FY21 Budget Planning Scenarios

Assumption and Mitigation Strategies

June 5, 2020

Introduction

We approach fiscal year 2021 with much uncertainty, and our planning process reflects that challenge. Initial direction from the state Office of Financial Management is to plan for a 15 percent reduction to appropriations due to the economic impact of COVID-19; similarly, we face COVID-related enrollment losses and increased costs. Given the potential magnitude of impacts, it is critical that we begin planning now, and engaging broadly as a university community.

The following table outlines the major drivers for two budget planning scenarios, "bad" and "worse," leading to divisional planning targets. Clicking on the links for any line will bring you to greater detail about that item, below. These are scenarios based on the best available information at this date; as our certainty increases around state budget levels and enrollments , we will be able to refine these scenarios.

FY21 Budget Scenarios: Assumptions and Mitigation Strategies

	Bad		Worse	
Assumptions				
State Budget Cut	10.0%	($9,308,300)	15.0%	($13,962,450)
NRUG Enrollment Decline (from increase of 50)	15.0%	($4,066,517)	15.0%	($4,066,517)
RUG Enrollment Decline (from 2% decrease)	10.0%	($6,662,306)	13.0%	($8,660,998)
Lower NRUG Tuition Rates	2.5%	($617,775)	2.5%	($617,775)
Lower ASA Revenue	20.0%	($956,772)	30.0%	($1,435,158)
Increased COVID-19 Costs	2,500,000	$2,500,000	5,000,000	$5,000,000
Beginning Deficit - Before Mitigations		($28,130,061)		($38,187,538)
Response/Mitigation Variables				
Reduce Tuition Buffer	50.0%	$700,530	75.0%	$1,050,794
Reduce Contingency Funds	50.0%	$634,338	75.0%	$951,506
CARES Funding	20.0%	$1,160,000	30.0%	$1,740,000
Reduce Inst. Funded Capital Projects	100.0%	$960,000	100.0%	$960,000
Reduce Compensation Increases - except classified	3.0%	$3,607,386	3.0%	$3,607,386
Additional RUG Tuition Rate Increase	0.0%	$0	0.0%	$0
Reduce AA Gap Bridge Funding	2,000,000	$2,000,000	2,000,000	$2,000,000
Subtotal		*$9,062,253*		*$10,309,687*
Budget Reductions	5.0%	$8,901,906	10.0%	$17,803,813
Institutional Reserves		($10,165,902)		($10,074,039)

Assumptions

State Budget Cuts

State agencies have been directed to plan for a 15 percent budget reduction for FY21, based on an initial revenue projection for the state showing a $7 billion decrease. The legislature is expected to convene a special session this summer to take action on the budget, which will be informed by an updated and official revenue forecast on June 17. The formal revenue forecast and special session will give us a more precise planning target. As the state looks to adjust spending levels to the revised forecast, there will be particular attention on those areas not protected by the constitution, including higher education.

Enrollment Declines

Nationally, colleges and universities are projecting significant declines (as high as 20 percent) in Fall 2020 enrollment as a result of the coronavirus, with particular uncertainty around the incoming freshman class. As registration for fall quarter occurs throughout the summer, our understanding of the specific impacts at WWU is developing, although a final figure for enrollment impacts will not be available until October. WWU experienced enrollment declines for spring quarter (2.2 percent overall but 10.2 percent for non-resident, which have a disproportionate impact on budget).

Lower Non-Resident Undergrad Tuition Rates

Western's FY19-21 approved biennial budget included a 5 percent increase for non-resident undergraduate tuition in FY21. Recognizing the disproportionate impact of the coronavirus on non-resident enrollment, we are recommending reducing that to match the 2.5 percent resident increase. Tuition increases are driven by the legislature's approved budget for WWU, which is only partially funded with state resources; the remainder must be covered through tuition.

Lower Administrative Services Assessment Revenue

Western provides support services to our auxiliary and self-sustaining units through our state-funded operations. Those units pay for the indirect costs associated with their support through the Administrative Services Assessment, charged as a percentage of revenue. With substantial projected impacts to self-sustaining and auxiliary budgets as a result of the coronavirus, and particularly housing and dining, that indirect cost recovery will decrease.

