

FY21 Operating Budget Recommendations
September 17, 2020

Draft for University Review and Comment

Our understanding of the social and economic impacts of COVID-19 is evolving quickly; we know, for instance, that enrollments and auxiliaries will be impacted and that the State of Washington is facing a potential \$9 billion revenue loss. We know that adapting our operations for fall will come with new costs. We also know that the FY21 budget plan will need to respond to new information, and that new information will come throughout the year. The urgency and severity of these conditions required us to adapt our budget planning processes for FY21. President Randhawa outlined this approach in a [May 19 communication](#) to the WWU community.

The first step in adjusting our FY21 budget to meet these challenges was to put a preliminary, or continuation budget in place so that operations could continue in parallel with planning. The Board of Trustees approved the FY21 continuation budget at their June 12, 2020 meeting. The recommendation that follows is for the full FY21 operating budget, with recognition that should circumstances change substantially during the fiscal year, additional changes may be necessary—either softening or hardening the hiring, purchasing, and travel freezes used to meet divisional reduction targets should revenues increase or decrease substantially from the current projections.

Throughout the summer, Western engaged in an extensive [FY21 budget planning effort](#). This work included preparing a process, [principles](#), communications and consultation. Recognizing that much of the initial work needed to happen during the summer, a [consultation group](#) comprised of faculty, staff, and student leadership engaged in two-way communications on the budget environment, guiding principles, engagement plans, and other related topics, and a [working group](#) of budget officers coordinated across divisions. Review and comment on the budget itself remains with UPRC and the Budget Forum.

The following continuation budget recommendations come from the president, vice presidents and the deans.

Budget Summary

Since the Governor signed the FY21 budget into law, the state revenue forecast projected a \$9 billion impact to state revenues over the current and next biennium, and state agencies have been asked to plan for a 15 percent reduction to FY21 budgets. Enrollment for fall quarter is down 7 to 10 percent overall, with a higher reduction among non-resident undergraduates. There is room for optimism as the state has not yet taken action on any FY21 budget reductions and is pursuing a revenue-first approach, but the final outcome is as yet unknown.

Since the start of the pandemic, Western has received a combined \$11.2 million in stimulus funding for institutional support through the CARES Act Higher Education Emergency Relief

program and the Governors' Emergency Education Relief (GEER) fund. \$2.1 million was committed in FY20, leaving \$9.1 million available for support in FY21 with the possibility of additional federal stimulus pending congressional action. These funds may be used to support both the state operating budget and self-sustaining/auxiliary areas. Additionally, Western received and distributed \$5.8 million in direct student aid under the CARES Act.

Key expenditure adjustments in the full FY21 operating budget include:

- Both one-time (\$2,000,000) and recurring (\$285,000) funding to address the budget gap in Academic Affairs and move towards greater fiscal sustainability;
- An increase in recurring funding (\$500,000) for IT operating needs following an extensive budget review;
- New investments (\$225,000) to support diversity, equity, and inclusion, including recurring funding for an African American Student Retention Counselor, funding for anti-racism and anti-Black racism training coupled with support and wellness initiatives for BIPOC employees, and curriculum development in Ethnic Studies;
- Recurring funding (\$100,000) as part of a multi-year plan to bring TA stipends up to the target rate, addressing a barrier to accessing graduate education;
- Investments from the state for tuition reductions at Western on the Peninsulas (\$886,000, included in the continuation budget) and for Sexual Assault Prevention at Postsecondary Institutions (\$86,000);
- One-time/non-recurring reductions to divisional budgets of 3 percent, to be achieved through holding vacant positions, reducing goods and services purchases, continuing the travel freeze, and recognizing savings from voluntary employee reductions.

Scenarios and Recommendation Details

Our presentation of recommendations is designed to reflect the remaining uncertainty on revenues for FY21, while providing a path forward for expenditure plans. That uncertainty is primarily absorbed through the use of reserves, as shown in the second line from the bottom in the table below. Because our approach to FY21 is primarily to use one-time and bridging strategies, the final line of the table illustrates the structural deficit that will remain in future years without an increase in revenues and/or more permanent reductions. The structural deficit will be addressed in the FY21-23 budget process.

