

## Proposed FY 2014-15 Operating Budget

### **Background:**

The strategic budget processes at Western always involves at least three rings. There is a biennial budget **request** process; the budget requests for the 2015-17 biennium have been developed bottom up and penultimate recommendations are about to be posted. There is the **capital** budget process. And, once the legislature has considered budget requests and cut us a check, there is a process for adopting an **operating** budget.

Last year, through an open, transparent, and bottom up process, the campus developed an operating budget for the current biennium. The Board of Trustees then approved the first year of that two year budget.

Now it is time to re-examine year two of that budget to see if there are adjustments, or "emergent issues," that should be included in what is then the Trustees' responsibility to act upon.

As is always the case, we proceeded bottom up with proposals posted on the web for all to see. The University Planning and Resources Council (UPRC), broadly representative of faculty, staff, students, and administration, considered budget presentations in audiocast sessions and then formed recommendations. Central leadership - the president, vice presidents and deans - then met on several occasions to discuss budget options and to consider the recommendations of the UPRC.

Their recommendations to campus on the FY 2014-15 operating budget now follow. Your feedback is welcome, and there are several means to respond:

- UPRC final feedback will be discussed at their May 7th meeting;
- Feedback will be solicited at the President's Cabinet meeting on May 7th; and,
- A discussion forum has been established on Viking Village through May 16th.

After considering this additional feedback, President Shepard will recommend an FY 2014-15 Operating Budget to the Board of Trustees at their June meeting. They are expected to act upon that recommendation in open and audiocast session on Friday, June 13th.

### **Summary:**

The budget for the second year of the biennium is a fairly cut-and-dried matter as the strategic decision making - deriving funding decisions from stated strategic priorities of the university - was completed a year ago.

The FY 2014-15 budget continues those decisions in these ways:

- Western's excellence, and the need for competitive compensation that then follows, was identified last year as our top priority. This FY 2014-15 proposal fully funds contractual commitments for faculty and classified staff. Added to this is funding for the previously announced "compensation floor" for our 69 lowest paid colleagues. We propose to add support to continue the plan to bring all professional staff with five or more years of satisfactory service to the middle third of the salary range defined by market comparability studies. And, we include salary adjustments for the lowest paid graduate teaching assistants. (Those salaries had not been adjusted in five years.)
- In simplest terms, we seek to apply our considerable strengths to meeting the critical needs of Washington State. The proposed operating budget funds the continuing and, in some cases, the additional second year costs of implementing the initiatives previously approved as a part of the biennial budget, including diversity, engineering, computer science, and energy studies.

- Joining with UPRC who saw this as the top priority, the deans and vice presidents recommend funding the proposal to improve student and academic support services. +
- We again join with UPRC in seeing the enhanced support for graduate and research programs as necessary. We recommend a different approach, though. As the investment is expected to generate additional returned overhead, we will fund the initiative for three years using one-time reserves with an expectation that permanent recurring funding will then be possible through the increase in overhead support coming to Western as a result of additional grant activity.
- Several proposals we considered may well need to be funded but we think more study is necessary. The Banner Data Defense proposal needs to be analyzed in the context of several alternatives and with a more precise understanding of the vulnerabilities that would then remain. We set a six-month deadline for completing that analysis.
- The Visual Media proposal identifies an exploding need on our campus. We discussed the need, the various pockets of expertise on campus, and the possible use of different funding strategies. We set aside most of what was requested, but will allocate funds to specific areas once a more comprehensive review of capabilities and funding strategies is conducted. We set a similar six month deadline for bringing closure to this budget decision.
- There were also several "emergent items" that had to be funded no matter what. That is because they emerged from the legislature. Described as "lean management" and "IT efficiency" reductions, these are simply cuts to Western's annual base budget and total \$271,000.

These proposals are responsive to UPRC's top priorities: student support services, teaching assistant compensation, and support for graduate studies and research.

