

# ZERO BASED BUDGETING

*Bridging the Gap*  
*October 11, 2022*





# ZERO BASED BUDGETING

## WHY BOTHER?

Zero based  
budgeting

Starting from a zero base	Starting with the last period's actuals
Every expense must be re-evaluated and justified from scratch	Apply additions or deductions, typically in percentage terms, to actuals
Focus on cost containment	Ensure funding stability
Complex and time- and labour-intensive	Easy to understand and simple to implement
Bottom-up	Top-down
Decision-driven	Accounting-based

Budgeting based  
on prior year's  
spending

**For the sake of the mission!**





# ZERO BASED BUDGETING

## Budgets are not connected to prior year spending

- Prevents “embedding” of existing spend in the cost base
- Allows spending levels to be set based on necessary activities of a function, rather than historical trends
- Requires more work to understand activities and cost structure

## Budgets are tied to specific activities and levels of service

- Better aligns spending targets with required activities of a function
- Replaces “do more with less” with “do the right things with the right amount”
- Requires fairly detailed knowledge of departmental activities and willingness to do less or discontinue activities

## Zero-Based Budgeting (ZBB)

A budgeting process that allocates funding based on program efficiency and necessity rather than budget history

## Spending increases or cuts are not simply spread evenly across budgets

- Eliminates common “sandbagging” practices in budgeting process
- Allows for more strategic allocation of planned spend
- Requires more work to analyze and prioritize activities and expenditures

## Funding is targeted more to activities that align with the strategy

- Allows for better alignment of expenditure with overall strategy and departmental missions
- Can reduce incidence of “we’ve always done that”
- Prioritizing activities across various functions can be challenging



# ZERO BASED BUDGETING

## WHY BOTHER?

- ✓ Zero based budgeting (ZBB) ... A method of budgeting in which all expenses must be justified for each new period.
- ✓ Zero based budgeting starts from a "zero base" and every function within an organization is analyzed for its needs and costs.
- ✓ Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.
- ✓ ZBB allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped, then measured against previous results and current expectations.

**Good stewardship ... supports the mission.**



# ZERO BASED BUDGETING

## WHY BOTHER?

- YES – zero based budgeting is work, takes extra time and requires research into prior spending BUT...
- Zero based budgeting starts from scratch without presuming more will be spent.
- Zero based budgeting validates the need for funding for what is needed – based on parish or school priorities rather than guess at what will be spent.
- Zero based budgeting holds the spender accountable.
- Zero based budgeting reduces unnecessary “JUST IN CASE” budgeting and helps to allocate the resources where they are most needed.
- Zero based budgeting is **GOOD STEWARDSHIP**.





# ZERO BASED BUDGETING

## Where do I start?

- START WITH EXPENSES (don't worry about REVENUE for now)
- Review current (generally less than 12 months) and prior year expenses (generally 12 months)
- List categories of expenses from the largest to the smallest – What is the largest category at your parish or school?
- Identify any one-time expenses from the prior year that will not be repeated in your new budget
- Identify any NEW programs that will need to be included
- *Engage anyone who has spending authority* to participate in identifying current expenses and anyone who will have spending authority in the coming year
- **What funding is needed by essential programs/projects?**
- DRILL DOWN to get the details correct
- If time is limited, focus on the largest spending categories (salary and benefits, property insurance, utilities, for example).
- **Let's get started....**

## Statement of Activities

March 31, 2023

for reference

	9 mo actual	3 mo estimates	9 mo actual + 3 mo estimate	ZERO BASED BUDGET for next year	July - Mar 31 ( 9 mo) Prior Year	July - Jun (12 mo) Prior Year
<b>Income</b>						
Offertory Collections Totals:	628,790				596,684	808,612
ABCD Over Goal Rebate Totals:	54,691				0	20,468
Carnival Income Totals:	306,707				125	125
Gifts and Donations Totals:	12,953				9,995	12,458
CCD Totals:	9,800				6,990	7,070
Financial Income - Archdiocese of M	11,469				7,470	10,559
Other Operating Revenues Totals:	62,156				52,822	70,239
Rental Income - Parish Hall Totals:	550				900	1,000
Campaign - Building Fund Totals:	160,027				236,039	289,663
Other Non Operating Revenues	486				50	77,629
<b>Income Totals:</b>	<b>1,247,628</b>				<b>911,075</b>	<b>1,297,824</b>