The [scenarios table](#) reflects variable factors in Western's FY21 budget, new investment recommendations, and mitigation strategies to bridge the FY21 gap. A summary of [state- and contract-driven](#) budget changes follows the scenarios discussion.

Next Steps

Comments, critiques and suggestions for improvements are now being sought through **September 29**.

Sept. 17, 2020

Feedback and questions on the operating budget recommendation can be shared through the [Budget Forum website](#). Staff members in Budget and Financial Planning are monitoring the forum and will offer clarifications to questions. We will also be following that forum in order to benefit from the discussion. Opportunities for input will also be facilitated through our shared governance bodies, including the University Planning and Resource Council (UPRC). The Chair of UPRC will communicate those opportunities separately.

Following the feedback period, this recommendation will be finalized and transmitted from President Randhawa to the Board of Trustees for consideration at their October 9, 2020 meeting.

FY21 Budget Scenarios Comparison

	Scenario #1 - Best		Scenario #2 - Better		Scenario #3 - Mid		Scenario #4 - Bad		Scenario #5 - Worst	
<u>Variable Assumptions</u>										
NRUG Enrollment Decline (from increase of 50)	15.0%	(\$4,066,517)	16.0%	(\$4,337,618)	17.0%	(\$4,608,719)	18.0%	(\$4,879,820)	19.0%	(\$5,150,922)
RUG Enrollment Decline (from 2% decrease)	5.0%	(\$3,331,153)	6.0%	(\$3,997,384)	7.0%	(\$4,663,615)	8.0%	(\$5,329,845)	9.0%	(\$5,996,076)
State Budget Reduction	0.0%	\$0	5.0%	(\$4,654,150)	5.0%	(\$4,654,150)	5.0%	(\$4,654,150)	7.5%	(\$6,981,225)
Lower NRUG Tuition Rates	2.5%	(\$617,775)	2.5%	(\$617,775)	2.5%	(\$617,775)	2.5%	(\$617,775)	2.5%	(\$617,775)
Lower ASA Revenue	45.0%	(\$2,152,737)	45.0%	(\$2,152,737)	45.0%	(\$2,152,737)	45.0%	(\$2,152,737)	50.0%	(\$2,391,931)
Increased COVID-19 Costs	\$2,000,000	\$2,000,000	\$2,500,000	\$2,500,000	\$3,000,000	\$3,000,000	\$3,500,000	\$3,500,000	\$4,000,000	\$4,000,000
<u>New Investments</u>	-	-	-	-	-	-	-	-	-	-
Academic Affairs Perm Funding		\$285,000		285,000		285,000		\$285,000		\$285,000
Academic Affairs Bridge Funding	-	\$2,000,000		\$2,000,000		\$2,000,000		\$2,000,000		\$2,000,000
IT Operating Funding	-	\$500,000		\$500,000		\$500,000		\$500,000		\$500,000
Other New Items	-	\$325,000		\$325,000		\$325,000		\$325,000		\$325,000
Deficit Before Mitigation Strategies		(\$12,804,187)		(\$18,895,669)		(\$20,333,001)		(\$21,770,333)		(\$25,773,933)
<u>Response/Mitigation Strategies</u>										
Reduce Tuition Buffer	0.0%	\$0	50.0%	\$700,530	50.0%	\$700,530	50.0%	\$700,530	75.0%	\$1,050,794
Reduce Contingency Funds	0.0%	\$0	50.0%	\$634,338	50.0%	\$634,338	50.0%	\$634,338	75.0%	\$951,506
Federal CARES Funding	100.0%	\$3,700,000	100.0%	\$3,700,000	100.0%	\$3,700,000	100.0%	\$3,700,000	100.0%	\$3,700,000
Federal GEER Funding	50.0%	\$2,725,000	50.0%	\$2,725,000	50.0%	\$2,725,000	50.0%	\$2,725,000	50.0%	\$2,725,000
Other Federal Funding	50.0%	\$2,900,000	50.0%	\$2,900,000	25.0%	\$1,450,000	0.0%	\$0	0.0%	\$0
Reduce Inst. Funded Capital Projects	0.0%	\$0	50.0%	\$480,000	50.0%	\$480,000	50.0%	\$480,000	100.0%	\$960,000
Additional RUG Tuition Rate Increase	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Budget Reductions	1.5%	\$2,670,572	3.0%	\$5,341,144	3.0%	\$5,341,144	3.0%	\$5,341,144	3.5%	\$6,231,334
Ending Year (Deficit Funded with Institutional Reserves)		(\$808,616)		(\$2,414,658)		(\$5,301,990)		(\$8,189,322)		(\$10,155,298)
Structural Deficit		(\$6,651,450)		(\$12,242,932)		(\$13,180,264)		(\$14,117,595)		(\$17,382,002)

