

# BEST PRACTICES IN COMMUNITY COLLEGE BUDGETING

## PRIORITIZE SPENDING TO ENACT THE STRATEGIES & ALLOCATE RESOURCES

*4C – Create a Budget Document that Communicates how Resources have been Allocated to Enact the Strategies*

### SUMMARY

#### Key Points:

- Because the budget document is one of the most important policy documents for a college, it needs to consider how the document is organized, what information is included, and how the document is presented.
- Fundamentally, the budget should tell the story of the challenges the college is facing and how those challenges will be addressed through the college's strategies and financial plan.
- The budget should address college-wide strategies and spending, including all funds and resources. It also should provide insight into the strategies and spending plans of the college's subunits.

#### Related Award Program Criteria:

- Criterion 4.C.1: The Challenges (Mandatory). The Budget Document should describe the challenges faced by the Applicant - the ones that primarily shaped the budget discussion for that year.
- Criterion 4.C.2: Goals (Mandatory). The Budget Document should present the district-wide goals that guide resource allocation and individual school sites.
- Criterion 4.C.3: Strategies and Initiatives (Mandatory). The Budget Document should describe strategies that the Applicant will pursue to achieve its goals. The Budget Document should highlight the most important initiatives the Applicant is undertaking in support of its strategies.
- Criterion 4.C.4: Financial Plan (Mandatory). The financial plan section of the Budget Document should describe the Applicant's expected revenues, expenditures, reserves, and debt and capital spending.
- Criterion 4.C.5: Long-Term Financial Sustainability (Mandatory). The Budget Document should describe the long-range sustainability of the Applicant's financial trajectory, looking out a minimum of three years beyond the existing year.
- Criterion 4.C.6: Understandability and Usability (Mandatory). The Budget Document is designed so that it can be navigated and understood by the non-expert reader.

### INTRODUCTION

The budget document is one of the most important policy documents that a community college produces because it describes how the college's resources are being allocated to create the best value for its students and for the community.

This Best Practice describes:

- I. Fundamental organization of the budget document.
- II. Special issues and considerations in the budget presentation.

## I. FUNDAMENTAL ORGANIZATION OF THE BUDGET DOCUMENT

**Background.** There are two major organizing principles for the presentation of the budget document. First is to tell the story of the budget by describing the challenges that the college faces and how the budget

plan will help the college overcome those challenges and achieve better results. The second is to focus the presentation on the needs of the primary audience for that presentation: the college's governing board.

**Recommendation.** The GFOA recommends that colleges develop their budgets in five major sections: challenges faced by the college; strategic goals; initiatives being pursued; the financial plan; and risks to long-term financial sustainability.

**The challenges.** The "challenges" section of the budget document should set forth a limited number of the most important (and exciting) challenges the colleges faces. The challenges should be the ones that primarily shape the college's budget discussion for that year and that will capture reader interest. Each college should analyze its strategic and financial environment as well as priority-setting techniques to determine which challenges are appropriate for inclusion in this section. These challenges should be articulated broadly enough to resonate with a large audience, but also should be precise enough to convey real meaning.

The presentation should use comparative data to put the challenge in context. Two ways to help the audience to better understand the nature and magnitude of the challenge are: 1) a historical trend analysis of the college's own data; and 2) a benchmark analysis against other colleges.

Colleges also should take other steps to help the audience better appreciate the challenges, such as anecdotes that help to personify the challenge and translating data to a personal scale. For instance, a financial challenge might be presented on a cost-per-student basis, rather than as an aggregate number.

**Goals.** The strategic goals describe how the challenges will be met. The budget document should present the college-wide goals that guide resource allocation. The college-wide goals should be distributed to the college's subunits and customized to be relevant to the specific challenges faced by each particular subunit. However, depending on the size and management system of the college, the budget document may or may not include subunit-level goals in the budget document itself. Where subunit goals are not included in the budget document, the document should clearly indicate to readers where they can be located.