	9 mo actual	3 mo estimates	9 mo actual + 3 mo estimate	BUDGET for NEXT YEAR	July - Mar 31 ( 9mo) Prior Year	July - Jun (12 mo) Prior Year
<b>Expenses</b>						
Salaries - Clergy and Religious	77,957				77,597	103,463
Salaries - Lay Totals:	211,124				206,204	269,907
Health Insurance Contributions	57,198				48,993	67,998
Pension Plan Contributions Totals:	14,896				13,749	18,332
403(b) Plan Contributions Totals:	5,014				4,867	6,363
Payroll Taxes Totals:	14,954				14,989	19,470
Supplies Totals:	64,014				86,396	99,383
Repairs and Maintenance Totals:	91,519				118,159	154,407
Utilities Totals:	67,628				52,323	74,215



# ZERO BASED BUDGETING

	9 mo actual	3 mo estimates	9 mo actual + 3 mo estimate	BUDGET for NEXT YEAR	July - Mar 31 ( 9mo) Prior Year	July - Jun (12 mo) Prior Year
<b>Salaries (lay)</b>						
<b>Expenses</b>						
Salaries - Clergy and Religious	77,957				77,597	103,463
Salaries - Lay Totals:	211,124				206,204	269,907

## What do I need to know?

Were there vacant positions during the 9 months? If so, for how long? Will they be filled in the coming year? When?

Are additional positions approved for next year? If so, at what salary?

What is the ADOM allowable performance increase for next year?

Total all salary expenses in 9 months then divide by 9 and multiply by three months  $(211,124 \text{ divided by } 9) \times 3 = \$70,375$

Then add 9 mo actual + 3 mo estimate  $211,124 + 70,375 = 281,499$

Then apply the average increase (3%) if any  $\$281,499 \times 1.03 = 289,944$  == projected budget for next year.

Do not include positions that have been eliminated for next year.

Do include newly approved positions (but without the 3% increase).

OR actually add all salaries projected for next year.

Of course, you will need to similarly review all lay benefits, taxes, etc.





# ZERO BASED BUDGETING

## **Salaries and benefits - clergy**

- Review current year's salary. Number of assigned priests remaining the same? Pastor = \$33,337.50, parochial vicar = \$29,662.50
- Maximum Mass stipend compensation (not salary) allowed is \$300/month per priest if the parish receives donations in this amount.
- Health insurance, and contribution to retirement (depending on incardinated, extern, religious or in the incardination process) is a fixed monthly amount (see priest's benefit statement sent from Chancery for details).
- Professional development (\$1500) available at direction of pastor for ministry associated education.
- Auto insurance – max of \$1,000/per priest per 12 month period
- Incardinated priests and externs (NOT RELIGIOUS) are eligible for the 403(b) match for deferred salary
- Priests in incardination process may defer but are NOT eligible for match (use proper Paylocity codes, please)
- Convocation, retreat – use prior year as a basis



- Isolate cost of each monthly category – in Connect Now, drill down to the individual utility category, export TRANSACTIONS into csv file and save. Review all transactions. Only regular monthly bills? Or any one-time utility repairs or purchases, or start up fees, late fees or end of contracts? Budget accordingly to what should be expected for next year.

