Understanding the University Budget
Kelley Westhoff
Executive Director for Budget, Planning, & Analysis
October 24, 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
Washington State Budget & Higher Education Sector

- 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 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.
### The Higher Ed Sector – Operating Budget

<table>
<thead>
<tr>
<th>Sectors of Government</th>
<th>State Funds</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>190,001</td>
<td>0.4%</td>
</tr>
<tr>
<td>Judicial</td>
<td>332,748</td>
<td>0.6%</td>
</tr>
<tr>
<td>Government Operations</td>
<td>690,315</td>
<td>1.3%</td>
</tr>
<tr>
<td>Other Human Services</td>
<td>10,116,023</td>
<td>19.3%</td>
</tr>
<tr>
<td>Social &amp; Health Services</td>
<td>6,393,519</td>
<td>12.2%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>438,722</td>
<td>0.8%</td>
</tr>
<tr>
<td>Transportation</td>
<td>120,869</td>
<td>0.2%</td>
</tr>
<tr>
<td>Public School</td>
<td>27,245,910</td>
<td>52.0%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>4,038,399</td>
<td>7.7%</td>
</tr>
<tr>
<td>Other Education</td>
<td>68,794</td>
<td>0.1%</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>2,783,622</td>
<td>5.3%</td>
</tr>
<tr>
<td>Statewide Total</td>
<td>52,418,922</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Higher Education Sector General Fund Appropriations

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.
2019-21 Biennial Operating Budget

State Funding Sources

2019-20

<table>
<thead>
<tr>
<th>Source</th>
<th>2019-20</th>
<th>2020-21</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Appropriation</td>
<td>$425,000</td>
<td>$425,000</td>
<td>$850,000</td>
</tr>
<tr>
<td>State General Rev</td>
<td>$403,800</td>
<td>$403,800</td>
<td>$807,600</td>
</tr>
<tr>
<td>FFP Federal Rev</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$848,800</td>
<td>$848,800</td>
<td>$1,697,600</td>
</tr>
</tbody>
</table>

State Budget Breakdown

Fully Funded Requests

- $10.8M for ESF College of Medicine Completion funding
- $3.6M for ESF College of Medicine Expansion funding

Partially Funded Requests

- $1.4M M&O for buildings to be completed this biennium
- $500K for soil health initiative
- $15.4M of our $38.4M request for compensation
**State Budget Breakdown**

**Unfunded**

- M&O digital classroom

**Other Funding / Mandates**

- Miscellaneous bills
- Clean Energy
- Veteran’s mental health counselor
- Suicide/crisis counseling hotlines
- $5.4M compensation and central service support (foundational support)

**Tuition & Foundational Support**

- Budget assumes $20.2 million of new costs for compensation and central services will be covered by new tuition.
- Budget writers recognized that the assumed costs covered from tuition ($20.2 million) are greater than the new tuition WSU could generate, so ‘Compensation and central service’ support (foundational support) of $5.3 million was provided as state appropriation to reduce the costs assumed to be covered from new tuition.
- Net amount WSU is expected to generate from new tuition $14.8 million
Two classic models in higher education:

Incremental Budget v. Responsibility Centered Budget

Incremental Budget employs an allocation process where units' legacy funding levels increase (or decrease) 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.

**Budget Models**

**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.

Budget Models

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
The WSU Budget

University Operating & Capital Budgets
2015-17 Biennium - $2.297 Billion Total

Operating 87%
Capital 13%

$2.10B
$296.7M

The WSU Budget

2015-17 Capital Budget
Total Authority: $311.7 M    Projected Expenditures: $296.7 M
(includes Re-appropriation Balances)

State Appropriation, Land Grant Income, and Student Building Fees

Use of 2015-17 Capital Budget – By Expense Type
Minor Capital Projects – 20%
Preventative Maintenance (Operating) – 7%
Major Capital Projects – 73%
State General Obligation Bonds – 26%
WSU Building/Land Grant Endowment – 16%
Housing & Dining – 4%
S&A Fees & Athletics – less than 1%
Local/Private – 53%
**2015-2017 Operating Budget**

**Fund Sources – Estimated Total: $2.0 Billion**

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Available for allocation</em></td>
<td>24%</td>
</tr>
<tr>
<td>Net Restricted Student Fees</td>
<td>4%</td>
</tr>
<tr>
<td>Federal Grants &amp; Contracts</td>
<td>16%</td>
</tr>
<tr>
<td>State Grants &amp; Contracts</td>
<td>9%</td>
</tr>
<tr>
<td>Local Grants &amp; Contracts</td>
<td>3%</td>
</tr>
<tr>
<td>Ed Dept Sales &amp; Services</td>
<td>2%</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>14%</td>
</tr>
<tr>
<td><em>State Appropriations</em></td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>Net Investment Income - 6%</td>
<td>6%</td>
</tr>
<tr>
<td>Federal Appropriations</td>
<td>1%</td>
</tr>
<tr>
<td>Gifts/Endowment</td>
<td>4%</td>
</tr>
<tr>
<td>Net Operating Tuition *</td>
<td>24%</td>
</tr>
</tbody>
</table>

**Sources of Funds for Core University Functions**

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

**The WSU Budget : Tuition**

State and Tuition Funding per FTE (in 2017 Dollars)

- Adjusted for inflation, the total cost of educating a student at WSU has remained steady during 20 years of declining state investments.
- Student tuition now covers 50% of the cost of education.
The WSU Budget: Tuition

