

FY 2021 ANNUAL OPERATING BUDGET REPORT FINAL

A Recap of Fiscal Year 2021 and Outlook for FY22

Prepared by: Institutional Planning and Budget

Contact: uwbipb@uw.edu

Executive Overview

The Operating Budget Report presents an overview of UW Bothell's operations in Fiscal Year 2020-2021 (FY21) and projections for Fiscal Year 2021-2022 (FY22), outlining last fiscal year's key takeaways and the current year's operating budget. This budget report highlights the continued strength of UW Bothell's financial health, while outlining the fiscal outlook and obligations ahead.

In addition to details of the core operating budget, this report also provides a comprehensive overview of all sources and uses of UWB funds, including auxiliary self-sustaining operations such as commuter services and fee-based programs, as well as Student Activity fees and Student Technology funds.

In FY21, while net tuition inflows exceeded expectations, several of our auxiliary self-sustaining operations such as commuter services, student housing and dining services experienced revenue shortfalls due to the constraints imposed by the ongoing COVID-19 pandemic. However, some of the auxiliary revenue losses in this period were mitigated by federal CARES Act funding. UW Bothell received \$1,000,000 to defray lost auxiliary revenues and a further sum of \$200,000 to partially defray expenditures on additional academic computing services that were provided during the pandemic.

Looking ahead to FY22, we expect to transfer our self-sustaining student housing operations to Capstone HS Bothell LLC under a public-private-partnership (P3) ground lease agreement. Under this P3 agreement, Capstone will construct new student residence halls and student apartments over the next three years. We expect to have 350 residents in Spring 2023 and an additional 700 residents by Autumn 2024 in the New Residential Village. Capstone will operate and maintain this student housing. Capstone will also offer extended dining facilities for residents, and for the entire campus, as part of the long-term agreement.

In an exciting development, construction of the STEM4 building, a joint project between UW Bothell and Cascadia, has started. This project is expected to be completed by Summer 2023. Many of our School of STEM units will move in to these new STEM4 building facilities and will begin to offer classes there in Autumn 2023.

We were also able to add to our portfolio of owned buildings by acquiring the Husky Hall, exercising our buy-out option as our long-term building lease was approaching the end. With this strategic acquisition and the new STEM4 building, we can begin to address some of the space constraint issues facing the campus.

Our return to 'normal' campus operations in FY22 is tinged with both excitement about returning to in-community learning and working, and anxiety about the uncertain course of the pandemic. We will remain vigilant in ensuring the safety of our community and are well-equipped to handle the additional costs and contingencies that will arise. Overall, the fiscal outlook for UW Bothell campus operations continues to remain stable and balanced.

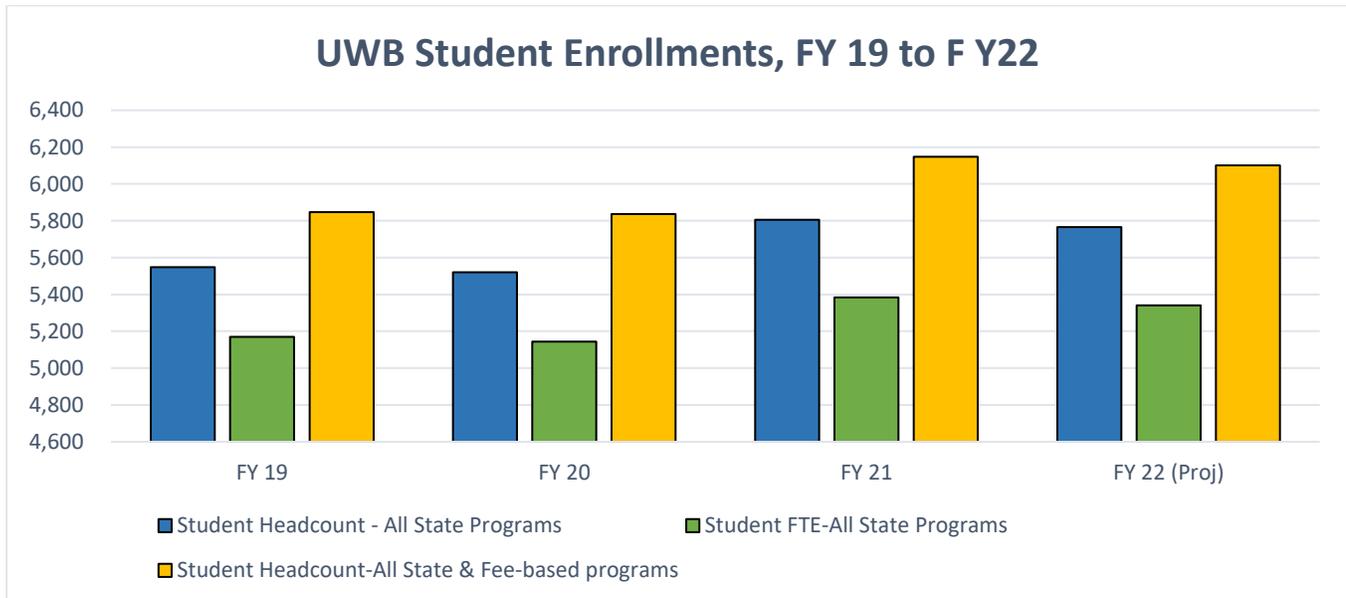
FY21 Operations and Projections for FY22