Account Balance									
July 1, 2021 - March 31, 2022									
Date	Type	Num	Vendor/Customer	Debits	Credits	Balance	CLR	Comment	
5401.00C540	Utility - Telephone			E-1-540-5401-00					
						0			
7/1/2021	Paid Bill	12566	ELEVATOR TELEPHC	90	0	90		ACCT 701073 Elevator telephone Service Residence	
7/1/2021	Paid Bill	12566	ELEVATOR TELEPHC	90	0	180		ACCT 701073 Elevator telephone Service Church Office	
7/1/2021	Paid Bill	12572	RING CENTRAL	367.99	0	547.99		CUST 2197225011 Digital Telephone Service 6/30/2021 - 7/30/2021	
7/14/2021	Paid Bill	12596	AT&T WIRELESS 646	73.76	0	621.75		ACCT 823819081 Emergency Cell Phone	
7/16/2021	Dep	5722		0	11.17	610.58	Yes	Refund from ATT (check # 6776048899)	
7/28/2021	Paid Bill	12634	Wells Fargo FZ 4856	195.53	0	806.11		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
8/12/2021	Paid Bill	12631	RING CENTRAL	367.99	0	1,174.10		CUST 2197225011 Digital Telephone Service 7/31/2021 - 8/30/2021	
8/14/2021	Paid Bill	12660	AT&T WIRELESS 646	70.22	0	1,244.32		ACCT 823819081 Emergency Cell Phone	
8/27/2021	Paid Bill	12691	Wells Fargo FZ 4856	288.08	0	1,532.40		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
9/1/2021	Paid Bill	12665	RING CENTRAL	367.99	0	1,900.39		CUST 2197225011 Digital Telephone Service 8/31/2021 - 9/29/2021	
9/14/2021	Paid Bill	12706	AT&T WIRELESS 646	71.47	0	1,971.86		ACCT 823819081 Emergency Cell Phone	
9/27/2021	Paid Bill	12730	Wells Fargo FZ 4856	128.08	0	2,099.94		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
10/1/2021	Paid Bill	12722	ELEVATOR TELEPHC	90	0	2,189.94		ACCT 701073 Elevator telephone Service Residence	
10/1/2021	Paid Bill	12722	ELEVATOR TELEPHC	90	0	2,279.94		ACCT 701073 Elevator telephone Service Church Office	
10/1/2021	Paid Bill	12728	RING CENTRAL	367.99	0	2,647.93		CUST 2197225011 Digital Telephone Service 9/30/2021 - 10/30/2021	
10/14/2021	Paid Bill	12756	AT&T WIRELESS 646	69.6	0	2,717.53		ACCT 823819081 Emergency Cell Phone	
10/28/2021	Paid Bill	12792	Wells Fargo FZ 4856	228.08	0	2,945.61		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
11/1/2021	Paid Bill	12776	RING CENTRAL	367.99	0	3,313.60		CUST 2197225011 Digital Telephone Service 10/31/2021 - 11/29/2021	
11/28/2021	Paid Bill	12860	Wells Fargo FZ 4856	128.01	0	3,441.61		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
12/1/2021	Paid Bill	12822	RING CENTRAL	367.99	0	3,809.60		CUST 2197225011 Digital Telephone Service 11/30/2021 - 12/30/2021	
12/28/2021	Paid Bill	12901	Wells Fargo FZ 4856	228.01	0	4,037.61		Telephone	
1/1/2022	Paid Bill	12898	RING CENTRAL	367.99	0	4,405.60		CUST 2197225011 Digital Telephone Service 12/31/2021 - 1/30/2022	
1/28/2022	Paid Bill	12946	Wells Fargo FZ 4856	128.01	0	4,533.61		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
2/1/2022	Paid Bill	12936	RING CENTRAL	367.99	0	4,901.60		CUST 2197225011 Digital Telephone Service 1/31/2022 to 2/27/2022	
2/24/2022	Paid Bill	12995	Wells Fargo FZ 4856	227.91	0	5,129.51		ACCT 4856 2003 8168 6289 Verizon and ATT Phone Bill	
3/1/2022	Paid Bill	12982	RING CENTRAL	367.99	0	5,497.50		CUST 2197225011 Digital Telephone Service 2/28/2022 to 3/30/2022	
3/28/2022	Paid Bill	13039	Wells Fargo FZ 4856	127.85	0	5,625.35		Phone bill ATT	
	Net Change		5,625.35	5,636.52	11.17	5,625.35			



# ZERO BASED BUDGETING

## **New programs or projects approved for next year?**

Engage the pastor and anyone responsible for developing the program regarding expected cost for staffing, one-time equipment needs, travel, materials, etc.

Assist the responsible person is developing a realistic budget to submit for next year.

## **Supplies: Wine, Candles, etc expenses**

Review subscriptions, contract prices to see if there is opportunity to adjust for better pricing. Review any recommended changes with the pastor or responsible person

## **Repairs: Building Repairs under \$5,000**

Review repairs needed/completed over the last 3 years

What systems have not been repaired that are likely to need attention in the coming year?

What preventive maintenance is needed? What service contracts for preventive maintenance are in place now? Do they serve the parish well or should they be changed?