Variable Assumptions

Tuition Revenues

Tuition revenues are a result of the tuition rate and of enrollment. For fall quarter, current projections include a drop in enrollment due to COVID-19 of between 7 and 10 percent overall compared to 2019-2020, with more significant impacts to non-resident enrollments. The scenarios table compares enrollments to our original FY21 budget plan, which had included increases in non-resident students. Final enrollment figures for fall quarter will be available October 5. However, enrollment changes may also occur in the winter and spring quarters which will also impact tuition revenue for the fiscal year.

State Funding

State agencies have been directed to plan for a 15 percent budget reduction for FY21, based on a revenue projection for the state showing a \$9 billion decrease over the next biennium. The legislature is currently expected to take action on budget reductions in January 2021, after addressing revenue generation. As of September 2020, there is a possible best case scenario of no state budget reduction, and our worst case has been updated to a 7.5 percent reduction to Western's state appropriation in FY21.

Due to the financial impacts of COVID-19, the state cancelled planned compensation increases for agencies under the Governor's authority for agency directors, Exempt Management Service and Washington Management Service employees, and all other exempt employees who earn more than \$53,000 annually, and implemented furloughs. Those agencies were directed to return the state appropriations associated with the increase. Institutions of Higher Education have been encouraged, though not required, to do the same. While Western does not plan to reduce our state allocation at this time, it is possible this funding may be pulled back later in the year.

Administrative Services Assessment (ASA)

Auxiliaries are the various components of the University's operation that run as business units that must generate revenue to cover their costs. Examples include Outreach and Continuing Education, the Housing and Dining System, the Bookstore, and the Wade King Student Recreation Center. These entities are charged a fee to cover the cost of central services utilized as part of their operations. With current operational plans including substantially reduced revenues in Housing and Dining, the largest contributor of ASA, we are projecting a 45 percent decrease.

COVID-19 Response Activities

The FY21 budget recommendation includes a placeholder amount for COVID-19 response activities, based on tracking and projections through Western's Incident Command. Actual expenses will vary depending on operational models, state and federal guidance, and continued

evolution of the response based on new information. Examples of these activities include increased cleaning, adjustments to classroom spaces, investments in technology to support remote instruction and learning, and preventative testing.

New Investments- WWU Policy Decisions

Academic Affairs Bridge Funding (\$2,000,000)

Our FY21 budget planning originally included using \$2 million of institutional funding to bridge the preexisting deficit in Academic Affairs as a non-recurring investment, providing more time to gradually bring the budget and operational expenses into alignment. This recommendation preserves that funding for FY21.

Academic Affairs Permanent Funding (\$285,000)

The FY21 operating budget recommendation includes \$285,000 in recurring funding for Academic Affairs as part of the strategy to address the structural budget gap in that division. This is in addition to the \$215,000 put into the FY20 budget, bringing the total to \$500,000 in new permanent funding over the FY19-21 Biennium.

IT Operating Gap Funding (\$500,000)

The University has recognized for several years the need to address IT operating needs. This funding adds \$500,000 in recurring funding to address the needs of the University as part of a multiyear commitment, following a full review of the budget to ensure a sustainable approach.

TA Stipends Funding (\$100,000)

The University recognizes the need to increase stipend rates for graduate student Teaching Assistants to reduce structural barriers to accessing graduate education. This \$100,000 increase in recurring funding is part of a multi-year incremental approach to bringing the stipend rate in strategic alignment with our peers.

