Budget Reform Project
Carry Forward
March 1, 2023 Update

I. EXECUTIVE SUMMARY

The Carry Forward Working Group recommends a Carry Forward Program ("the Program") under which a maximum of 10% of the adjusted original base budget may be carried forward utilizing up to a 3% allowance and the return for use in future FY mechanisms:

1. **Return to Institute –** Units will report and return excess budget or unused/unplanned surplus budget to the Institute before fiscal year end, and ideally, early in the **calendar year**, in an effort to support other Institute strategic uses of funding/expenditures prior to fiscal year end.

2. Units are permitted to request carry forward up to a maximum of 10% of the unit's General Operations adjusted original base budget. This includes prior year funds held by the Institute.

    a. 3% - Division requests are not to exceed the 3% permitted carry forward allowance.

    b. 7% - Division requests are not to exceed the 7% return for future allowance. This will allow for carry forward mitigation and multi-year planning, which will amplify impact through carry forward savings for future projects/spending and/or Institute initiatives:

        i. **Return to unit for use in future Fiscal Year (FY) -** Units with unused financial resources would advance budget over one or more years to the Institute by execution of a "Request to Return Funds" carry forward request form submission. The request will outline that accumulated funds will be returned in a subsequent year(s) for an approved high priority strategic large dollar initiative(s). The request will also outline the unit's planned use(s) of funds and an estimated timeline; usually 3-5 years and not to exceed 5 years. Notification of request approval or denial will be communicated. There is a 10% minimum utilization requirement per FY on all funds returned for future. If the 10% minimum is not met then these funds will be returned to the Institute each Fiscal Year (FY) except if impacted by outside extenuating circumstances. Advanced IBPA approval is required in the event a unit is unable to meet the 10% minimum utilization requirement per FY.

3. **Advance of funds to unit -** The unit projects full use of current General Operations base budget but needs additional access to Institute carry forward funds for a strategic purpose. The unit may apply for an advance against aggregate carry forward funds request for previously submitted and approved expenditures.

4. Provide tools to assist units in tracking and reporting approved Carry forward expenditures separate from units' original budgets.

We provide a complete overview of these recommendations in **Section II "Carry Forward Program"**.

Prior to the development of our recommendations, the working group first developed a set of guiding principles and conducted an environmental scan.

Guiding Principles: The working group identified the following five guiding principles as a framework for the development of our recommendations. Any carry forward program must:

1. Establish clear and transparent policies, processes, requesting procedures, and timely approvals for carry forward of funds.
2. Manage Institutional carry forward by facilitating compliance with University System of Georgia (USG) carry forward restrictions while simultaneously safeguarding carry forward funds for Institute use.
3. Incorporate tools to assist budget units in tracking and reporting approved carry forward expenditures separate from the unit's original base budget.
4. Allow multi-year strategic planning to amplify the impact of carry forward uses; and
5. Create a culture of trust whereby units that generate revenues and/or contain costs feel confident in returning excess funds to the Institute because their accumulated carry forward funds will be available to meet their own or other department/unit strategic needs at a future date.

Environmental Scan: The working group first gathered information concerning the carry forward practices of our three USG R-1 sister institutions. We discovered Georgia State University and Augusta University have highly centralized management of university-wide carry forwards. Although carry forwards are tracked by individual budget units, strategic allocation and uses of funds are governed at a centralized level through partnership between the budget offices and executive leadership. Both Institutions rely on informal mechanisms to manage and account for carry forward uses. The University of Georgia, on the other hand, retained only small amounts at the Institute-level for central strategic priorities, granting administrative authority over the majority of carry forward funds to the individual budget units contributing them.

Second, we reviewed the results of a University Business Executive roundtable conducted in 2012 by the Education Advisory Board. This roundtable compared carry forward policies and practices of six research universities across various regions. Key observations of that roundtable were that:

- Half the contacted institutions limited the amount of carry forward funds that academic units could carry forward to an average of two percent of annual budget allocations; the remaining universities established maximum dollar value carry forwards or did not restrict the ability to carry forward. The round table's recommendation was that carry forward opportunities be limited to set percentages to accommodate colleges of various sizes.
- Universities universally set aside a portion of carry forward funds for emergency funding.