The goals presented in the budget document should exhibit the following characteristics:<sup>1</sup>

- **Specific.** The goal is precise about the outcome or result that is desired by the college and references measurable performance objectives that relate to the goal. Student achievement outcomes should be most prominent among the college's goals. For example, increasing the percent of credit hours successfully completed in the first term from 60 percent to 75 percent, or increasing the percent of students who complete an associate's degree or certification within two years from 50 percent to 66 percent would be a "specific" goal presentation.
- **Measurable.** The description of the goals should include the sources of evidence (e.g., performance measures) that the college and its subunits will use to determine if the goals are being met. A limited number of measures (three to five) should be presented for any goal.
- **Relevant.** A community college should develop goals to guide budgeting and planning that reflect the college's mission. However, community colleges may face pressure to develop goals related to subjects outside of the college's mission. Hence, "relevant" goals must also remain focused primarily on the core elements of the community college's mission that have widely been agreed to as critical.
- **Time-bound.** The goals should identify a time period for achievement.
- **Exciting.** The goals reach for significant, ambitious improvement in student achievement and organizational performance and the reader of the budget document can grasp why the goal is important.

**Strategies and initiatives.** The budget document should describe strategies that the college will pursue to achieve its goals. The budget presentation should then highlight the most important initiatives the college is undertaking in support of its strategies. The description of each initiative should address:

- **What the initiative will accomplish, relative to the college's challenges and goals.** The presentation should make clear why the college is undertaking each particular initiative and what will be different as a result. The presentation should describe the logic behind how the initiative is presumed to have an impact.
- **Cost, where determinable.** To the extent possible, the cost of the initiative should be described. The budget presentation also should be clear if the costs are:
  - All-new spending or a repurposing of existing funds/resources? If existing resources are being repurposed, the budget document also should describe what activities the college is discontinuing to make funding of the new initiative possible.
  - One-time/short term (such as might be the case with a special project) or ongoing?
 In cases where the college's cost-accounting methods do not make it practical to determine the precise cost of an initiative, the budget presentation should still address the two bullet points above.
- **Accountabilities and schedule.** The document should describe who is responsible for the success of each initiative and the timeline for its completion or when the initiative is anticipated to make an impact.

**Financial plan.** The financial plan summarizes how the college is allocating its resources to best meet its challenges and achieve its goals. The financial plan section of the budget document should address the following items: revenues, expenditures, reserves, and debt and capital.

- **Revenues.** The budget document should show the college's total revenues for the year. The presentation should show revenues from all funds and sources, and also by the college's most important accounting funds. The presentation should identify the most important specific revenue sources (typically categories such as tuition and fees, state funding, and property taxes) and provide the reader with insight into major trends, revenue projections, assumptions underlying the revenue forecast, and other points of analysis that are critical to the college's financial capacity.
- **Expenditures.** The budget document should show expenditures for the college as a whole and also by individual department or other relevant subunit (e.g., campus, vice president's area, division, etc.). Wherever practical, colleges should allocate costs to the subunit that incurs the costs, rather than locating costs in shared, college-wide budgets. The budget also should describe how staff, in particular, is allocated and how that relates to the college's strategy and action plan.

Objects-of-expenditure (e.g., personnel, contractual services, commodities, etc.) are traditionally the most common way to classify expenditures within an organizational unit. The GFOA recommends that colleges go further by classifying expenditures by programmatic element, not just objects-of-expenditure. A programmatic element is a categorization of direct budgetary inputs (e.g., dollars and personnel) that can be clearly associated with some service provided by the college.<sup>2</sup>

The expenditures section of the budget document should describe how staff is allocated according to the programmatic elements.

Finally, the budget document should discuss any major trends, assumptions, or other points of interest that are critical to a full understanding of the college's cost structure. Examples include important external influences like inflation, contractual obligations, legislative requirements, or internal policy changes like new programs or discontinued programs.

- **Reserves.** The budget document should describe the college's policy on reserves, including the college's target level of reserves for its major accounting funds. The document should then describe major anticipated changes to the reserve levels.
- **Debt and capital.** The budget document should describe the college's major issues and the purposes of those issues and how the college's current debt levels relate to relevant debt limits (e.g., as might be established by the college's financial policies).

