Understanding the University Budget

Kelley Westhoff
Executive Director for Budget, Planning, & Analysis
March 6, 2019

Agenda
- The Washington State Budget & Higher Education Sector
- Budget Models
- The WSU Budget
- The WSU Budget Office
- WSU Budget Policies
- Financial Recovery

Washington State Budget & Higher Education Sector
State Budget Cycle

- Washington enacts budgets on a two-year cycle
  - Biennial budgets are adopted in odd-numbered years
- By law, the Governor must propose a biennial budget before Legislature convenes in January
  - 2012 law requires a balanced operating fund budget
- Biennial budget can be modified in any legislative session
  - Supplemental Budgets

The Higher Education Sector

- Comprised of:
  - 2 Research Universities
  - 4 Regional Universities
  - State Board of Community and Technical Colleges (34 total colleges)
  - Washington Student Achievement Council – (financial aid / student success advocacy)
- Discretionary funding - from the state level
  - K-12, human services, pension obligations and debt service comprise between 2/3 - 3/4 of the state budget
  - Higher education is a sector that is considered for funding after these 'mandatory' obligations are met.
Overall state spending increased $7.1B between 2001-2003 and 2011-13. Overall spending on higher education decreased $198M in the same timeframe, and Washington public baccalaureate institutions saw a disproportionate $498M decrease in state funding.

Overall state spending has increased $19.3B since 2001-2003. Overall spending on higher education has increased $913M in the same timeframe, while Washington public baccalaureate institutions have seen a $95M increase in state funding.
Governor Inslee’s Operating Budget

$10.8M for the Elson S. Floyd College of Medicine to complete funding for four cohorts of 60 students each.

- WSU is also requesting $3.6M to expand to 80 students beginning Fall 2019.

$15.4M for compensation for faculty and non-represented staff.

- WSU requested $38.4M to fund two increases of 4% each.

Expands the Washington College Promise Scholarship (formerly State Need Grant) to serve an additional 6,000 students in AY 2019-20, and an additional 12,000 students in AY 2020-21.

Governor Inslee’s Capital Budget

- $36.4M for construction of Global Animal Health Building II
- $27M for construction of Tri-Cities Academic Building
- $500K for predesign funding for Spokane-Biomedical & Health Sciences Building II
- $4M in design funds for Vancouver Life Sciences Building
- $4.9M for STEM: Undergraduate Teaching Labs Renovation
- $21.4M for minor capital preservation
- $10.393M for minor capital program/omnibus equipment

Budget Models
Two classic models in higher education: Incremental Budget v. Responsibility Centered Budget

Incremental Budget employs an allocation process where units' legacy funding levels increase incrementally based on overall changes in institutional resources.

Example of Incremental Budgeting: PBL – Planning Budget Level

Units have base levels of funding, which is backed by a pool of tuition plus state appropriations. When new state funding is provided, such as for mass salary increases, each unit receives a proportional increase in PBL.
Responsibility Centered (RCM) Budget allocates resources such as tuition to the units that generate them, which is intended to incentivize revenue growth and cost control.

WSU’s Enrollment Based Budget (EBB) Model for undergraduate enrollment on the Pullman and Spokane campuses is an example of an RCM element of the budget. Under this model new undergraduate tuition is allocated to the colleges that generate it through new enrollment.

Another key element of an RCM budget is that revenue generating units are responsible, typically through a tax, for paying the costs of institutional overhead and funding a subvention fund that is used to subsidize units that may not generate enough revenue to operate at a profit, but are vital to the mission of the institution.
WSU uses this type of overhead assessment with our campuses in Vancouver and Tri-Cities. Both those campuses receive the tuition they generate less an 11% assessment for institutional support.

The WSU Budget

University Operating & Capital Budgets
2015-17 Biennium - $2.297 Billion Total
2015-17 Capital Budget
Total Authority: $311.7 M  Projected Expenditures: $296.7 M
(includes Re-appropriation Balances)

S&A Fees & Athletics
less than 1% each
WSU Building/Land Grant Endowment
16%
Housing & Dining
4%
Local/Private
53%
State General Obligation Bonds
26%
Parking
1%
Minor Capital Projects – 20%
Preventative Maintenance
(Operating) – 7%
Major Capital Projects – 73%

Use of 2015-17 Capital Budget – By Expense Type
State Appropriation, Land Grant Income, and Student Building Fees

2015-2017 Operating Budget
Fund Sources – Estimated Total: $2.0 Billion

* Available for allocation
Sources of Funds for Core University Functions

- State Appropriations
- Net Operating Tuition
- Facilities & Administrative (F&A) Fees on Grants and Contracts

All are used to fund the permanent operating budget of the University

State and Tuition Funding per FTE
(In 2017 Dollars)

- Adjusted for inflation, the real cost of educating a student at WSU has remained steady during 20 years of declining state investments.
- State and Tuition now covers 50% of the cost of education.

