

UFHAC Minutes
July 18, 2018
Lighty 405

Attendees: Stacy Pearson, Dan Bernardo, Todd Butler, Michael Craven, Daryll DeWald, Chip Hunter, Greg Rose, Joan King, Kelley Westhoff, James Peterson, Savannah Rogers, Chris Hoyt, Kris Olson

Introduced newest member James Peterson from the College of Engineering, Research, and Faculty Senate representative. Savannah Rogers is present for her first meeting as ASWSU President.

Joan provided *preliminary draft* of FY18 results.

- Run rate improvement from FY17 to FY18 was very good, at *approximately \$22.5 million* and beating the \$10 million improvement target.
- More revenue/allocations of funds (almost 24 million in state and core funds in revenue) and an increase in expenses of 5.8 million.
- Overall, the core funds run-rate improved \$18.7 million against last year. On the other funds, (everything except 17A funds) there was \$9.8 million more in allocations/revenue this year than last year, and slightly more expenditures about 3.9 million.
- In total, there was a positive run-rate improvement of 5.9 on other funds and overall improvement of \$24.6 million. There is an estimated \$2 million decline in the central reserves due to continuing additional commitments.

For the \$18.7 million net increase in core fund allocations, this included *new* state funds for the College of Medicine and for salary and benefit increases. In addition, there were new tuition funds for Medicine, Vet Med, Pharmacy, and increased allocations from the enrollment based budget model overall. We also had some one-time allocations for specific areas, including the College of Arts & Sciences (CAS). CAS received \$3 M in revenue input to cover some of their prior F & A deficits. We also had the Felicia backfill – the intrusion we had in our IT systems in 2015. Those costs had been on the IT budget and were moved to the central budget.

- Expenditure increases that continue to cause a significant impact include a \$10 million increase in salary and benefits, partially funded by the State.
- While reporting good results, it is important to continue to stay the course and the 2.5 percent target improvement for FY19.
- Many items are on the central budget that were committed with the expectation that permanent funding would become available in the future.
- One problem area is that many ongoing salaries remain funded on one time reserves with no plan for permanent funding. This type of activity causes the current \$10 million+ ongoing deficit in the central budget that limits the University's ability to fund new initiatives and meet minimum reserve standards.
- As a result, the overall university central reserve continues to decline due to the growing commitments and lack of regular funding source. This will need to be remedied in order to implement a new budget model.

The Provost stated that they have already set goals on the academic side and assigned run rate targets to all of the colleges. Joan reiterated that all Deans, Chancellors and VP's have access to their individual unit reports that were distributed on 7/16/18. All area finance officers can view units with their Dean, Chancellor or VP.

Stacy presented some fiscal history with a section that delved into some of the observations heard this past year from the committee and others. She discussed both budget model and budget process as two different things. There are many different models and universities have experimented with various models and made adjustments due to unintended consequences or not truly understanding how revenues and expenditures are allocated. Over the next several meetings, Stacy would like the committee to review models that might have provisions that could work for WSU. While there is no perfect budget model, it is worthwhile to develop a model and process that helps to match funding priorities to key strategic initiatives. Also, a process that is efficient and transparent and includes all funding sources. For example, it is very common for public universities to have a budget process that focuses primarily on appropriated funds and tuition. However, many other programs have been implemented that create other funding sources, like EBB. A budget model should include all funding sources and how these funds can be used to achieve outcomes. Since a college will operate from multiple funding sources, there are considerations about any restrictions (like PBL) and how benefits are funded.

Funding history was discussed and impacts on state appropriations, enrollment, tuition, faculty hiring, etc. during and since the great recession.

Provost Bernardo developed a report on the WSU Budget that highlighted the significant changes to WSU over the past decade. WSU has experienced significant revenue increases since the recession while enrollments and expenditures increased at an even faster pace. However, net tuition revenue growth has been muted, largely due to increases in University funded waivers. There has also been a significant increase in research and development expenditures. While this is a positive metric for the Drive to 25, we have to also recognize that the cost structure to support that research has to also be considered. For example, how we use our F & A allocations that is intended to support research infrastructure.