Review of Enrollments

Student enrollments are crucial to our operations because tuition accounts for more than 70% of our core operating budget. Given the centrality of enrollments to our operational budgets, these enrollment numbers are closely tracked by campus and school leadership and are extensively used for planning and operations. We provide below a summary of student enrollments at UW Bothell.

Student enrollments are measured in several ways, depending on the use for the data. The most commonly used measures of enrollment for budgeting purposes are the number of enrolled students (headcount) and the student full-time-equivalent (FTE).¹

The chart below provides the annual average student enrollments over the FY19 to FY21 period, and projections for FY22 (as of Summer 2021).



¹ Here is an illustration of the difference between student headcount and FTE: The typical undergraduate student is expected to register for fifteen credits each quarter, or forty-five over the academic year, in order to graduate in four academic years with 180 credits. Students who register for 45 credits per year count as 1.0 student for both headcount and student FTE purposes; students who register for fewer credits, say 30 undergraduate credits per year count as 1.0 for headcount but as 0.67 for FTE; lastly, students who register for more, say 60 credits, count as 1.0 for headcount but as 1.33 for FTE. On average, undergrad students at UW Bothell enroll for about 42 credits per year. In the case of graduate students, the typical student is expected to enroll for 30 graduate credits per year. Using the same logic as with undergrads, when graduate students register for more than 30 credits per year, the graduate FTE will exceed the graduate headcount and, when they take less than 30 credits per year, the graduate FTE will be lower than the headcount.

The table below provides the total headcount and student FTE's for FY 18 to FY21, and projections for FY22. Student enrollments had remained stable from FY18 to FY20, with decreases in state-based graduate programs being offset by increases in fee-based graduate programs. However, in FY21, our overall enrollments grew by 5% with significant growth in both undergraduate and graduate programs. It is likely that the FY21 growth was a temporary spurt related to the uncertainties caused by the pandemic, and will likely not recur in FY22. Therefore, for FY22 budget planning purposes, we project slightly lower enrollments in undergraduate, state-supported graduate and fee-based graduate programs than what we had in FY21.

Student Headcount	FY 18	FY 19	FY 20	FY 21	FY 22 (Proj)
Undergrad Programs	5,278	5,304	5,286	5,536	5,500
State-based Grad Programs	338	244	234	270	265
All State-based Programs	5,616	5,548	5,520	5,806	5,765
Fee-based Grad Programs	254	299	316	342	335
All State & Fee-based Programs	5,870	5,847	5,836	6,148	6,100

Student FTE	FY 18	FY 19	FY 20	FY 21	FY 22 (Proj)
Undergrad Programs	4,939	4,946	4,942	5,140	5,100
State-based Grad Programs	307	224	202	244	240
All State-based Programs	5,246	5,170	5,144	5,384	5,340

Budgeting at UW Bothell

In FY20, we shifted from an incremental budgeting model to a metrics-based, Responsibility Centered Management (RCM) budgeting model whereby funding for Academic units is based on enrollment metrics such as student headcount, FTE, and the number of graduating students in each of the Schools.

