

W UNIVERSITY *of* WASHINGTON | BOTHELL

PLANNING & ADMINISTRATION

OPERATING BUDGET

Fiscal Year 2019

A Review of 2018 and UW Bothell's Future Outlook

Effective July 1, 2018

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Executive Overview

This year's Operating Budget is a review of the last fiscal year while outlining for the work ahead in fiscal year 2019 and beyond. This document breaks down sources and uses of funds in our core operations and reinforces our continued effort to provide the campus community with clear and concise budget details in the spirit of transparency. While this budget report highlights the current strength of UW Bothell's financial health, many challenges lie ahead. Those challenges require the campus to explore insightful and innovative ways to steer the campus to sustainable financial health.

Fiscal Year 2018 was an experimental year for UW Bothell; it marks the first of the three years of transition to a modified Responsibility Center Management (RCM) budget model. The three year phased rollout allows us to change parts of the adopted base-year methodology when conditions deem such shifts necessary. At this critical juncture, we are becoming familiar with a new way of doing business at UW Bothell. We are developing an ongoing system of collecting, analyzing and reporting data, in both financial and curricular planning to support the decisions and interactions needed with a new budget model and to ensure a smooth, long-term transition.

The lessons learned during the first year of modified RCM are valuable and will inform responses and solutions for the future.

2018 in Review

Two teams were charged with supporting the adoption of the RCM budget model during the three-year rollout. Each group has since been working on different projects and initiatives to support the successful adoption of RCM. The Phase 2 Implementation team (P2I) was charged with working with schools/units to create budgets, curricular and finance decision support tools, skill development and understanding financial and operational issues that apply at the local and institutional level. The Process Development/Policy team (PDP) was charged with the responsibility of addressing policy issues, overseeing processes, and making recommendations to the Chancellor's Executive Team. The combined efforts of both teams resulted in Collaboration Principles, curriculum and budget planning tools.

Both teams recognized that more work needs to be done in the second and third year of the phase-in period. As a result, both teams are recalibrating the group structures to better navigate the future work. These adjustments position P2I and PDP to better and more efficiently address the work ahead in the coming year. This iterative work is critical to align the adopted budget model with our campus environment and financial position.

In addition to the work of P2I and PDP, additional engagement and interaction with the campus community is critical to the progress made to date. The budget model transition requires greater collaboration across the community to establish a budgetary foundation. Much work has been done on the request of students, governance and administrative groups such as Campus Council on Planning & Budgeting (CCPB), Council of Academic Deans (CAD), Chancellor's Advisory Committee for Students (CACS), Chancellor's Executive Team (CET), Academic Affairs Leadership Council (AALC), and

others. The results of such requests include the Faculty Salary Policy work, the compression and inversion study, the slotting exercise, published RCM FAQs, and Budget 101 videos, to name a few. These are examples of the kind of community engagement that supports decision making and lay the groundwork for a successful and interactive future.

On the Horizon

UW Bothell's current financial health is solid. The continued iterative development of the modified RCM budget is key to maintaining a strong fiscal environment. In addition, we are aware of several key budgetary considerations on the horizon, primarily the enrollment growth pause and incremental cost increases.

The primary sources of operating funds are derived from state appropriations, net tuition revenue, and summer quarter net tuition revenue. State appropriations are relatively stable and tuition is projected to grow at an annual rate of 2% into the near future.