- Academic colleges typically did not hold unit-specific reserves but instead relied upon central administration for strategic and emergency funding.
- One contact institution allowed units to build reserves if they relinquished the option to request emergency funding from central administration.

II. CARRY FORWARD PROGRAM RECOMMENDATION

Units would be permitted to request carry forward up to 3.0% of their unit's (general operations) adjusted original base budget. This will establish actual dollars for planning purposes and ensures aggregation, so the Institute does not exceed the USG ceiling. This will facilitate meeting USG and State carry forward requirements. These requests will be due on or around April 15th of each FY at the division level as in the past and submission will be via an online form. Adjusted original base budget calculations including the 3.0% calculation will be available on the Budget Office carry forward website and also emailed to campus financial contacts each Fall.

Facilitate multi-year planning through Carry Forward program: Establish centralized Clearinghouse ("bank") for carry forward sources and uses.

The Budget Office will function as a Clearinghouse ("bank") similar to that of a depository institution that lends customer deposits. Department/units retain rights to the carry forward reserves (those funds in excess of the 3.0% cap but not to exceed 10% of the adjusted original base budget) per the approved "Request to Return Funds" form, while still making them available for strategic use across the Institute.

Rationale - A: The Institute has two competing goals with respect to managing carry forward funds. On the one hand, the Institute must minimize any fiscal-year end surplus in order to protect Institute funds from lapsing to the State. On the other hand, the Institute may need to facilitate funding of high priority strategic initiatives through cumulative, multi-year carry forward contributions.

A specific unit may have fiscal year-end carry forward funds it needs to access for a strategic priority two or three years down the road. The Institute needs a way to reserve those funds so the strategic need can be met at a future date.

The working group believes a "bank" model is the crossroads where these two competing priorities intersect. The bank, as administrator and clearing house, can balance short-term needs against long-term strategic priorities by managing cash flow. Just as a deposit institution in the United States is required to hold only a small percentage of total deposits on hand for depositor's withdrawals, the balance of funding/cash is available to lend to others or for other depositor's withdrawals, while still preserving the right of the original depositor to access or withdraw its funds. The bank thereby manages to an ending desired cash balance. Additionally, this model serves as an incentive to departments/units whereas funds can be made available in the future to meet department/unit's strategic needs. Knowing these funds are available is a huge benefit to everyone, both the Institute and to the individual units/departments. In turn, it will also reduce the amount of new fiscal year budget requests for spending.

Rationale - B: Department/units have no current mechanism to accumulate multi-year resources to fund significant future strategic initiatives or costly equipment refresh. This program provides such a method, while simultaneously equipping the Institute to manage overall Institute carry forward balances.

Likewise, relying solely on an annual process that coincides with the annual base budget process to articulate and defend strategic needs precludes the Institute from sourcing strategic funding from surplus funds often identified late in the fiscal year. A culture of transparency and trust may not be fostered if budget units do not observe a correlation between their contribution to the Institute (tuition revenues, carry forward) and the decision by executive leadership to fund or not fund their specific strategic priorities. Linking carry forward contributions to funding strategic priorities by the underlying budget units would build confidence and enhance a perception of equity and fairness. Alternatively, adding access to borrowed funds (carry forward from others) for cash-poor business units, with critical or emergency investment needs, provides an additional layer of trust that each budget unit is valued, and their strategic needs and priorities are understood and important.

Program Constructs

In order to be successful, surplus operating budget must be identified and surrendered early enough in the fiscal year to be strategically managed, ideally prior to - March. The Budget Office will need both a cyclical system for surplus fund reporting and return of funds, as well as a perpetual system for receipting and disbursing funds.

The program recognizes three potential fiscal-year end scenarios for a given budgetary unit, an online form will be submitted for each:

1. **Return to Institute:** The unit returns unused/unplanned budget balance of funds to the Institute. These funds will be used one-time at the discretion of the Institute on strategic priorities and not returned to the units. This will not affect the unit's original base budget allocation the next fiscal year. Units should submit a "Request to Return Funds" form as soon as they are aware of unused/unplanned budget balance.