The RCM budgeting model takes full effect in FY22. Under this model, Academic units at UW Bothell receive 70% of the net tuition funds, plus all the legislative program provisos, as permanent general operating funds. The remaining 30% of the UWB tuition pool and the state support funds for UWB are allocated to the Administrative units. This practice is very similar to the ABB funding model at UW Seattle where the UWS Schools and Colleges receive 70% of the net tuition generated by their units, with the remaining tuition and state support funds being allocated to the UWS Administrative units.

In allocating the Academic units tuition pool to individual UWB Schools, we first set aside direct funding for (i) the First Year & Pre-Major Program (\$1.8M in FY22), (ii) administrative support of \$250K for each of the schools (total \$1.25M), and (iii) \$1.0M for subvention and/or shortfalls, to be allocated as needed. After these set asides, the remainder of the tuition funds are allocated proportionally to the Schools based on the following RCM metrics: FTE (80%), majors' headcount (15%), and degrees granted & minor headcount (5%). These RCM metrics are determined separately for undergrad and grad tuition pool allocations. To smooth out annual

fluctuations, we use an average of the prior year actual and current year projected enrollments in computing the RCM metrics.

Over the course of the last biennium, the move to the RCM approach has empowered our School leaders to initiate actions that have helped balance their resource allocations and operating expenses by optimizing class sizes, the total number of sections offered and faculty utilization. We have also established data collection and dissemination processes that have helped with resource planning, along with consistent and timely communications. These processes have increased transparency, an awareness of the impact of changes in enrollments over the years, and the inter-connectedness across Schools, with a net positive effect on operational budgeting.

To facilitate multi-year planning and projections, academic units and enrollment support offices streamlined the approaches for compiling and reporting student enrollment and faculty utilization metrics. To frame planning within Academic units, the campus also adopted fiscal operating guidelines on faculty and staff composition in FY21 that emphasize our strong commitment to the collective education mission and core values for the campus. Our Academic units are now refining their multi-year enrollment projections and using the fiscal operating guidelines to project faculty and staff resource needs.

FY 21 Core Operating Budget

The main sources of funding for core operations at UW Bothell are (a) tuition revenue generated from undergraduate and state-supported graduate programs, and (b) state appropriations. Auxiliary activities such as commuter services, student housing and fee-based graduate programs are treated as self-sustaining activities, so the revenues and costs of those programs are not part of the core operating budget.

The FY21 core operating budget had a total revenue of about \$82.5M, comprised of \$23.2M in state appropriation and \$59.3M in tuition. As widely reported, the share of state support in the operating budget has declined over time, from 82% in 1991 when the campus was founded, to about 28% in FY21. While state support continues to be an essential source of funding, we were asked to prepare for a temporary reduction of \$1 million in state support in FY21 as the State grappled with multiple demands on scarce resources. Fortunately, the temporary reduction was restored at the end of the year. In FY21, our tuition funds were about 4% higher than the previous year. This was due to increased resident student enrollments that more than made up the decrease in enrollments of non-resident students who pay higher tuition.

The nearby visual details both the sources of operating funds for FY21, and the actual expenditures against these operating funds in key categories. Faculty and staff compensation remain our biggest cost, accounting for seventy-six percent of our costs; overheads paid to UW Seattle for central services accounts for about seven percent; leases, utilities and related services account for about six percent; and, our school and divisional operational costs are a little under five percent. Finally, carryover amounts and reserves accounted for about seven percent of the total, a slightly higher than expected number largely due to the influx of extra tuition

revenues. These carryover funds will be added to FY22 budget as temporary funds and reserves will be available for future needs.



FY 22 Preliminary Core Operating Budget

In Table 1 on page 8, we show the ‘preliminary’ sources of FY22 funds, as well as ‘preliminary’ allocations to campus units, viz., academic units, administrative units, and central operations². These allocations provide the units their ‘spending authority’ for the fiscal year (July 1, 2021 to June 30, 2022). For FY22, our estimated net tuition is around \$60 M, and state support funds (allocated to UWB by the UW OPB) is about 23.6 M. Total sources of permanent funds for FY22 is estimated to be \$83.6 M, an increase of nearly \$1.2 M from FY21.