Tuition Policy: Components of Tuition

<table>
<thead>
<tr>
<th>WSU Pullman Tuition Rates for 2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residence/Activity</td>
</tr>
<tr>
<td>Non-Resident - Undergraduate</td>
</tr>
<tr>
<td>Non-Resident - Graduate</td>
</tr>
<tr>
<td>Non-Resident - Undergrad Assistente</td>
</tr>
<tr>
<td>Non-Resident - Graduate Assistente</td>
</tr>
</tbody>
</table>
Tuition Policy: Net Operating Fees

\[
\text{Net Operating Fees} = \frac{\text{Gross Operating Fees}}{\text{Less: Operating Fee Waivers}} < \text{Less: 4% Aid Fund} = \text{Net Tuition (Operating Fee) Revenue}
\]

Net Operating Fees by Category

- Undergraduate: 85%
- Graduate: 6%
- Professional: 9%

Undergraduate Net Operating Fees

- Resident: 77%
- Non-Resident: 23%
Tuition Policy-Post Recession

2013-15 Biennium
• No increase in resident UG tuition per legislative mandate, WSU held all rates flat.

2015-17 Biennium
• Resident undergraduate tuition (operating fee portion) reduced by 5% for academic year 2015-16 and by an additional 10% in academic year 2016-17, per legislative mandate. Backfill state funding was provided.
• Although authorized to increase tuition by any amount for all other student categories, WSU opted for no tuition increase in academic year 2015-16, or 2016-17.

2017-19 Biennium
• Current law allows inflationary increases in resident UG tuition for FY18 and FY19.

WSU Budget Principles

Distribution of F&A Revenue

- 23% to F&A Revenue Generating Units
- 4% Office of Research
- 7% Libraries
- 38% Campus Support
- 28% University Support

For more information: BPPM 40.25

Use of 2015-17 Biennial Budget – By Function

State Appropriation and Operating Tuition
Use of 2015-17 Operating Budget – By Expense Type

State Appropriation and Operating Tuition

- Salaries and Wages: 67%
- Benefits: 18%
- Operations: 15%

The WSU Budget Office

What Does the Budget Office Do?
1. State Budget - Requests, Allocations, and Reporting
2. Allotments
3. Compensation Impact Model
4. Internal Budget Processes (review, hearings, summit)
5. Revenue Tracking (F&A, 17A, AFI)
6. Tuition Modeling (census day)
7. Central Benefit Pool Tracking / Analysis
8. Expenditure Monitoring
9. Area Carryforward Projections
10. Benefit Model
11. Accrual Analysis
12. Tuition Schedules
13. MSI, if applicable
14. Ad hoc Decision Support
15. University Workgroups & Committees
16. System Maintenance (HEPPS, MSI, DEPPS, AIS, BPS)
WSU Budget Policies

Allocation of Resources

- General funding is tracked by campus
- Budget allocations are provided by the Budget Office to areas/campuses
- Areas/campuses determine distribution of funding to their departments

Pooled Benefits

- WSU utilizes a central benefit pool to allocate resources to cover benefit related costs for particular fund types (001-XX, 143-XX, 148-02, 148-05, 148-06)
- Automatic budget allocations are made to area departmental operating accounts where actual benefit expenses are incurred each payroll expense cycle
### Accruals (Salary Savings)

- Central pool provides for turnover costs (sick and annual leave payouts), and PIDs.
- Areas retain savings from vacant faculty and graduate student positions on WSU program 05 (libraries) and 06 (instruction).
- Areas retain savings from the transfer of expenditures to grants (programs 11A-14Y) regardless of employee type.
- Central captures savings from vacant classified, administrative professional, and non-instructional faculty positions for the first four months. Subsequent accruals are returned to areas upon request.

*WSU Vancouver, WSU Tri-Cities, Extension, and Ag Research manage their own accruals.*

### Carryforward

Most funds carry forward at the area level. Dean, vice president or chancellor decides if they carry forward at the department level.

- Operating budgets
- F&A accounts
- Donated funds

Some funds do not carry forward

- Equipment replacement allocations
- Special allocations for specific purposes, such as proviso funds

### Financial Recovery
Budget was one of the first topics President-elect Schulz addressed his in message to campus in May 2016 …

➢ “We have been spending more money annually than has been brought in, which is not sustainable”

➢ “We are spending down reserves”

Fiscal Year 2018

• First year of a three year recovery plan

• We have overspent the University budget for the previous 4 years by about $25-$30 million each year. This overspending has decreased the University’s reserves to slightly less than $100 million.

• $25 - $30 million is 2.5%-3.0% of the annual $1 billion operating budget
Recovery Plan Specifics

• Three-year recovery plan calls for $10 million improvement over three consecutive years

• Areas have specific improvement targets to be met through expenditure reductions or revenue enhancement or both

• Areas retain savings (not a budget cut)

• Monthly reporting, using a common template

Other Budget / Fiscal Initiatives

• Regular updates to campus community

• President’s Perspectives columns

• Fiscal Health Web Page

• University Fiscal Health Advisory Committee

FY18 Results & FY19 Projected