The budget document should describe the capital projects being undertaken by the college and should provide a reference to the college's long-range capital improvement plan. The budget document should discuss the extent to which the college's asset acquisitions are on budget and on schedule and also should discuss the anticipated impact on the operating budget.

**Long-term financial sustainability.** The budget document is primarily focused on the upcoming fiscal year, but it also should consider the long-range sustainability of the college's financial trajectory, looking out a minimum of three years beyond the existing year. Specific elements that should be included in the budget document are:

- **Long-range enrollment projections.** Enrollment is a primary determinant of expenditures and, often, revenues.
- **Long-range financial projections.** Revenue and expenditure projections show the college's future financial position and may foreshadow potential budget shortfalls.
- **Risk analysis.** The budget document should highlight the risks to ongoing financial sustainability that are of the greatest local significance. Examples of common risks that colleges might consider include:
  - *College's ability to continue to fund its strategies and initiatives.* Improvements due to new initiatives often take multiple years to fully manifest. Might financial constraints or other forces prevent the college from providing a coherent, consistent approach to its strategies over a multi-year period?
  - *Grant funding.* Does the college's grant policy result in the college taking on grant-funded programs that are later unsustainable (i.e., create ongoing commitments that the college has to fund out of discretionary monies after the grant ends) and/or that distract the college from its strategic goals?
  - *Personnel costs.* Are personnel costs sustainable? This might include the college's ability to afford contractual wage increases and the affordability of post-employment benefits.
  - *Tax base changes.* Are there important vulnerabilities in the college's tax base that could impact the college's revenues?
  - *Capital projects.* Can the college afford to build and/or maintain the capital assets it believes are necessary? Does the college's capital asset acquisition plan adequately consider the impact of the acquisitions on the operating budget (e.g., the cost to operate and maintain)?
  - *New technologies.* What implications do new technologies have for the college's budget? Can the college afford to acquire and maintain the new technologies? Have staff training needs been addressed so that they can effectively use the new technology?

## II. SPECIAL ISSUES AND CONSIDERATIONS IN THE BUDGET PROCESS

**Background.** In addition to the essentials just described, colleges need to consider other factors to fully realize a budget that best aligns student achievement with resource allocation.

**Recommendation.** The GFOA recommends that a college consider the following issues in its budgeting presentation.

- **Include all funds in the budget.** In many colleges, the general operating fund is often considered "the budget," when in fact there are multiple budgets representing the many special funds the college receives (Title IV grants, etc.). This approach fragments resources, making for a less coordinated way of serving students. A college should report all funds in its total budget, showing how all resources are used to improve student achievement. Ideally, this integration is not just a matter of reporting, but reflects integrated operations and planning between these funds as well.
- **Transparency in spending.** Line-item budgets are intended to enhance control over the budget process, but fail to do so if the budget does not accurately reflect how a college is spending its

money. For example, if the costs of public safety are subsumed in line items for “salaries,” “fuel,” “equipment,” and “contracted services,” it would be very difficult to discern the true cost of public safety, much less to manage it effectively. Colleges should develop presentation methods that more accurately describe the full cost of providing services.

- **Transparency in reserves.** Reserves represent one of a college’s hedges against risk and provide for continuity of service in the face of many types of business interruptions. Hence, it is important that the amount of reserves available to the college be made transparent as part of the budget.
- **Provide context.** It can be difficult for the reader of the budget document to fully understand a college’s strategies and budget without context. Therefore, the budget document should include contextual information such as enrollment numbers, employee headcounts, and the personnel time that has been budgeted for critical strategies.

## Endnotes

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<sup>1</sup> See Best Practice in Community College Budgeting, 2A – Set Goals to Guide the Budget and Planning Process for more information on setting goals. The reader will note that the goal presentation described in this document is derived from the SMARTER goal framework shown in Best Practice in Community College Budgeting, 2A – Set Goals to Guide the Budget and Planning Process but is streamlined for the purposes of presentation.

<sup>2</sup> Note that a programmatic element is not intended to capture indirect costs.