Provost Bernardo commented that while the F&A amount has increased by approximately one million per year on the average over the last six years, it is not as large of a return to the University as expected. A lot of WSU research is not subject to 53% negotiated rate for offsite research and our average return is about 18 percent.

Past multi-year spending in excess of revenues, large investments in facilities, the medical school and even the 5% grand challenge budget reallocation have impacted WSU's financial status. When the University lacks sufficient central reserves, new initiatives have to be funded from the unit budgets, mostly as across the board reductions. This will be an important policy to address in our new budget model.

Revenue enhancement is also planned as being key to WSU's recovery and long-term success. We need to determine how we are going to:

- 1) Vet proposed new revenue programs
- 2) Measure improvement;
- 3) Evaluate when and how to make investments into new programs;
- 4) What metrics we are going to use to measure the return on investment?

- 5) What policies and procedures are needed?
- 6) Templates needed to develop a business plan and to estimate revenues and expenses over a multiyear period.
- 7) Processes to re-evaluate and “sunset” programs that are not meeting expectations and for investing in those that are growing.

We also discussed developing a risk analysis for uncertainty and utilizing conservative estimates based on measurable results and a process for making adjustments as projections are either not met or need refinement.

It is important to ensure that we are making good assumptions at the outset. We should look for overly optimistic assumptions when making long term planning decisions. For example, the Athletics recovery plan includes the addition of student fees that cannot be guaranteed since there is a lengthy process to get fee proposals communicated and accepted.

It was recommended that a future meeting include a review and discussion of the athletic budget and the value proposition of being a PAC12 university, which is also an academic research conference. Do we want to be aligned with this group of schools?

Some are confused about the difference between revenues and allocations. Our committee should focus on overall revenues coming to the institution, what generates those revenues, and how are we making decisions about how those revenues are allocated. For example, should the revenue generated from a program be dedicated to that program, intended to partially go to central to be used for other things, or how do we want to identify that? We need to be open about what activities at the university are revenue positive and what activities cost. It does not mean that we deemphasize those that cost, but openness can facilitate a better, more productive conversation long term.

What is WSU’s current budget model? Provost Bernardo calls the model “residual” because “revenues from a variety of sources; outflows are diverted for a variety of purposes; based on ‘special deals’ negotiated on a case-by-case-basis”. Residual being whatever is left over goes to the central budget.

The current process appears to be mostly incremental in that areas generally receive their previous year’s allocation and any plus-ups provided by the legislature or by executive decision making. New initiatives also funded from across the board reallocations. Funding and maintaining a sufficient central reserve to manage for both emergency purposes and for new initiatives will be an important aspect of the budget model and process.

In the past, budget allocations were largely made piecemeal through the fiscal year, mostly in the form of additional expenditures or programmatic decisions that resulted in future allocations; e.g. student information system, school of global animal health, college of medicine, academic affairs program prioritization (A2P2) an attempt to establish academic priorities and reallocate revenues and expenditures accordingly. As Daryll referenced, that was an attempt to use data such as enrollment in the program and graduation rates and this data would result in how productive or nonproductive a program.

For research grants that come into the university, direct expenses are diverted to academic units, a portion of F & A is allocated to the department and college, a fraction is peeled off to

units such as office of research and libraries and the balance remaining hits the central budget. While this is a common practice, we should seek to accurately measure the cost to support research, and be transparent in our approach as to how to cover those costs when indirect cost allocations are not sufficient/

Because we are a research university, we are able to attract a higher quality of faculty and potentially a larger student body. It is not easy to measure that direct line; it is an indirect measure of what is the impact of a research institution on the ability to generate revenue for the institution.

The Provost reminded us of the reality that the students pay for a lot of the research expenditures of the university. When we look at the percentage of our budget, we work for them not the State. We need to be concerned about our student experience and what we are doing with our undergraduate student body. Eighty-four per cent of our annual net tuition comes from undergraduates. Six per cent from graduate.

