# Budget Recalibration Steering Committee Agenda

January 31, 2017

8:30 – 9:55 AM

Rose Room

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Presenter</th>
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<tbody>
<tr>
<td>8:30 AM</td>
<td>Welcome &amp; Updates</td>
<td>Ruth Johnston</td>
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<tr>
<td></td>
<td>- Core Team’s work to date</td>
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<td></td>
<td>- Chancellor Team discussion</td>
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<tr>
<td>8:45 AM</td>
<td>Opportunity Statement Discussion</td>
<td>Ruth Johnston</td>
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<tr>
<td>9:05 AM</td>
<td>Current Budget Model</td>
<td>Segan Jobe</td>
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<td></td>
<td>- Sources &amp; Use of Funds</td>
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<tr>
<td>9:25 AM</td>
<td>Alternative Budget Models</td>
<td>Segan Jobe</td>
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<td></td>
<td>- Definitions</td>
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<td></td>
<td>- Pro’s &amp; Con’s</td>
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<tr>
<td>9:50 AM</td>
<td>Messaging for Today</td>
<td>Ruth Johnston</td>
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Work to Date

- Identification of assumptions
- Chancellor’s team discussion
- Core team meeting yesterday
- Opportunity statement draft

Coming:
> Core, Feb 5 and 14
> Chancellor’s Town Hall, Feb 14
> Provost budget meeting on Feb 15
> Steering, Feb 16
Financial Realities (what we know to be true)

- Uncertain state funding
- Increasing competition to recruit/retain students and faculty
- Pressure for affordable, quality higher education
- Increasing competition from traditional, international, online, and for-profit institutions
- Impact of legislative and regulatory actions (FLSA overtime threshold; minimum wage increase, new administration)
FY 2018 Operating Budget Assumptions

Budget reallocation: Current plan results in a deficit at the end of FY 2019

- Enrollment Target: Student FTE at 5300
- Incremental FTE for FY 2018: Assumes 200 FTE
- Tuition increases: Assumes 2% for FY 2018
- Mandatory cost increases: Current assumption of 2% per year
- Impact of legislative and regulatory actions (FLSA overtime threshold; minimum wage increase)
- Full-time lecturers approved for FY 2017 hire in Autumn 2018
  - Media & Communication Studies (2)
  - Computing & Software Systems (2)
  - Interactive Media Design (1)
  - Business (1)
- Salary increase target: 4% each year for Faculty, Librarians and Professional Staff, 3% each year for classified staff – partial funding from State, rest from UW Bothell
- New Faculty promotion policy impact: 10% on top of salary increase
Opportunity Statement (Draft)

Identify needs and create mechanisms for funding sustainable campus level investments for the next five years, to include:

- Reserves
- Innovations/strategic investments
- Facilities/equipment, asset replacement/refreshes
- Contingencies
- Risk Management
- All mandatory expenses (leases, salaries, debt service, inflation, etc.)
Opportunities and Goals

- Identify and then transition to UW Bothell model
  - Make a Paradigm Shift
  - Better leverage all available funds/resources

- Improve allocation of ever-scarce resources

- Increase transparency and accountability of budgeting and decision making

- Provide incentive for units to more effectively manage resources and expenditures

- Set priorities and develop new activities consistent with the overall mission and strategic goals of the institution
## Sources of Funds

### FY 2017

<table>
<thead>
<tr>
<th>Source</th>
<th>Budget</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>STATE FUNDING</td>
<td>$20,619,654</td>
<td>29%</td>
</tr>
<tr>
<td>TUITION</td>
<td>$49,758,858</td>
<td>69%</td>
</tr>
<tr>
<td>OTHER</td>
<td>$ 1,920,299</td>
<td>3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$72,298,811</strong></td>
<td><strong>100%</strong></td>
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## Current Uses of Funds

<table>
<thead>
<tr>
<th>Unit Allocations</th>
<th>FY 2017 BUDGET</th>
<th>%</th>
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<tbody>
<tr>
<td>MANDATORY COST</td>
<td>$ 11,017,278</td>
<td>15%</td>
</tr>
<tr>
<td><strong>UNIT ALLOCATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OFFICE OF ACADEMIC AFFAIRS</td>
<td>$ 50,478,686</td>
<td>70%</td>
</tr>
<tr>
<td>SCHOOLS</td>
<td>$ 32,855,652</td>
<td></td>
</tr>
<tr>
<td>OTHER OAA UNITS</td>
<td>$ 17,623,034</td>
<td></td>
</tr>
<tr>
<td>OFFICE OF ADMIN &amp; PLANNING</td>
<td>$ 7,457,359</td>
<td>10%</td>
</tr>
<tr>
<td>OFFICE OF ADV &amp; EXT RELATIONS</td>
<td>$ 2,175,675</td>
<td>3%</td>
</tr>
<tr>
<td>CHANCELLOR’S OFFICE</td>
<td>$ 1,169,813</td>
<td>2%</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$ 72,298,811</td>
<td>100%</td>
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## Impacts on the FY 2018 Operating Budget