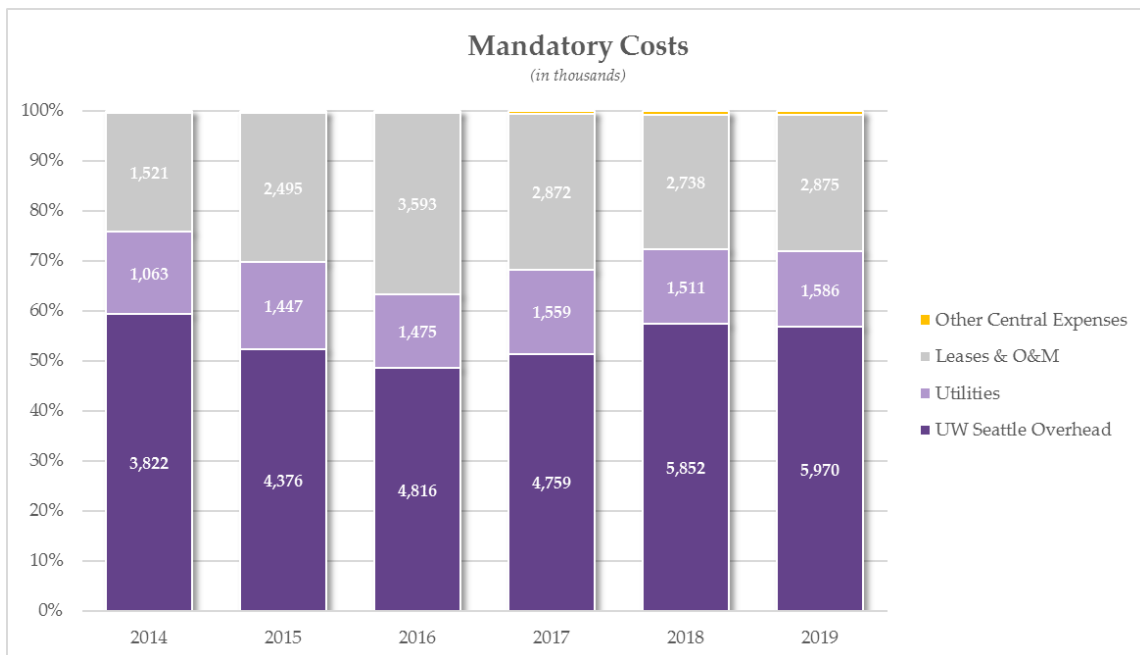
The primary uses of funds are mandatory cost increases. These include compensation changes, rising benefit expenses and institutional fixed costs, such as UW Seattle overhead, real estate leases, utilities and technology recharge fees, and equipment replacements and upgrades.

Historically, UW Bothell depended on three levers for revenue enhancement, namely FTE growth, tuition increases, and mix of students. UW Bothell instituted a growth pause of 5300 FTE on-campus students. FY2019 growth will get us to that threshold. FTE growth has been the predominant lever and with that paused, we have to either enhance the remaining levers or do cost containment. Given that we do not have control over tuition increases and only a marginal increase of 2% is projected in years ahead, budget restructuring is necessary to correct future inequities. Expenses are increasing steadily at a rate that is higher than the before mentioned marginal revenue increases, resulting in a proforma deficit in the near future.

In FY2019 and beyond, UW Bothell faces a significant increase in personnel costs largely due to salary and benefit increases. Salary and benefit expenditures have continued to climb over the past six years. For FY2019, the Provost authorized a two percent merit increase for eligible and meritorious faculty, librarians, and professional staff, of which two-thirds of the funds must come from our budgets. Compensation changes for classified staff are subject to collectively bargained agreements and have been increasing consistently over the last six years. Compensation changes have a large and compounding impact on the state budget. As demonstrated below, a 2% salary increase requires a significant investment of permanent funding. This funding support will be increasingly hard to meet as the financial levers continue to be limited.

Salary Increase Table (in thousands)	2019	2020	2021	2022	2023	2024
2019 2% Salary Increase	942	942	942	942	942	942
2020 2% Salary Increase		961	961	961	961	961
2021 2% Salary Increase			980	980	980	980
2022 2% Salary Increase				1,000	1,000	1,000
2023 2% Salary Increase					1,020	1,020
2024 2% Salary Increase						1,040
Total	942	1,903	2,883	3,882	4,902	5,941

In addition to compensation considerations, institutional fixed costs are necessary or unavoidable, and are not costs generated by a particular school or unit. Most of these costs are increasing more than Cost Price Index (CPI). The largest institutional fixed cost budget items are utilities, real estate rentals, technology recharge fees, UW Seattle overhead, etc. As seen below, institutional fixed costs, also known as mandatory costs, are significant, have limited opportunities to be minimized and continue to escalate.



Considering these fixed cost increases on the horizon, UW Bothell will continue to strategically align and recalibrate budgets and processes with the goals of academic and administrative units, as well as to create practices that effectively support the institution’s strategic priorities and mission. In the words of Walt Whitman, we aim “to steer for the deep waters only.....to act boldly and take up issues and causes worth fighting for.”