Spending money is easy. Finding the funds is the other side of the coin. In the biennial budget, we had built in an assumption of a 0% tuition increase in resident undergraduate instruction for FY 2013-14 and 2.75% for FY 2014-15 with modest increases in other tuition categories.

The good news is that there will be no tuition increase next year for resident undergraduates. After studying data from peers, we also will not raise graduate non-resident tuition. Resident graduate tuition rates are well below peers and would, we propose, be increased 3%. Non-resident undergraduate tuition would also increase by 3%, but those increases would be balanced by a program of partial waivers designed to keep Western's tuition competitive with peers.

To bring the budget into balance going forward, we would also add revenues from two other sources. First, we would increase the overhead assessment on auxiliaries and self-support operations by 0.3%. This is a complex matter in which there are all sorts of apples and oranges; further, affected units must plan ahead. Consequently, we would postpone the implementation for one year while the details are worked out, covering next year's projected revenue from reserves.

Overall, this proposal is responsive to the emergent issues of highest priority while not cutting division budgets and not raising undergraduate resident tuition.

We also propose to reduce the institution's budgeted and recurring contingency fund by 10%. Six years ago, Western had no such regularly budgeted fund. It was brought to a level that has seen us through some very challenging times. We have analyzed worst-case budget scenarios for the next biennium along with our current level of institutional reserves, and believe such a reduction is now not only fiscally prudent but also strategically wise - putting more dollars to work for Western.

**WESTERN WASHINGTON UNIVERSITY - SOURCES AND USES**  
**OPERATING BUDGET 2014-15**

**USES**

**ITEMS RECOMMENDED AND DECIDED JULY 2013**

Faculty Contract Commitments - year 3	2,840,123
Utility Budget Increase	174,019
Energy Decision Package	543,548
Classified CBA Commitments (Step M)	42,042

**EMERGENT ISSUES DECIDED AFTER JULY 2013**

Final year of Post Tenure Review commitment left out of FY14	149,187
Pro-Staff/Exec Staff Increases implemented at 4% vs. planned 3.5%	129,885
Lean Management allocation reductions from OFM	240,000
IT efficiency reduction from OFM	31,000
Classified CBA Commitment (Compensation Floor adjustment)	158,380

**EMERGENT ISSUES RECOMMENDED - YET TO BE DECIDED**

**Institutional**

Pro-Staff and Exec. Staff - continuation of compensation plan	111,167
Teaching Assistant Compensation	156,424

**Enrollment and Student Services**

Student Success and Achievement	230,701
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**Academic Affairs**

Video Services Support	75,000
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**TOTAL RECURRING NEW NEEDS** **4,881,476**

**SOURCES**

**ITEMS RECOMMENDED AND DECIDED JULY 2013**

Revenue from overhead assessment as auxiliary income has increased	248,090
Rollover to Yr 2 of recurring Yr 1 under commitments	3,199,560
Cost Estimate Variance on Step M Implementation in FY14	34,012

**NEW SOURCES:**

**Tuition**

Tuition: 3% increase - Non-Res UG	548,061
Tuition: 3% increase - Res Graduate	80,235

**Recurring Assessment on all Auxiliary and Self-Sustaining Funds**

Total, all Divisions (In addition to 0.3% agreed to; would require 1 yr soft \$ to plan, implement sensibly across offices, divisions)	275,518
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**Other**

ATUS Budget Reduction	31,000
Permanently Reduce Recurring Contingency Reserve	465,000

**TOTAL NEW SOURCES** **4,881,476**

**Faculty Compensation:**

The base budget commitments for year one of the University/Faculty CBA were covered using one-time reserves. This was done knowing that permanent, recurring savings from rebasing would become available in 2013-15. The commitments for years two and three of the contract was built into the biennial budget last year and approved by the Board of Trustees in July 2013.

**Utility Budget Increase:**

This is an inflationary increase to prudently cover any rate or usage increases in utilities, such as heat and electricity, imposed on the university. Any funds not spent revert back to the fund balance reserve and can be used for funding one-time commitments in the future.