Advancing Diversity, Equity, and Inclusion (\$225,000)

- **African-American Student Retention Counselor:** In partnership with the Foundation, this funding is for a new position within Enrollment and Student Services focused on academic and co-curricular retention initiatives for Black and African-American students. The FY21 operating budget includes 50 percent of the salary and benefits for this position as a recurring commitment, with Foundation funding providing the remainder for the first two years. Western will use this period to establish a fully recurring source of funding for this permanent position.
- **Anti-Racism and Anti-Black Racism Training for Faculty and Staff, and Support and Wellness for BIPOC employees:** The FY21 operating budget recommendation includes non-recurring funding to expand anti-racism training and anti-Black racism training for Western faculty and staff in combination with support and wellness initiatives for BIPOC employees.

- **Support for Curriculum Development and Delivery in Ethnic Studies:** Advancing the Ethnic Studies curriculum at Western is an institutional priority, and a core component of our FY21-23 biennial operating request to the state. While we pursue state funding for new tenure-track faculty lines in Ethnic Studies, this budget recommendation includes funding to support curriculum development and delivery.

Mitigation Strategies

Western will use institutional reserves as a bridging strategy to mitigate reductions and absorb uncertainty in FY21, while maintaining levels adequate to support the university through the next biennium. The most likely projection as of this publication is approximately \$5.3 million of reserves applied to FY21. Other mitigation strategies include reducing the tuition buffer and contingency funding, and reducing institutional funding for capital projects. This recommendation includes applying the majority of the federal stimulus funding (\$7.9 million), while using some to buffer impacts in the self-sustaining and auxiliary areas in keeping with the FY21 budget planning principles.

Divisional Budget Reductions

To balance the need for flexibility given the potential for further revenue reductions in FY21 and the next biennium with the need to advance our strategic plan and the moral imperative of advancing diversity, equity and inclusion at Western, the FY21 operating budget recommendation includes a 3 percent reduction to divisional and presidential budgets on a one-time, non-recurring basis.

This reduction is to be met through continuing the freeze on hiring, purchasing, and travel, with an exception process for those positions and purchases that are critical to operations and to advancing the strategic plan. In applying the reduction, divisions will continue following the FY21 budget planning [principles](#). Involuntary furloughs and layoffs will not be used to meet this reduction.

The flexibility created now by continuing the freeze increases Western's ability to continue delivering on our commitments through the coming biennium.

State and Contractually Determined Items

The below items are not reflected in the scenarios above as they are determined through legislative and collective bargaining processes, but are included in the final FY21 operating budget.

Supplemental Retirement

Western's supplemental retirement liability is set to increase by \$144,000 for FY21.

Collectively Bargained and Legislatively Approved Compensation Increases

Sept. 17, 2020

WWU's collective bargaining agreement with classified staff includes a three percent increase for fiscal year 2021, as approved by the legislature. That increase equates to \$1,190,808. Final FY21 determinations on faculty and pro-staff increases will follow the reopening of the faculty contract in late October and the pro-staff guidelines.

Funding was provided in the state appropriation to fund the collective bargained agreements between the University and the Washington Federation of State Employees (WFSE) and the Public School Employees (PSE). Additionally, Western's state appropriation included partial funding which was planned to allow for general wage increases for faculty and professional staff (PSO) equal to a 3 percent increase on July 1, 2020. In all cases, the increased funding was provided on the portion of salaries and benefits paid on state appropriations (50 percent), not the portion paid from tuition revenue (50 percent). Actual compensation increases will be by collective bargaining in the case of faculty, or PSO guidelines.

Addressing Sexual Misconduct at Postsecondary Institutions

The FY20 Supplemental Session added \$87,000 in recurring funding for addressing sexual misconduct at postsecondary institutions. This funding is one of the few items not vetoed as a result of COVID-19.

Western on the Peninsulas Tuition Reduction

The 2020 supplemental budget operating bill passed by the legislature this spring and signed into law by Governor Inslee included \$886,000 per year in new funding for the reduction of tuition rates for four-year degree programs offered at WWU on the Peninsulas, which was among the few additions not vetoed as a means to achieve savings for the state's COVID-19 response. These funds were included in the continuation budget and in this FY21 operating budget recommendation.

Opioid Overdose Medication Funding

The state provided \$20,000 in one-time funding for FY20 to fund opioid overdose medication; this adjustment removes it from the budget in FY21 and future years.