounting.
- Greater understanding of expenses that are driving the need for increased funds.
- Greater focus on making priority decisions with available resources. AFB
 - brings less central/campus allocation of resources through the year to encourage priority choices at the decanal level
 - more leveraging of different revenues to advance strategic objectives
- Greater flexibility in use of limited funds.
- Clearer process for making budget choices among all needs rather than
 - First come, first serve

- Squeaky wheel gets the dollars.

Elements of AFB

Tuition: [See link.](#)

- Tuition is returned to units as per current central administrative formula
- AFB is a heavily tuition-driven model that relies on enrollments and teaching effort of decanal units
- On the enrollment side, initial school enrollments are adjusted to reflect where students receive primary support services. These enrollments provide a partial basis for allocating tuition dollars (30%) after additional adjustments to reflect the elimination of revenue from non-campus programs
- The second component in the allocation of tuition dollars is based on the credits taught. Partial allocation of these revenues occurs (70%) after adjusting the assignment of course credits to reflect the unit primarily responsible for teaching the courses and the removal of credits generated by non-campus programs
- After additional adjustments to account for school and out-of-state tuition differentials, net tuition revenue generated by units are calculated and allocated

Other Elements of AFB include Indirect Cost Recovery, State Appropriations, Endowment Payments, Grants, and Gifts, etc. (See link for [descriptions of these additional AFB elements.](#))

The AFB Process

The AFB process involves the development of annual unit plans by the deans which are submitted to the Executive Vice President for Academic Affairs. These annual plans include unit priorities, revenue projections, and faculty hiring intentions. The plans are then used as the basis for discussions between each unit dean and the EVPAA. These plans require an appreciation of the university's external funding situation, an understanding of a unit's enrollment management and credit production patterns and the factors that affect them, and knowledge of other sources of revenue including indirect cost recovery and restricted fund activity.

The AFB Timeline

➤ 2003-2004 Academic Year

In the effort to implement the new President's vision of the university and in support of his values of academic excellence, transparency and autonomy, the All Funds Budgeting Task Force was established and a report subsequently issued.

➤ 2004-2005 Academic Year

Partial implementation of an all funds budgeting approach

Development of a data warehouse for the tuition component of AFB

➤ 2005-2006 Academic Year

AFB was piloted for each academic unit

Series of workshops and tutorials for academic deans and their business staff

➤ 2006-2007 Academic Year

AFB was fully implemented for each academic unit

The AFB Annual Cycle (2006-2007)

December 2005/ January 2006 – Materials for planning meetings distributed to Deans (includes memos to [Deans](#) and [Provosts](#), [instructions](#) and [planning forms requiring completion – unit example](#)).

April 2006 – Due to large budget reduction (\$37 million cut and \$34 million underfunding of salary increases = \$71 million) recommended by governor, each [instructional unit was requested to model a 7.5% reduction – unit example](#) and each [non-instructional unit was requested to model a 10% reduction – unit example](#) in their respective budget. An example of a unit's modeling is linked [here](#).

Late June/Early July 2006 – State Budget Finalized (\$9 million restored to Rutgers, leaving a \$62 million budget shortfall); tuition increase of 8% approved by Board of Governors.

Late July 2006 – [Units advised of their final reductions – unit example](#) (instructional units reduced by 6.8%, academic student support units reduced by 8.2% and administrative units reduced by 9.6%).

Late Summer 2006 – Reduction plans submitted and implemented. [Summary of final reduction plans](#) shows savings of \$41.6 million.