**Multi-College Energy Academic Program:**

This is an initiative of three colleges: Huxley College of the Environment, the College of Sciences and Technology, and the College of Business and Economics. The proposal, in ways unique to the West Coast, prepares students for leadership in the energy economy of the 21<sup>st</sup> century. The proposal has strong support from among prospective employers and is funded through a combination of state appropriation and private philanthropy.

The Energy Program epitomizes clearly what it means to take strengths particular to Western and apply them to critical needs. That it involves partnerships among three colleges and with public and private sector entities is also appealing. So, we have included funding for the state support piece even though the state did not appropriate funds specifically for this decision package but, instead, providing increased general institutional support; the funding obligation related to private fundraising remains.

This initiative was approved as a part of last year's budget. Here, we fund 2<sup>nd</sup> year costs that were anticipated at that time.

**Classified Compensation:**

Step M: An additional step was added to the State General Service Salary Schedule in the 2013-15 operating budget, referred to as Step M. All classified employees who had been at Step L for six consecutive years or more progressed to Step M on July 1, 2013. Other classified staff progress to Step M on their anniversary date after completing six consecutive years at Step L. The cost to implement Step M, which was not included in our state allocation, was less than anticipated in FY14. Funding was committed in Western's biennial budget last year to cover those employees that will progress to Step M this coming year.

Compensation Floor: Effective July 1, 2014, the base salary for permanent (half-time or greater) WFSE and PSE employees will be brought to a new minimum compensation floor. Sixty nine current WFSE and PSE employees compensated below \$15 per hour will be moved up to the step closest to \$15 an hour on the state's salary schedule, and new employees will be brought to the new level following successful completion of the probationary period.

Other Note: Under the 2013-15 state operating budget and terms of the state's collective bargaining agreements with unions representing many state employees, salaries would have risen by 1.0 percent if, as a result of increased economic activity, the February 2014 quarterly revenue forecast had been at least \$200 million higher than what was forecast in September 2012. Revenue growth generated by economic changes increased only \$11.7 million over that period. That increase was too small to trigger a 1.0 percent cost of living adjustment. Since compensation is a top university priority, Western and the two unions have agreed to partially offset this lost cost of living increase with a one-time lump sum payment to WFSE and PSE bargaining unit employees.

For WFSE, in addition to previously agreed upon lump sum payments of 2.20 percent paid August 25, 2013 and 1.0 percent to be paid on December 14, 2014, a 1.0 percent lump sum will be added.

For PSE, in addition to a previously agreed upon 2.5 percent lump sum paid December 10, 2013, a 1.7 percent lump sum payment will be added.

### **Post Tenure Review**

The final year of the five year university commitment to fund faculty post-tenure review was inadvertently left out of the recurring budget in FY14. The cost to cover the expense in FY14 was funded from one-time reserves, so the base budget must be adjusted to cover these on a recurring basis. Moving forward, the Academic Affairs budget funds this cost from savings from turnover of tenured positions.

### **Professional and Executive Staff Increases**

**FY14 Implementation:** In building the biennial budget for 2013-15 it was anticipated that professional and executive staff salary increases would be 3.5%. Prior to implementation, it was decided that these employee classes, having received no increases over the preceding 5 years, would receive a 3% across the board increase, and a 1% pool would be used for equity and retention issues. One-time funds were used to cover the differential for FY14, so the base budget must be adjusted to cover this on a recurring basis.

**Continuing Compensation Plan:** Recurring funding is being added in FY15 to continue the compensation plan to bring all professional staff with five or more years of satisfactory service to the middle third of the salary range defined by market comparability studies.

### **Teaching Assistant Compensation**

Graduate teaching assistantship stipends have not increased since 2009, even as the cost of living and educational expenses have increased dramatically. Higher stipends for graduate teaching assistants will improve recruitment and retention of highest quality students, which will have both direct and indirect effects of improving undergraduate education.

