

DESIGNATED AND AUXILIARY OPERATING PLAN PROCEDURE

The operating plan initiates the plan/budget/assessment management cycle for Designated and Auxiliary-funded operations. The purpose of the plan is to formally document the financial assumptions and management decisions on which budgets will be based, as well as to identify current significant operating issues of the unit. The scope of the operating plan is one fiscal year. Plans will normally be prepared at the operating unit level, encompassing the financial activities of several budgeted indexes. (*For example, Enrollment Services, which owns several budgeted indexes, is an operating unit within the Student Affairs sector*). It is important to remember that – while the plan will include summary financial projections – the plan is a plan; it is not the budget. The vast majority of the effort, and the bulk, of the operating plan is devoted to a qualitative narrative explanation of your unit's operations.

LOGISTICS AND TIMING (*key questions*)

When is my plan due?

Operating Plans are due to OPBA on February 15, 2008.

To whom will operating plans be submitted?

Submit Operating Plan hard copies, signed by the Operating Unit Manager, directly to OPBA.

What happens after the plans are submitted to OPBA?

OPBA will review your plan and then forward it to your Sector Manager (Vice President) for approval. In addition, operating plan conferences will be coordinated by OPBA with you and your Sector Manager. Please note that conferences are not held for all units – your unit will be contacted should your Vice President request a conference.

Who approves my operating plan?

Each Sector Manager will review and approve the operating plans for units within her/his area of responsibility. Once approved by the Sector Manager, OPBA will forward the plans to the President for final approval.

Why is my operating plan important?

The primary purpose of introducing a formal planning process into the management cycle for Designated and Auxiliary-funded activities is communication. By documenting your assumptions and identifying management issues, the process will ensure a better mutual understanding of the operations, the business environment, and the financial condition of your unit. This is extremely important because of the diverse characteristics of the entrepreneurial activities represented in the Designated and Auxiliary-funded units of The University of Montana-Missoula. Secondly, while most effective managers have routinely utilized some sort of rational process to develop their individual budgets, heretofore no institutional process has existed to ensure quality or consistency in approach. Finally, your operating plan will not only become the basis for executive management's assessment of financial results, but – more importantly – your own tool for proactive management of your unit's operations.

TOOLS AND FORMS

- Tools (*Use these to build your operating plan*)
 - Operating Plan from previous fiscal year
 - Quarterly Financial Performance Report
 - Data Warehouse Reports
 - Monthly ledgers
 - Relevant planning-related documents, such as sector plans, The University of Montana-Missoula Strategic Plan, and any existing unit-level planning documents
 - Copies of significant contracts, fee schedules, and the like which impact your revenue or expenditures
 - Current roster of employees, salaries, and benefits
 - Quotes and/or cost/schedule information for anticipated capital purchases or projects
 - Debt burden schedule
 - Assumptions provided by OPBA
 - Estimated SPABA amounts from the Office of Research and Development.
 - *Most important*, your own understanding of the nature and trends of your business activity
- Forms (*Use these to submit your plan*)
 - Operating Plan Template (MSWORD document)

PROCEDURES

1. Review Operating Plan Template

OPBA has prepared an electronic template (MSWORD document) for your use in preparing your operating plan. All sections of this template will require narrative. Some sections will require both narrative and numeric projections.

- a. This template will serve as an outline, will provide basic formatting for the document, and will facilitate your electronic submission of the plan.
- b. Review the template to get an idea of the component parts of the plan, and to assist you in gathering useful materials to prepare your plan.
- c. For each Operating Plan provide the list of index codes that comprise that Operating Unit. Group like index codes (such as course fees) together in one operating plan.
- d. ***Include numeric projections for total revenue, expense and ending fund balance.***

2. Review Operating Plan from Previous Fiscal Year

- a. Use the previous fiscal year's operating plan as a starting point for the current plan. Review the content of the plan and determine if some points are valid for the upcoming fiscal year (please do not copy the plan as it is always important to incorporate changes from year to year).
- b. Review the goals section and decide what was accomplished over the course of the fiscal year. Modify your goals as needed.

3. Review the Quarterly Performance Report, Data Warehouse, Monthly Ledgers and other relevant reports

The Quarterly Performance Report reflects actual revenue and expense versus the current budget (at the Operating Unit level and Index Code level) for each quarter, plus year-to-date total, as the year progresses.