Increased COVID-19 Costs

These are early estimates based on operational plans for fall quarter, and the best guidance available from state and federal agencies. The majority of these costs are critical health and safety items, such as protective gear, testing, and cleaning; the total also includes support for

faculty, students, and staff operating remotely. We are working to match these expenses to external funding sources, with the recognition that as yet only a fraction is guaranteed.

Preexisting Deficit

In addition to the new drivers described above, Western was entering FY21 with an operational deficit of approximately $4 million, reflected in the total Beginning Deficit figure above.

Response/Mitigation Variables

Reduce Tuition Buffer

Western's practice is to budget 98 percent of projected tuition revenue, holding 2 percent as a buffer to offset unforeseen shifts and reduce the need for sudden budget changes mid-year. Historically we have maintained a 2 percent buffer, which going into FY20 decreased to approximately 1.4 percent. The reductions in these scenarios would lower it to 0.7 percent and 0.35 percent, respectively.

Reduce Contingency Fund

The contingency fund exists to cover sudden, unforeseen, and emergency expenditures not planned for as part of the budget process. Such expenditures will still arise in FY21, so this strategy is a reduction rather than elimination.

CARES Funding

Current guidance from the US Department of Education on use of the institutional portion of CARES Act funding is extremely restrictive; for Western, that guidance limits use to those costs associated with a change in the mode of instruction due to the coronavirus. Western is pursuing greater flexibility in the use of these funds, in keeping with the direction of the CARES Act language. The CARES funding expires in one year.

Reduce Institutionally Funded Capital Projects

Western has made strategic investments in key capital projects through institutional funds. In both reduction scenarios, that institutional investment could be deferred for FY21.

Reduce Compensation Increases

Western's original FY21 budget plan, as part of our approved FY19-21 biennial budget, included funding for a 3.0 percent increase for faculty and pro-staff as well as the collectively bargained and legislatively approved increase for classified staff. Including only those classified staff increases would reduce the budget gap by approximately $3.6 million. Note: inclusion of this strategy within scenario planning does not replace or negate our established collective bargaining procedures or pro-staff guidelines.

Additional Resident Undergraduate Tuition Increase

During the recession, Washington offset state funding reductions with tuition increases, transferring costs of higher education from the state to families. Those tuition increases were later "bought back" by the state. No such tuition increases are currently under discussion, but it may arise as a strategy directed by the state.

Reduce Academic Affairs Gap Bridge Funding

Our FY21 budget planning originally included using $2 million of institutional funding to bridge the preexisting deficit in Academic Affairs, providing more time to gradually bring the budget and operational expenses into alignment. Though this remains a priority investment, the aforementioned budget constraints reduce our capacity to address this deficit in FY21.

Budget Reductions

In the lead up to fall quarter, we are asking divisions to plan for two scenarios: a five and ten percent reduction to operating budgets. While we are hopeful that such reductions will not ultimately be required, the difficulty of meeting these targets and the sincere possibility that they could be necessary mean that divisions will need as much time as possible to identify strategies. Divisional planning will be guided by the budget planning principles document and will be coordinated and advised through the FY21 budget working and consultation groups. Final plans will be pulled into a university-level approach in early September, for review by shared governance and the Western community.

The budget reduction target for FY21 can be approached in a variety of ways both permanent and temporary. In addition to reductions, divisions are encouraged to consider use of other fund sources and balances and new revenue generation. While temporary strategies are important tools that create space for planning, it is important to remember that they do not address the recurring gap in future years.

Institutional Reserves

Western is projected to enter FY21 with approximately $18-20 million in uncommitted institutional reserves. In either scenario, $10 million could be used to offset reductions in FY21, leaving approximately $10 million to buffer future years. Current projections are that this will be a multi-year impact in both state funding and enrollment. Note that institutional reserves can only be used once: that is, the hole they fill in FY21 will be there through the next biennium, with fewer resources to apply against it.