### **Student Success and Achievement**

Western is at a critical juncture in several of our key core state-funded service areas that have seen the greatest growth in demand: Academic Advising and Student Outreach Services, the Counseling Center, and the Office of disAbility Resources for Students. The demands in these areas reflect changes in demographics of our enrollment, and this has impacted both the yield of new students and the retention of currently enrolled students. This funding addresses these most critical needs.

### **Video Services Support**

The original emergent issues proposal for Video Services Support can be reviewed [here](#). The partial base funding of this proposal helps cover increased demand for services while a comprehensive review of the total needs and alternative funding strategies is undertaken. This review will be completed in six months. The ultimate funding of this proposal may vary based on the outcome of this review.

### **Increased Income from Auxiliaries**

Auxiliaries are the various components of the university's operations that run as businesses, which must generate revenues to cover costs. Our residence halls are just one example.

The university charges fees to auxiliaries to cover overhead services provided. Last biennium the fee structure was carefully studied and then significantly revised.

Included was a somewhat higher fee to be charged beginning FY 2013-14. This is not an addition we are now proposing be added but, rather, is the realization of income from a fee increase our auxiliaries knew was coming and have been budgeting for. This line also reflects revenue growth because auxiliary activity has been increasing and, consequently, revenue realized from the overhead charge has increased as a result of that greater activity.

### **Rollover of Year One to Year Two**

We had a substantial carryover between the two years of this biennium. This has to do with the way the legislature appropriates across a biennium compared to the commitments we have for the biennium. Because our appropriations are essentially the same for both years of the biennium, as is our tuition revenue, there are about the same number of dollars available to spend in 2013-14 as in 2014-15. However, our expenses in 2014-15 are significantly higher than in 2013-14 because we are budgeting for annual compensation increases both years.

### **Tuition**

Resident undergraduate tuition is legislatively restricted to a zero percent increase for FY15, consistent with legislative action for FY 2014.

We propose, then, to increase tuition by 3% in FY 2014-5 for resident graduate students and for non-resident undergraduates. This modest increase keeps those tuitions at or below the tuition levels among Western's peer institutions while supporting program improvements.

### **Recurring Assessment on all Auxiliary and Self-Sustaining Funds**

Due to the limited options for new sources, an additional 0.3% assessment on auxiliary and self-sustaining funds will need to be charged. To avoid any adverse unintended consequences, one-time reserves will be used in FY 2015 as we plan how best to implement this source for the recurring budget.

### **Lean Management and IT Efficiency Reductions from OFM**

Lean Management: In the 2013-15 biennial budget, the legislature reduced the allocation to the Office of Financial Management (OFM) with the direction to "... develop a strategic lean management action plan to drive efficiencies in state spending and increase productivity of state employees while improving and increasing state services for taxpayers. The action plan must determine the specific agencies and programs that would benefit most from application of the action plan, and the plan must target resources accordingly." Western's targeted resources for the 2013-15 biennium has been determined by OFM to be \$240,000.

IT Efficiency: OFM was directed to reduce agency allotments to reflect savings resulting from efficiencies in information technology expenditures statewide. Our forced efficiency resulted in a reduction to be covered by Academic Technology and User Services in the amount of \$31,000.

### **Permanently Reduce Recurring Contingency Fund**

The university maintains a base-budgeted contingency fund to cover unexpected and unbudgeted expenses. For example, in recent years that fund has been used several times to "buy time" in order to make budget reductions thoughtfully. Western drew upon the contingency fund to send the dollars Olympia immediately required as a cut in our budget while we took a year, bottom up, to make permanent cuts.

At the end of a fiscal year, unspent balances feed the university's reserves and those reserves are also available to cover one-time unexpected and unbudgeted expenses. Based upon our experiences as we have successfully weathered five difficult years, we believe it possible to now permanently reduce the size of the recurring contingency fund in order to free up funds to provide base budget funding for other needs.

The full document and links are available at

<http://www.wvu.edu/upb/1516Emerg/ProposedFY2015version3.pdf> —