- a. From a review of these data, you should be able to get a sense of current revenue streams and operating expense, as well as recent capital expenditures and transfers.
- b. Although not a reliable predictor of the future, the report will provide an indication of current trends, and a reasonable “starting point” for your planning horizon.

4. Review other relevant planning documents

Gather and review documentation related to the context or environment in which you operate.

- a. Since the operating plan is intended to document the projected activity of your unit for the upcoming fiscal year, it is important to think of this in the context of the overall strategic direction of your unit, the sector in which you operate, and The University of Montana-Missoula as a whole.
- b. Remember, also, to take notice of any information or documents you may have that identify the projected activities of your customers and/or suppliers.
- c. If applicable, review the SPABA amounts provided by the Office of Research and Development.

5. Review contracts, project estimates, and employee rosters

You should also take time to gather relevant documents related to your unit’s obligations and contractual agreements.

- a. If a significant portion of your revenue is based on sales or service provision through contractual arrangements with customers (students, faculty, staff, other UM departments, or entities external to The University of Montana-Missoula), it is important to review the agreements to ensure that you are familiar with their terms, and to anticipate any changes in revenue streams. Have fees or rates changed, or will they increase in the coming fiscal year?
- b. Similarly, review significant pending purchase or construction agreements to identify significant changes in expenditure patterns, or pending capital expenditures (equipment acquisition, technology upgrades, remodeling, or construction).
- c. Also, if your operating unit is responsible for direct utility costs, you will probably need to inquire about anticipated rate increases. Use the rates provided in the assumptions package from OPBA.
- d. Finally, review current employee rosters, and consider anticipated changes in personnel costs (salary increases, promotions or upgrades, new hires, terminations, or benefit cost increases). *Use the information provided in the assumptions package where applicable.* Remember, too, that additional employees may well impact utility consumption, supplies, and even capital expenditures for equipment, furniture, or remodeling.

It may be useful (particularly if your unit has not recently undergone a formal planning process) to include a brief SWOT analysis. SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. For this purpose, consider strengths and weaknesses to be internal factors, while opportunities and threats are external. The SWOT analysis is relevant to operational planning in that it will generate ideas about likely direction in the coming year.

6. Prepare Background section of the Operating Plan

The background section of your plan simply provides a description of your operation, its history, and the nature of your business activities.

- a. It is critical to include a clear definition of your business model (on what basis is your revenue earned: contract; mandatory student fee; use fee; sales; rental income; other), as well as other significant characteristics, such as current or historic deficits, debt burden or other mandatory transfers.
- b. Identify any anticipated new initiatives, reorganization, or fundamental change in the nature of your business activities.

7. Prepare Revenue Assumptions and Projections section of the Operating Plan

In this section, you will discuss your projections of revenue for the coming fiscal year.

- a. If your unit has multiple revenue streams, separately describe each significant source. *Include estimated SPABA allocation in this discussion.*
- b. Identify not only the total dollars you project, but the assumptions or rational process by which your projection is made.
- c. Also, discuss the likely timing of revenues. Typically, are revenues evenly or randomly distributed throughout the fiscal year, or are they concentrated at certain points? (e.g., you collect your revenue in certain installments, or perhaps revenues lag sales or service provision by one quarter, or 60% of your annual revenue is collected in May, etc.)
- d. Consider – and document – what you learned in your review of contracts, fee schedules, etc. with regard to fees. Particularly highlight anticipated changes, both in rates and volume of business.
- e. Also note any significant revenue implications gleaned from your SWOT analysis. Are you likely to lose (or gain) a major customer in the next fiscal year?
- f. With this in mind, provide a reasonable numeric projection of next fiscal year's revenues for each major activity or business area and a total numeric projection for all revenues combined.

8. Prepare Expenditure Assumptions and Projections section of the Operating Plan

As with the revenue section, the Expenditure Assumptions and Projections section documents what you predict will occur in the coming year (this time for expenses) and why you think so.

- a. From your review of contracts and project plans, recall – and include in your plan – the areas likely to cause an increase in operating expenses. Particularly document implications for capital expenditures (equipment, technology purchases, upgrades, remodeling, construction, etc.) as well as rate increases from service providers (such as facilities services, utilities, or equipment maintenance contracts).

Remember, this is a plan, and not a budget – so your projections need not be exact. It is, however, extremely critical that you consider (and document) all relevant factors, and that you accurately identify trends and significant changes from past or current levels.