Operating Budget

FY2019 Proposed Operating Budget Highlights:

- *Enrollment Projections of 5,334 state-based student FTEs, representing an increase of 100 FTEs compared to FY2018*
- *FY2019 Operating Budget Revenue projection is \$81,370,000. This represents an increase of \$3 million compared to FY2018 Operating Budget spending authority*
- *Institutional Reserves increased to \$8,000,000 from \$7,500,000 in FY19*
- *In addition to an increase to Institutional reserves, there continue to be additional funds for facility and asset replacement or refreshes (\$1,000,000 of permanent funding) and Institutional Investment funding (\$2,500,000 of temporary funding); These funds were set-aside at the beginning of the biennium as an outcome of budget recalibration efforts and can continue to be leveraged*
- *The state budget is anticipated to include a 2% increase in tuition rates, which is projected to increase the FY2019 Operating budget by approximately \$1.2 million*
- *The operating budget includes adjustments for benefit rate changes and merit increase; Merit is assumed to be 2% with partial state resources to support the budget impacts associated*

TABLES:

Operating Budget Proforma:

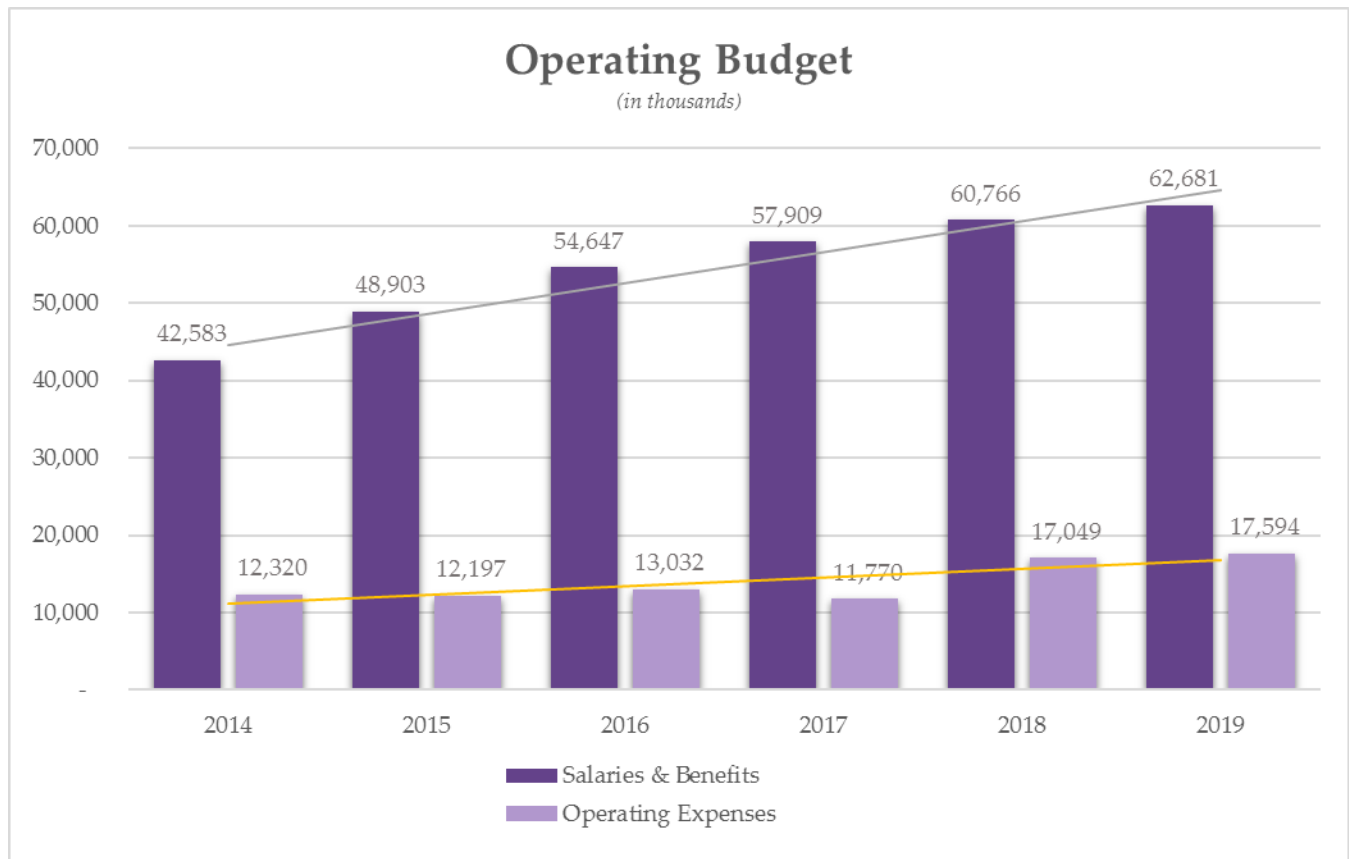
CONSOLIDATED OPERATING BUDGET	FY 2018		FY 2019
Student FTE	5,234		5,334
Incremental FTE	-		100
Source of Funds			
Tuition	56,950,000		60,020,000
State Appropriation	21,310,000		21,310,000
Miscellaneous	50,000		50,000
Total	78,310,000		81,370,000
<i>Incremental Source of Funds</i>	-		3,060,000
Allocation of Funds			
Instructional Units			
Salary & Benefits	34,970,000		35,110,000
Operations	2,350,000		2,330,000
RCM Allocation	520,000		2,500,000
Total	37,850,000		39,940,000
Non-Instructional Units			
Salary & Benefits	24,970,000		24,970,000
Operations	3,900,000		3,850,000
RCM Allocation	-		860,000
Total	28,870,000		29,680,000
Central	11,250,000		11,190,000
Total Allocation of Funds	77,970,000		80,810,000
*Delta between source of funds projection and allocation is spending authority given versus expected revenue in FY 18			

