Budget Fundamentals

Ed Hudson, Chief Information Security Officer, California State University

Tara Hughes, Interim Assistant Director of Strategic Communications & Student Success Chatbot, California State University Channel Islands

Agenda

- Review basic budget terminology
- Identify budget fallacies to avoid
- Learn frameworks for creating a narrative for non-IT constituencies about IT funding needs
- The COVID-19 Factor
Audience poll 1

Q1: At what type of institution do you work?

Options: Private, Public, for Profit, other...

Audience poll 2

Q2: Name one “source of funds” at your institution

Q3: Name one “use of funds” in IT at your institution
Where do funds come from?

- State General Revenue Fund (for publics)
- Income fund (tuition and fees)
- Endowments, gifts, grants, and contracts
- Agency (self-supporting)
- Bond revenue

Where do funds go?

- Personnel (on average, about 75%)
- Operating costs
- Capital purchases
- Financial aid
- Debt servicing
1. Budget Terminology

Budgeting

Fundamentally a *planning* process:

- **Annual budgets** planned and approved months before a new fiscal year starts
- Requires that you anticipate program needs many months in advance
Budgeting

- Get to know the University’s budget processes!
- Know the finance team!
  - In your IT organization
  - At the University

Accounting

The process of *tracking expenditures* in a system of record keeping and reporting the results.
Accounting

Be on good terms with the lead accounting staff!
- In your IT unit/organization
- At the University

Discretionary Budget

Actual budget - Encumbrances = Discretionary budget
Discretionary Budget

- Encumbrances are the costs of things you must do
  - Because of legislative requirements or contractual obligations
  - Debt services
- Discretionary budget is available for use at the discretion of the fiscal agent

Operational vs Capital

- Operational expenditures (OpEx)
  - Typically provided on an annual basis
  - Covers all expenditures, including personnel
- Capital expenditures (CapEx)
  - Long-term investments typically for new buildings or machinery, or major renovations
- IT has capital and operating expenses
  - If investments are lumpy who is the bank?
Permanent vs Temporary

- Permanent money (on-going; hard) is in the base operating budget
- Temporary money (one-time; soft) is non-recurring
  - Grants, gifts, one-time appropriations

Budget Dust

- Operating dollars not encumbered at the end of the fiscal year
- Small amount? Share with other units in your department. Don’t waste!
- Large amount? Could indicate poor budget planning...
2. Budgeting Fallacies!

The Planning Fallacy

“The planning fallacy is that you make a plan, which is usually a best-case scenario. Then you assume the outcome will follow your plan, even when you should know better.”

- Daniel Kahneman
Hidden-Cost Fallacy

“The hidden-cost fallacy occurs when you ignore relevant costs.” A common hidden-cost fallacy is to ignore the opportunity cost of labor when choosing to produce software in-house.

- Froeb and McCann, Managerial Economics

Sunk-Cost Fallacy

“The sunk-cost fallacy is when you tell yourself that you can’t quit because of all that time or money you spent...”

-Stephen J. Dubner
“The sunk-cost fallacy is when you tell yourself that you can’t quit because of all that time or money you spent...”

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3. Creating a Narrative

Communicating

Figuring out the numbers is only one part of budgeting.

The real task is learning to communicate with decision makers and stakeholders.
Focus: Return on Investment (ROI)

ROI is the *tangible* result of an investment

- A *measurable* improvement in, e.g., productivity, costs, revenue, enrollments, retention, graduation rates, etc.

Total Cost of Ownership

<table>
<thead>
<tr>
<th>Software</th>
<th>Staff</th>
<th>Infrastructure</th>
<th>Services</th>
<th>Other</th>
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<tbody>
<tr>
<td>Acquisition</td>
<td>DBA</td>
<td>Server SW</td>
<td>Implementation</td>
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<td>Data Conversions</td>
<td>Third party content</td>
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<td>WAN/LAN</td>
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<td>Interfaces</td>
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<td>PC support</td>
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<td>Upgrades</td>
<td>Communications</td>
<td>HW maintenance</td>
<td>Project mgmt</td>
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<td>Internet</td>
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<td>Remote admin</td>
<td>Upgrade retraining</td>
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<td>Turnover</td>
<td>Server maint.</td>
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<tr>
<td>Ramp-up</td>
<td>HW renewal</td>
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<td>Security</td>
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Focus: Value of Investment (VOI)

VOI points to the *intangible* benefits of an investment
- Loyalty to the institution, student and faculty/staff morale, reputation effect...

Benchmarking

- Higher education leaders tend to keep track of peer schools
- Nobody wants to be well behind the curve...
- Evidence of what is typical at similar schools can be persuasive
- Get to know your counterparts at your peer schools
Run – Grow – Transform

Run – Activities for ongoing operations
  e.g., keeping systems working

Run – Grow – Transform

Grow – Activities that make incremental improvements

  e.g., expanding the installation of instructional technologies into all scheduled classrooms
Run – Grow – Transform

Transform – Activities that aim to make transformative change
e.g., implementing a business intelligence for the first time

Run – Grow – Transform

- Using this language in the budget process helps connect IT spending to the strategic objectives of the institution
- Focuses on outcomes, not just inputs
- Clearly identifies partners and beneficiaries
- Used to analyze multi-year budget plans
Audience poll 3

Q4: What percent of the central IT budget at your institution is spent on activities that:

- Run ________?
- Grow ________?
- Transform ________?

Next Steps

- Ask your supervisor about how the budgeting process works at your institution
- Create a list of potential funding needs for your unit in the next 1-3 years
- Identify a product or service that is a candidate for reduction or elimination. Consider whether sunk cost fallacy has influenced thinking about this service...
- Identify your peer schools for benchmarking data. Get to know your counterparts at these institutions.
Upcoming Budget Course

Beyond a Bailout: Creating a Sustainable Business Model in Response to COVID-19

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Thank You!