Review historical actual activity compared to your plan. If you are missing your total projected revenue or expense by a significant amount each year or the timing of your projections is much different than historical activity, adjust the projections in your current plan accordingly.

It is much more important that you analyze activities than that you analyze accounts. Index code-level analyses and refinement will occur later, when you prepare your budget.

b. You should also document your assumptions regarding personnel costs. Utilize the information you gathered in your earlier review of employee rosters and plans to identify increases (or decreases) in salaries and benefits. Remember to particularly highlight new hires, as these may have implications for other costs, as well (see earlier discussion in step 4). ***Use benefit and salary assumptions provided by OPBA where applicable.***

c. Next, consider the overall relationship between revenues and expenses. Some expenses are variable; they grow as revenues or business volume grow. Others are fixed; these will remain the same (within limits), regardless of revenue or business volume. Document your reasoning with regard to what relative portions of your costs are fixed and variable.

d. Also, include a discussion of SPABA expense projections where applicable. In particular provide information indicating the amount of salary expense expected to be charged to SPABA funds for the next fiscal year.

e. Finally, with the same considerations as for your revenue projections, provide estimates of next fiscal year's expenditures for each major category (personnel, operating, capital, and transfers) and a total numeric projection for all types of expense combined. Be sure to make it clear how you arrived at your projection. For example if the projection is based on historical trends state this in the plan. If it is based on a combination of calculations for various expenses, document these calculations.

9. Prepare Fund Balance and Capital Plan section of the Operating Plan

Ultimately, the cumulative effect of financial operations results in a fund balance. Since – by definition – designated and auxiliary-funded units are self-supporting, it is important that managers are responsible stewards of their unit's fund balance. Although the overwhelming majority of units have historically maintained a positive fund balance, a few have had short-term or long-term financial difficulty. These situations have come under increasing scrutiny by the Board of Regents, and The University of Montana-Missoula is making strong commitments to the elimination of negative fund balances in all its operations.

- a. If your operating unit currently has a negative balance, or if your projections indicate that you may be in danger of producing a negative balance in the coming year, you must include in your operating plan a sound strategy for regaining a healthy financial position. Explicitly identify all assumptions on which your strategy depends.

- b. Also, include in this section a summary discussion of your capital plan, outlining 3-5 year management goals for fund balance, capital expenditures, and any current or planned debt financing.
- c. Finally, include an estimate of your projected ending fund balance for the next fiscal year and the calculation this estimate is based on. As with the revenue and expense, be sure to make it clear how you arrived at your projection.

Because most designated or auxiliary-funded units are “going concern” entrepreneurial activities, it is neither sensible nor prudent to arbitrarily assume for a healthy operating unit that current revenues will equal current expenditures. In any given fiscal year, an effective unit manager will either set a goal of positive net revenue (excess revenue over expenses) to facilitate creation of a fund balance, or (s)he will invest a reasonable amount of existing fund balance in capacity expansion, equipment and technology acquisition, or other sound investments in the business operation.

10. Prepare Management Issues, Trends, and Significant Events section of Operating Plan

This section of the plan communicates significant issues which offer either opportunities or threats to your operating unit. If you have developed a SWOT analysis, you will find that information will be very useful in completing this section.

- a. Document significant opportunities for new or expanded revenue generation. Be sure to note all known costs of taking advantage of these opportunities, along with immediate and long term revenue potential.
- b. Also, document any identifiable threats to the stability or success of your operating unit, or its current revenue streams.
- c. Describe any organizational or management issues which extend beyond your direct span of authority, but which currently or potentially impact your unit’s performance.
- d. Document your understanding of the environmental or market trends which affect your operations and financial performance.
- e. Describe any events which will have a significant impact on your operating unit or its business climate.

11. Prepare Goals, New Initiatives and Objectives section of the Operating Plan

This final section of the operating plan describes the strategic goals and the fiscal year objectives of your operating unit.

- a. Document the goals of your operating unit, and describe their linkage with sector and/or University strategic goals.
- b. Document any new initiatives you intend to undertake in the new fiscal year. Be sure to explicitly relate costs and benefits to the revenue projections you provided earlier in your plan.
- c. Document the desired outcomes of your operating plan as fiscal year objectives of your operating unit. These may be financial or operational, and may relate to volume or quality. In any case, they must be measurable and verifiable, and should support your strategic goals.