RCM Allocation by School:

RCM SCHOOL ALLOCATION SUMMARY						
	Total	Student FTE Allocation (80%)		Major Headcount Allocation (20%)		
RCM Incremental Revenue	\$ 2,005,504	\$ 1,604,403		\$ 401,101		
School/Unit	FY 2018 Budget	Student FTE %	Student FTE Allocation	Major HC %	Major HC Allocation	FY 2019 Budget
Business	\$ 7,832,684	20%	\$ 320,307	16%	\$ 64,881	\$ 8,217,872
Educational Studies	2,702,352	5%	87,119	5%	18,759	2,808,230
First Year & Premajor Program	1,926,312	6%	93,313	31%	124,685	2,144,310
Interdisciplinary Arts & Sciences	10,151,458	30%	477,387	18%	72,674	10,701,519
Nursing & Health Studies	3,281,841	7%	116,091	9%	35,967	3,433,899
Science, Technology, Engineering & Mathematics	11,951,775	31%	504,037	20%	81,454	12,537,266
	\$ 37,846,422	100%	\$ 1,598,253	99%	\$ 398,421	\$ 39,843,095

**Incremental revenue and allocations are estimates as of 7/13/2018 and subject to change.*

Operating Budget Trend:



Incremental Affordability Analysis (highlighting dependency on temporary funding):

COMPREHENSIVE	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Incremental Revenue					
Tuition Increase	3,060,000	1,201,000	1,225,000	1,249,000	1,274,000
Incremental Expenses					
Central	329,000	336,000	348,000	361,000	376,000
Seattle Payments	121,000	118,000	120,000	122,000	125,000
Utilities	66,000	69,000	72,000	75,000	79,000
Leases & O&M	136,000	143,000	150,000	157,000	165,000
Other	6,000	6,000	6,000	7,000	7,000
Permanent Reserves	-	-	-	-	-
Non-School (Merit & Ben Change)	639,000	655,000	672,000	689,000	706,000
School (Merit & Ben Change)	985,000	1,013,000	1,041,000	1,070,000	1,099,000
Total	1,953,000	2,004,000	2,061,000	2,120,000	2,181,000
Balance (Negative) / Positive	1,107,000	(803,000)	(836,000)	(871,000)	(907,000)
<i>*Post FY 2019, Incremental Revenue from 2% tuition increase only.</i>					

NON-SCHOOLS	FY 2019	FY 2020	FY 2021
Incremental Revenue			
Overhead Set-Aside	306,000	120,100	122,500
RCM - 30% Non-Schools	826,200	324,270	330,750
Incremental Expenses			
Central	329,000	336,000	348,000
Seattle Payments	121,000	118,000	120,000
Utilities	66,000	69,000	72,000
Leases & O&M	136,000	143,000	150,000
Other	6,000	6,000	6,000
Permanent Reserves	-	-	-
Non-School (Merit & Ben Change)	639,000	655,000	672,000
Total	968,000	991,000	1,020,000
Balance (Negative) / Positive	164,200	(546,630)	(566,750)

SCHOOLS	FY 2019	FY 2020	FY 2021
Incremental Revenue			
RCM - 70% Schools	1,927,800	756,630	771,750
Incremental Expenses			
School (Merit & Ben Change)	985,000	1,013,000	1,041,000
Balance (Negative) / Positive	942,800	(256,370)	(269,250)