Incremental Revenue adjusted for FY 2017 enrollment increase: $7,846,261

Incremental Expenses: **Permanent and Temporary Funding**

<table>
<thead>
<tr>
<th>Description</th>
<th>Permanent</th>
<th>Temporary</th>
<th>Total</th>
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<tbody>
<tr>
<td>New Faculty Positions</td>
<td>550,000</td>
<td>-</td>
<td>550,000</td>
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<tr>
<td>Faculty Merit</td>
<td>1,005,000</td>
<td>-</td>
<td>1,005,000</td>
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<tr>
<td>Faculty Promotions</td>
<td>107,000</td>
<td>-</td>
<td>107,000</td>
</tr>
<tr>
<td>Staff Merit</td>
<td>680,000</td>
<td>-</td>
<td>680,000</td>
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<tr>
<td>Anticipated Benefit Rate Increase</td>
<td>460,000</td>
<td>-</td>
<td>460,000</td>
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<tr>
<td>Mandatory Costs</td>
<td>300,000</td>
<td>-</td>
<td>300,000</td>
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<tr>
<td>Overhead Adjustment*</td>
<td>1,495,000</td>
<td>-</td>
<td>1,495,000</td>
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<tr>
<td>Master Plan Update</td>
<td>-</td>
<td>520,000</td>
<td>520,000</td>
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<tr>
<td>Diversity Center</td>
<td>-</td>
<td>2,000,000</td>
<td>2,000,000</td>
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<tr>
<td>Diversity Center Staff</td>
<td>300,000</td>
<td>-</td>
<td>300,000</td>
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<tr>
<td>Operating Contingency Increase</td>
<td>1,000,000</td>
<td>-</td>
<td>1,000,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>$ 5,897,000</td>
<td>$ 2,520,000</td>
<td>$ 8,417,000</td>
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UW Bothell ‘s Current Resource Allocation Model

Current model is mostly incremental:

- Does not provide incentives to reduce costs or generate additional revenues
- Does not sufficiently support the university’s mission
- Does not provide sufficient accountability
- Does not provide institutional level funds for key needs
Understand Current State and Plan for Future:

- History, culture and environment
- Governance process and decision making
- Transparency and participation
- Alignment of responsibility and accountability
Resource Allocation Models (Budget Models)

- Zero-Based Budgeting
- Formula-Based Budgeting
- Incremental-Based Budgeting
- Activity-Based Budgeting
- Responsibility Centered Budgeting

Centralized to Decentralized
Budget Model Popularity

- Incremental—60.2 percent
- Zero-based—30 percent
- Formula—26.1 percent
- Performance-based—19.6 percent
- Responsibility-center—14.2 percent

Notice: Total exceeds 100 percent because some institutions combine budget models

Source: Inside Higher Ed's Survey of College and University Business Officers
Zero-Based Budget Model

Zero-based budgeting is a process where organizations re-evaluate all activities and build a budget from the ground up, starting from zero.

Pro’s

- Challenges the status quo and encourages institutional self-reflection
- Results in more efficient allocation of scarce resources, addressing waste and eliminating budget duplication
- Helps align spending with the strategic plan

Con’s

- Requires significant time and resources to implement
- Prioritizing activities can be very difficult
Formula-Based Budget Model

Departmental budgets are based on some pre-determined formula. For example, for X students, you receive funding for X advisors or counselors, X support staff, X amount of office space, etc.

Pro’s
- XX
- XX
- XX

Con’s
- XX
- XX
Incremental budgeting is a cost-based approach based on historical costs. Incremental amounts are added for items such as inflation, program improvements, hiring, & capital investments, etc.

**Pro’s**
- Relatively quick and easy to prepare
- Relatively easy to understand
- Simple to track budget variances

**Con’s**
- Budget proposals and allocations based on prior year budget
- Does not provide sufficient transparency
- Assumes all current activities and costs are still needed
- Allows for potential inefficiencies, inertia and slack
Activity Based Budget Model (ABB)

ABB starts by listing activities that create the results needed to achieve business objectives and then identifies the costs of those activities.

**Pro’s**
- Promotes streamlined processes and helps reduce costs
- Generally more transparent than an incremental approach
- Predict revenue and costs by modeling changes in activities
- Responds to changes in the business environment (pro or con)

**Con’s**
- Requires significant time and resources to implement
- Can be complicated to implement
- May cause budget owners to lose focus on what is most important (teaching-learning)
- May cause competition between units and impact collaboration
Responsibility Center Management (RCM)

Responsibility Center Management (RCM) is perhaps closer to a management philosophy than a budgeting strategy. It is designed to support the achievement of academic priorities within an institution, and allows for a budget which closely follows those priorities. Requires units to manage their own budgets.

**Pros**
- Forces individual units to be entrepreneurial, and induces deans to pursue new revenue sources.

**Cons**
- RCM promotes competition which could cause deans to resort to inefficient measures to prevent students from enrolling in courses in other schools. It can lead to all [kinds] of perverse incentives.
What are we learning?

- With limited potential for significant new revenue growth funding, new initiatives must come from reallocation of existing resources. Our traditional model of incremental budgeting, which served the institution well in times of growth, is ill-suited to meet today’s demands.

- Observation:
  - Revenue growth rate about 2%
  - Expense growth rate 5%

- What should we do?

- How will UW Bothell close the gap in the long term?
  - Revenue growth has not keep pace with the growth in expenditures
Messaging for Today