2. **Unit Carry Forward (up to 3.0%):** The unit projects a year-end surplus. The unit would request to retain carry forward (up to 3.0% of original base budget), providing clear justification of future planned usage during the following fiscal year with the understanding of BOR reporting requirements. This would be due on or around April 15th of each FY as in the past. Units should submit a "Request to Carry Forward General Operations" form and submit on or before the deadline.

3. **Carry Forward Mitigation Opportunity- over 3.0% (not to exceed 10% of adjusted original base budget):**
    a. **Return to Unit for use in Future FY -** Multi-year strategic planning where unit returns funds to the Institute as an advance to be received back for future approved large dollar initiative(s) . At the appropriate time (less than 5 years) funds will be requested and appropriate back up documentation provided for amount requested. If amount requested is more than the unit originally contributed, then the until will fund with current year funds. If the amount is less than only the amount needed will be allocated and the reminder retained by the Institute for strategic uses. Units should submit a "Request to Return Funds" form due on or around April 15th of each FY. These funds should be returned via a

budget amendment no later than the June budget amendment. These funds may be advanced earlier than requested in the original request if needed. These funds will not extend after the requested time frame unless prior approval is obtained due to extenuating circumstances. A minimum of 10% of funds returned for use in future FY must be utilized each FY. If the 10% minimum is not utilized then those funds will be returned to the Institute each FY.

a.

a) **Advance of Funds to Unit -** The unit projects full use of current general operations base budget but needs additional access to Institute carry forward funds for a strategic purpose. The unit may apply for an advance against aggregate carry forward funds with terms in a "Request for an Advance of Funds" request form submission (repayment period to be individually negotiated usually 1-5 years, not to exceed 5 years and payment can be advanced at any time).

Rationale: Budget units need to maintain some autonomy over small carry forward balances. Request to retain 3.0% or less of fiscal-year end fund as it will assist in managing expectations and allow the unit to facilitate strategic planned needs.

Cumulative carry forward balances tracked by budget unit, together with a depository right of withdrawal, instills the trust and faith in the system needed to encourage budget units to return surplus funds to the Institute as soon as they are identifiable and quantifiable.

Budget units with relatively small carry forward funds may have an important strategic future need within its unit. A mechanism to obtain critical, strategic funding, such as the recommended advance of funds option, will provide a responsive means for emergency and strategic priorities.

Additional Considerations

The working group recognizes that the recommended program described herein includes nuances and details that will need to be addressed and laid out. These include, but are not limited to, the considerations and questions below:

1. **Deferred Maintenance and Equipment Refresh:** Is there any potential long-term funding mechanism or program adaptation related to depreciation reserves that could serve as a source of equipment refresh funds? If prohibited under current USG or State regulations, could this be a potential topic of exploration with USG Administrative Offices or State Legislators?

2. **Startup and Fit out (research labs and equipment):** Costs associated with the hire or retention of tenure track faculty are extremely material commitments whereby colleges have very limited ability to fund out of resident instruction operating funds. Due to the extreme challenges these costs present, it is suggested that a substantial portion of carry forward funds may be earmarked for this very specific, strategic use case.

3. **Systems and Tools:** It is assumed that, in the short run, simple shadow systems can be implemented to administer, and track carry forward returns, uses, and balances. Long-term,

however, development of more advanced tools for program management, including tools for budget units to view cumulative carry forward balances and request funds, would be highly beneficial.

4. **Colors of Money:** This program focuses on carry forward of General Operations Funds, the subject of most regulatory restrictions with which the Institute is presently concerned. General Operations consists of FD10000 State Appropriations, FD10500 Tuition, FD10600 Other General, and FD15000 Indirect Cost Recovery. Technology Fee, FD16000, is excluded. It is possible, and some might even suggest probable, the Georgia legislature's interest in closely regulating USG access to and control over resources may be extended to other revenue sources in the future, such as departmental sales and services. While our recommendation is presently focused on General Operations Funds, we recommend the program be expanded to consider other revenue sources when appropriate.