# ZERO BASED BUDGETING

## **Rectory Room and Board expenses**

Challenging to estimate depending on number of priests and their needs. A suggestion: generate the list of transactions and review with the pastor to see if he has any concerns or requests to address for the coming year. On average – as an estimate – budget \$700/priest per month or slightly more depending on whether there is a cook to do the shopping and cleaning, whether cleaning and paper supplies are included in this category, whether the pastor occasionally takes the priests out to dinner, etc. In our sample parish a new rectory was acquired and the year's expenses show the stocking of kitchen equipment and appliances and supplies and purchase of furniture for the house--- one-time items.

## **Estimating increases**

For any category where it is necessary to estimate the increase for next year, apply percentage increase at least equal to last year's increase

## **Complete the analysis for all EXPENSE categories**

Drill down to the transaction level via Connect Now to identify and eliminate any one-time expenses that will not recur in the next year or changes in billing on a subscription or contract that may have increased for the next year so that you budget will be as accurate as possible.



# ZERO BASED BUDGETING

## **Now that you know the total expenses estimated for next year ... let's check on Revenue**

Look at the total offertory (1<sup>st</sup> offertory) by month from at least the last two or three years, remembering this included COVID closure.

Has the most recent 12 months' offertory equaled or exceeded FY2019? If so, that is good news. If not, the parish still may be struggling to recover. Use the most current year (the last 12 calendar months) to be the best estimate of next year's offertory. BE CONSERVATIVE. Talk to the pastor in case anything unusual has occurred (death of major donors, uptick in the offertory in the last few months, a change in pastors or anything else that might have changed the patterns of offertory giving.

Do likewise with the Building Fund or Debt Reduction collections – if the parish has an approved building project or has bank debt (and uses the debt reduction funds to pay the debt!) Proceeds of these 2 collections are NOT assessed if the building project is approved or there is bank debt.

If the parish has a carnival or other fund raising, estimate the revenue expected based on past experience (and the expenses should have already been estimated).

If the parish usually exceeds its ABCD goal (goals are likely to be about the same in 2023) then estimate the likely excess. If collection will fall short, the shortfall should have been included as an expense in the assessment line.

Estimate any other revenue source and total all revenue expected. Then.....



# ZERO BASED BUDGETING

	9 mo actual	3 mo estimates	9 mo actual + 3 mo estimate	ZERO BASED BUDGET for next year	July - Mar 31 ( 9 mo) Prior Year	July - Jun (12 mo) Prior Year
<b>Income</b>						
Offertory Collections Totals:	628,790				596,684	808,612
ABCD Over Goal Rebate Totals:	54,691				0	20,468
Carnival Income Totals:	306,707				125	125
Gifts and Donations Totals:	12,953				9,995	12,458
CCD Totals:	9,800				6,990	7,070

## Revenue pay attention to timing

- **Offertory** (1<sup>st</sup> collection) should be reviewed, week by week for the last 12-24 months so your estimate is realistic
- **ABCD over (revenue) or under goal (expense)** ... one time, early April
- **Carnival (once a year)** depends on when it occurs, if data is available use for estimating next year; otherwise, use prior year (revenue and expenses)
- **Gifts and donations** best to use an average from at least 3 years' data unless there is a specific donation already committed for next year
- **CCD totals** likely only at beginning of year or of semester and not recurring





# ZERO BASED BUDGETING

**Now that you know total REVENUE and EXPENSES estimated for next year ... let's check if there is sufficient REVENUE expected to cover all EXPENSES for the coming year.**

If Total REVENUE less total EXPENSES is a **positive** number, you are almost finished. Check your work to make sure nothing has been forgotten and that all the math is accurate. Enter the budget numbers into Connect Now so you will be able to provide a copy of the detailed budget to the pastor AND provide reports of actual financials vs budget throughout the year. Congratulation!

If Total REVENUE is LESS THAN the total EXPENSES, the really tough part is at hand. Verify your work is accurate in estimating both expenses and revenue.

Determining what budget cuts are necessary is really the role of the pastor but the data you have prepared is critical for his task. Do positions need to be eliminated? Is there funds for a performance increase? Does a new project or program or repair or purchase need to be delayed a year or more? Is there a service contract that should be canceled or renegotiated? Is there any opportunity to reduce utility bills? Or any other expense reduction opportunities? Or maybe multiples of these questions are needing to be addressed!

What about increasing offertory giving (call the Development Office for assistance)? Can current parish fund raising be made more effective?

**The GOAL: to reduce expenses and increase revenue until the difference between them is ZERO – and the budget is balanced.**

# QUESTIONS AND CONCERNS