Components of Tuition

<table>
<thead>
<tr>
<th></th>
<th>Building</th>
<th>Operating</th>
<th>Tuition (Full-Term)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESIDENT RATES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>972.00</td>
<td>9,181.00</td>
<td>9,953.00</td>
</tr>
<tr>
<td>Graduate</td>
<td>342.00</td>
<td>11,151.00</td>
<td>11,493.00</td>
</tr>
<tr>
<td><strong>NON-RESIDENT RATES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Undergraduate</td>
<td>1,100.00</td>
<td>23,431.00</td>
<td>24,531.00</td>
</tr>
<tr>
<td>Graduate</td>
<td>883.00</td>
<td>24,365.00</td>
<td>25,248.00</td>
</tr>
</tbody>
</table>

The WSU Budget: Tuition

Net Operating Fees by Category

- Undergraduate: 85%
- Graduate: 6%
- Professional: 9%
The WSU Budget

Undergraduate Net Operating Fees

Residents 17%
Non-Residents 83%

The WSU Budget : Tuition

Tuition Policy - Post Recession

Tuition setting authority RCW 28B.15.067

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 & 2019-21 Biennium
• Beginning with the 2017-18 academic year, full-time tuition operating fees for resident undergraduates may increase by no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous fourteen years as the wage is determined by the federal bureau of labor statistics.
• Governing boards may set rates for all other categories of students

The WSU Budget : Tuition

Tuition Rate Change History

<table>
<thead>
<tr>
<th>AY</th>
<th>Resident Undergraduate</th>
<th>Non-Resident Undergraduate</th>
<th>Resident Graduate</th>
<th>Non-Resident Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>14.0%</td>
<td>5.0%</td>
<td>14.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>2011-12</td>
<td>16.0%</td>
<td>8.0%</td>
<td>16.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>2012-13</td>
<td>16.0%</td>
<td>16.0%</td>
<td>0.0%</td>
<td>16.0%</td>
</tr>
<tr>
<td>2013-14</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2014-15</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2015-16</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2016-17</td>
<td>2.2%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2017-18</td>
<td>2.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2018-19</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
<tr>
<td>2019-20</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Historical Tuition Rate Changes

• Until this year there had been no increases to Non-resident Undergraduate or Graduate rates since AY 2012-13
• Resident Undergraduate rate increases have been modest (inflationary) or decreased since AY 2013-14
### Pac-12 Peers: Undergraduate Tuition and Fees

<table>
<thead>
<tr>
<th>Name</th>
<th>Resident</th>
<th>Non-Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona State University/Tempe</td>
<td>$23,022</td>
<td>$35,394</td>
</tr>
<tr>
<td>Oregon State University</td>
<td>$31,186</td>
<td>$38,147</td>
</tr>
<tr>
<td>Stanford University</td>
<td>$41,393</td>
<td>$51,748</td>
</tr>
<tr>
<td>University of Arizona</td>
<td>$32,469</td>
<td>$56,998</td>
</tr>
<tr>
<td>University of California Berkeley</td>
<td>$34,184</td>
<td>$43,710</td>
</tr>
<tr>
<td>University of California, Los Angeles</td>
<td>$36,198</td>
<td>$42,218</td>
</tr>
<tr>
<td>University of Colorado, Boulder</td>
<td>$32,762</td>
<td>$37,289</td>
</tr>
<tr>
<td>University of Oregon</td>
<td>$31,786</td>
<td>$35,470</td>
</tr>
<tr>
<td>University of Southern California</td>
<td>$36,315</td>
<td></td>
</tr>
<tr>
<td>University of Utah</td>
<td>$9,122</td>
<td>$26,255</td>
</tr>
<tr>
<td>University of Washington, Seattle Campus</td>
<td>$35,107</td>
<td>$36,968</td>
</tr>
<tr>
<td>Washington State University</td>
<td>$14,964</td>
<td>$25,465</td>
</tr>
</tbody>
</table>

Average: $21,002, $37,464

Source: https://www.coldwetugkto.com

WSU undergraduate tuition + fees are lower than the Pac-12 average for both residents and non-residents.
WSU resident undergraduate tuition & fees are fifth lowest in the Pac-12.
WSU non-resident undergraduate tuition & fees are the lowest in the Pac-12.

### The WSU Budget: F&A

**WSU Budget Principles**

- Distribution of F&A Revenue

<table>
<thead>
<tr>
<th>Distribution of F&amp;A Revenue</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of Research</td>
<td>4%</td>
</tr>
<tr>
<td>Libraries</td>
<td>7%</td>
</tr>
<tr>
<td>Campus Support</td>
<td>38%</td>
</tr>
<tr>
<td>University Support</td>
<td>28%</td>
</tr>
</tbody>
</table>

23% to F&A Revenue Generating Units

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
WSU Budget Policies

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

Accruals (Salary Savings) *WSU Vancouver, WSU Tri-Cities, Extension, and Ag Research manage their own accruals.*

WSU Budget Policies

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

Financial Recovery
Budget was one of the first topics President-elect Schulz addressed in his 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”

Financial Recovery

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

Overall Recovery

While we have exceeded our target for each of the last two years, the overall reserve balance (Areas + Central) is flat.
Other Budget / Fiscal Initiatives

 Regular updates to campus community

 President’s News & Notes columns

 Fiscal Health Web Page

 University Fiscal Health Advisory Committee

Financial Recovery

QUESTIONS