These permanent funds are allocated to Academic units, Administrative units, and for Central operations. As explained earlier, our budgeting model calls for seventy percent of the net tuition inflows and all program provisos to be allocated to the Academic units; within Academic units, allocations to individual Schools are based on RCM metrics. Administrative units and Central operations are allocated thirty percent of tuition and all state support funds.

The RCM budget model takes full effect in FY22, after a four-year implementation period. As a result, the allocation for Academic Units has increased significantly by \$2.9M to \$44.2M, or about 7% more than the final FY21 allocation. It is important to note that over the two years from FY20 to FY22, the allocation to Academic units has grown by nearly 15%, whereas the allocations to Administrative units and to Central operations have stayed static or declined over this period. With this increased funding, our Academic units will realize the full funding levels envisaged in our RCM model and will have more resources to deploy as they approach planning for the future.

In order to provide the increased funding for Academic units, the permanent funding for the Administrative units has been held static at around the FY21 levels. The allocation for Central Operations (such as UWS overheads, lease and utility costs) will be lower than FY21 permanent funding by about \$0.8 M. We expect that this decrease in funding may lead to short-term shortfalls in Central operations budgets in this biennium; these shortfalls will be met through the use of our temporary carryover funds. In the long-term, we may have lower Central operations costs after we realize some lease cost reductions. Finally, we will not allocate permanent funds for institutional reserves in FY22, since we are currently carrying the desired institutional reserve of 10% of expenditures.

Comprehensive Budget Summary for UW Bothell

In addition to core operations, UW Bothell also operates fee-based educational programs, and self-sustaining services such as commuter services, housing and dining. Further, we receive grants and gifts, and help manage

² We refer to the FY22 sources and allocations as ‘preliminary’ because they are based on *estimates* of tuition and other inflows during the current year. The ‘final’ sources and allocations will be determined in Spring next year after all annual inflows have been realized.

student activity and student technology fees. In Table 2 on page 9, we present a comprehensive summary showing all the sources of funds available to UW Bothell.

It is very important to note that this comprehensive summary is a summation of multiple budgets, and that each of these budgets has its' own rules on how the funds can be spent. For example, grants and gifts can only be spent as per the grant/gift conditions. Student activity and student technology fee budgets are entirely determined by elected student bodies. Revenues and costs from fee-based programs accrue to the units that run the programs. Commuter services, housing and dining services operate with their own budgets and obligations.

We provide this comprehensive summary simply to present a complete picture of the full range of resources that are available and used across the Bothell campus. Carryover fund balances in each of these areas from prior fiscal years are not included in this report as they are tracked and monitored separately.

A few notes on the FY22 projections in Table 2. Self-sustaining funds in FY22 will decrease due to major changes to the dining and housing programs, and an anticipated decline in commuter services revenues. With the planned housing re-development project beginning in Fall 2021, a third-party operator has taken over housing operations, thus reducing self-sustaining housing program revenues. Similarly, the dining program will be transitioning to a third-party operator in Summer 2022, and food service operations have been scaled back to prepare for the transition. Our commuter services operations experienced a steep decline in FY21, and it may take some time for parking revenues to return to pre-pandemic levels. Additionally, some Restricted Funds saw higher than anticipated incoming funds for FY21 due to biennial accounting crossovers, which will not recur in FY22.

Conclusions and Recommendations

After an unprecedented year when we dealt with the anxieties, uncertainties and additional costs imposed by the COVID-19 pandemic, we are glad to report that the financial health of UW Bothell continues to remain fundamentally stable. Our Academic and Administrative divisions have managed to keep their expenditure within their FY21 allocations, and many units have managed to carry over temporary surplus funds to FY22. These carryover funds can be used to offset any unexpected revenue shortfalls or to incur short-term additional expenditures. However, given the unpredictability of enrollments and the shift in the mix of our student populations towards fewer non-resident undergrads, fewer grads and more resident undergrads, we should continue to exercise restraint and should be prepared to handle revenue reductions even if the total enrollments remain the same. On the costs side, we should be prepared to handle pressures arising from salary and wage increases for faculty and staff, increases in operations and maintenance, and the need for equipment replacements, upgrades, deferred maintenance and other physical infrastructure improvements.