Todd informed the committee that his unit is one of the few that is actually over the enrollment minimum. He finds others to be more responsive if you acknowledge, for example, that part of the revenue from English goes to anthropology because it is important to have anthropology as part of the mission. People are willing to recognize that as a legitimate exchange as long as they feel that the allocations of that money are legitimately connected with the core enterprise mission of the university. They are willing to recognize and make that exchange as long as they feel it is going to something of value. It is important that a budget model address subsidies and investments in new programs or to support existing programs.

This gets back to your risk management question because if there is a culture of leadership that says just be straight, is this a program that is valuable but will fundamentally need central funding not just for the start up two years but for eight or whatever.

As long as you are working from the correct information, you should make the correct decision even if that means letting a program hold a deficit for a number of years or maybe even continually. But you are not making an informed decision saying this program is going to make \$20 million in revenue but only makes \$2 million.

While Athletics may have modeled this underestimation of revenue in the past it is incumbent on us to change that model. The deficit is not going to disappear overnight unless we cut out half of our sports or do something that is going to have big decisions and other impacts. And we cannot eliminate any sports or we are non-compliant with the conference.

The institution at some level has to decide if it is worth having an institute of shock physics because we are subsidizing that heavily. What benefit does it bring? Does it bring students to study English or other disciplines because we have this renowned world-class research program? It is not just athletics; many colleges need to have the question answered and the risk associated.

A key point is that we want to incentivize new programs because we think they are going to bring new revenues and students to the university. But then we have to be willing to measure enrollments and revenues over a period of time, and take action to adjust if the performance is poor. For example, a policy and process to sunset programs that do not deliver within five years

or some other KPI. It doesn't have to be the same for every program but we should include a programmatic review and identify meaningful measures.

Also, we have to address the funding needed to cover increasing administrative and overhead costs paid out of the central budget. A lot of times when we talk about central reserves, it has a negative connotation that the university is hoarding money for some reason that is not transparent to the campus. In the case of Washington State, if we could fund some of these required expenses without having to reduce budgets across the board it would probably make a compelling case to support a central reserve.

Looking at this data, does it appear as though we are disinvesting in academic enterprise? Just speaking for many administrative areas, such an increase in compliance requirements has driven some of that cost increase. It is not necessarily that we wanted to start a lot of new programs, but how are we going to address that to truly increase tenure track faculty if that is going to get us to our drive to 25; then how do we reduce those others. Hiring more non-tenure track faculty, is that a good strategy or was that just a circumstance that we were not hiring tenure track faculty?

There are some cases where across the board hiring of tenure track faculty is not a good strategy. It needs to be a thoughtful mixed portfolio tactical strategic activity. So this does bring into discussion how we grow, e.g., how do we both support success in our research enterprise and in our education mission so we get better with both of them. We also need to be careful because a lot of the growth in particular areas will be in the clinical realm. If we are forcing medical or health sciences type of units to hire tenure track, it may not be the best way to go.

Another consideration is to review our current enrollment based budgeting where most of the revenues go to the colleges based on a process but with some special agreements, with a small portion going to the central budget. We also need to look at waivers and determine a process to properly balance access with revenues. Currently WSU has a fairly high discounting rate. If we reduce the amount of waivers, how will that affect our enrollments? We might start making incremental changes to our waivers, for example, change the GPA for awards. This is a great opportunity to look at these issues under the context of a new budget model and do them differently.

Daryll suggested maybe it is a good case study to look at the budget models for Pullman vs the different campuses. Related to that is the co-allocated budget of Pullman and Spokane and try to look at the advantages and disadvantages of those models. There needs to be good rationale for these budget and allocation models.

We need to understand that transitions are difficult. As mentioned about the net tuition, we cannot just cut the waivers off without understanding the impact it would have on overall enrollments. There are likely logical opportunities to discuss the waiver system.

Next month we will look at some budget models and impacts that institutions have implemented and adjusted over time. WSU is not going to be able to pick one of these models and say it will work for us 100 percent, especially given how our different campuses are set up. There are lots of good principles to consider as well as the lessons that we have already learned. Now that we are implementing a new HR/Payroll system, we have this Fiscal Health Council,

and we are pulling ourselves out of deficit spending; it is the perfect time to consider new budget models and processes.