TABLE 1**Preliminary Sources & Allocations of FY22 Permanent Funds**

Core Operating Budget	FY 2020 Final	FY 2021 final	Prelim FY 2022
SOURCES OF FUNDS			
State Appropriations	\$ 22,920,912	\$ 23,211,000	\$ 23,611,000
Net Tuition	57,079,014	59,309,873	60,095,680
Undergraduate Tuition	53,276,432	54,511,676	55,235,920
Graduate Tuition	3,703,709	4,699,324	4,761,760
Other Tuition	98,873	98,873	98,000
Total Sources	\$ 79,999,926	\$ 82,520,873	\$ 83,706,680
UNIT ALLOCATIONS			
Academic Units			
School of Business	7,607,955	7,860,110	8,401,310
School of Educational Studies	2,588,000	2,685,000	2,553,800
School of Interdisciplinary Arts & Sciences	10,171,200	10,551,100	11,059,800
School of Nursing & Health Studies	3,389,900	3,605,900	4,036,800
School of STEM	13,355,622	14,970,992	15,335,922
First Year & Pre-Major Programs	1,400,000	1,600,000	1,800,000
Subvention Pending Allocation			1,000,000
Total Allocation to Academic Units	\$ 38,512,677	\$ 41,273,102	\$ 44,187,632
Administrative Units			
Academic Affairs Division	6,909,280	6,923,200	6,983,200
Planning & Administration Division	13,483,034	13,510,200	13,625,200
Advancement & Ext Relations Division	2,647,255	2,652,600	2,695,600
Chancellor's Division	2,118,495	2,165,834	2,200,834
Enrollment Management & Student Affairs	4,712,020	4,678,466	4,753,466
Total Allocation to Administrative Units	\$ 29,870,084	\$ 29,930,300	\$ 30,258,300
Central Operations			
Administrative Overhead	5,493,004	5,408,449	5,481,348
Workday & Other Systems	350,159	473,238	400,000
Utilities	1,229,989	1,142,501	1,150,000
Leases, O&M	3,005,146	2,939,072	2,114,400
Other Campus Operations	103,023	108,032	115,000
Total Allocation to Central operations	10,181,321	10,071,292	9,260,748
Institutional Reserves & other allocations	1,435,844	1,246,179	-
Total Allocated Perm Funds	\$ 79,999,926	\$ 82,520,873	\$ 83,706,680

TABLE 2
Comprehensive Summary of Funds

All Fund Sources	FY 2020 Actuals	FY 2021 Actuals	FY 2022 Proposed
State Based Funds Budget	\$ 81,294,324	\$ 83,781,698	\$ 84,980,329
Core Operating Budget (GOF)	79,999,926	82,520,873	83,706,680
Temporary Funds (GOF/DOF)	1,294,398	1,260,825	1,273,649
Restricted Operating Funds	27,868,525	29,526,315	26,000,000
Gifts and Discretionary	1,942,054	1,421,426	1,800,000
UWB Fee Based Grad Programs	3,732,640	2,837,148	2,900,000
Facilities and library services	2,372,004	2,210,175	2,300,000
Exec Ed course fees and revenues	1,651,571	2,004,998	1,500,000
Other fees and revenues	2,037,064	1,932,812	2,000,000
Student Activity & Tech Fees	4,217,329	4,051,036	4,000,000
Grants & Contracts Sponsored Projects	6,164,347	8,473,290	6,900,000
Grants & Contracts Student Aid	152,910	1,421,426	1,450,000
Grants & Contracts Others	125,185	138,221	100,000
Commuter Services revenues	2,714,089	352,658	1,500,000
Housing, Food & Misc revenues	2,759,333	4,683,125	1,550,000
Total Sources	\$ 109,162,849	\$ 113,308,013	\$ 110,980,329