

Draft 2009-11 Operating Budget: A Report to the Campus Prepared by Bruce Shepard

Over many months, hundreds of people have been involved in bringing us to this point: presentation of a draft operating budget for the university. Far too many to name, we should nevertheless begin by expressing our gratitude to all for their hard work.

This report is for colleagues who will have varying degrees of interest in or tolerance for details. So, we paint a general overview but use hyperlinks that, with perseverance, will allow those so interested to drill down to specific lines in the budget planning templates we have been using.

Budgets and budgeting are complex subjects and we cover both. Each is a responsibility shared by the university community. Consequently, even at the summary level, this report is longer than I would like. But, on matters of this importance, I think it important to err on the side of full rather than truncated coverage.

Finally, this is a report on our budget decision-making. An actual budget is a complex document of hundreds of pages with all sorts of account codes and other information. Such a document will be prepared and, as in years past, placed on the web. Such a document records the decisions (in thousands of lines) but is not a useful organizational template for thinking about decisions that have to be made, particularly when it comes to focusing attention on the highest priority or most consequential decisions.

Instead of an actual draft budget, we used a budget decision-making template. We focused upon the state operating budget, looked at the margin, and asked, basically, what additional must or should we fund and where can the funding be obtained? This approach – known as “sources and uses” – is the format the vice presidents, the deans, and I used throughout the efforts to form a draft university-level budget from the information provided by planning units. It is also the format used in this report; everything we used you have available in this report.

Background

For about nine months, at both the campus and state levels, budget processes have been proceeding.

ON CAMPUS: We began, in August 2008, with efforts to save funds through a variety of means: restrictions on contracts, travel, hiring, and purchasing; delays in implementation of recently funded initiatives; and careful examination of fund balances and past budgeting patterns. Frugality has been the rule and, as you get to the actual draft budget, you will see how that helps us through the next biennium. Further, through a campus web forum, [over a hundred suggestions](#) for saving funds were offered, and consideration of all of these were a part of the subsequent budget formation process.

Through the fall, we developed, openly and with considerable campus advice, [budget processes](#). Initial differential budget targets were set by planning unit. Then, bottom up in [16 planning units](#), colleagues developed strategic analyses and then proposals for budget reductions linked to those analyses. These proposals were publicly presented and both the original submissions and audio archived presentations are [posted on the web](#). The deans, vice presidents, and I then met to bring together the 16 proposals in order to draft a comprehensive, university-level proposal for the campus to consider.

IN OLYMPIA: The state budget process really began in December when the Governor announced her proposed budget. As the state's revenue picture worsened (because of the economy) and also improved (with the addition of billions of stimulus dollars), we experienced wide gyrations in what the possible impacts might be for Western. The campus was kept informed and that history of the various state government budget proposals and their implications for us remain [on the web](#).

The two processes, although proceeding in parallel, have a complicating connection. *Our campus process had to begin in early January with our best guesses as to where the state process would, many months later, actually wind up.* The projected state conclusion needed to be our initial planning target.

On campus, we set what we called “low” and “high” levels of cuts and then differential “low” and “high” preliminary targets for each planning unit. The state budget ended up in that range, almost exactly at what we defined as the “high” range. I would like to be able to claim prescience here for the university but, as the state budget swings between December and April were so wide, there's likely an element of serendipity, too. Whatever, we are fortunate for it means that we do not have to go back to the drawing boards: all the good efforts people put into thoughtfully and transparently building budget proposals form the full bases for the draft budget now being presented. Really, nothing new had to be added to [what you saw 6 weeks ago](#).

The State Budget for Western

A state budget is a complicated and nuanced document comprising numbers, certainly, but also notes and conditions with fiscal impacts. And, even the numbers vary: some are more or less firm, others are projections incorporating degrees of optimism we may or may not share. A university's budget is also complicated, and there are many ways to look at it. That can lead to varying ways to describe a percentage cut in our budget. As you have heard a lot of percentages floating around, I thought it necessary to use those several percentages in the bullets that follow, making clear the appropriate context for each.

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After applying our best understanding of the notes and numbers along with incorporation of what we think to be realistic assumptions where projections are involved, the biennial operating budget for Western has these notable features:

- Our “maintenance level budget” (that’s the budget that would allow us to continue to do exactly what we are doing, nothing new) for the 2009-11 biennium includes \$152,892,000 of state general fund support. That state support has been reduced by \$43,963,000 which is a cut of 28.8%.
- That reduction crosses a threshold that must be highlighted. In past decades, Washington taxpayers have supported about 70% of the costs of instruction. That level of support has slowly eroded as can be seen in Western’s operating budget history from [1994 to 2011 comparing state support to tuition](#). This 2008-09 budget year, state support is at 60%. With the budget cuts for the biennium ahead, we plummet below the 50% threshold for state support: on a biennial basis, state support for Western will cover only 45.5% of the costs of instruction.
- The reduction of 28.8% in the state general fund support for our maintenance level budget is offset by \$8.8 million dollars, of one-time federal stimulus dollars and major tuition increases. When adding the stimulus dollars and those tuition increases assumed by the Legislature and not otherwise restricted by the Legislature, the net reduction to state general fund support becomes 12.4%.
- As a percentage of our overall operating budget, including state funds and tuition, that is a 7.4% cut or \$18.9 million for the biennium.

Draft Operating Budget: An Overview

So, we have a clear state budget for Western. But, we don’t have Western’s budget for Western. We now turn to providing an overview of the draft operating budget for the next biennium.

At the university level, I think about our budget in very simple terms: what do we need funds for and where are we going to get those funds. These we call “needs” and “sources,” and that is how the deans, vice presidents, and I worked on the budget. This masks enormous detail and the thousands of allocation and reallocation decisions made at the program, department, college, and division levels. Still, we worked with a sources and needs table running many hundreds of lines and 18 pages of fine print. All that detail is available to you on the web and through appropriate clicks on hyperlinks in this report. Here, I try to get it down to about 15 lines.

Please consider the following Table.

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Table 1
Western Washington University
Overview of Budget Changes
New Needs and Sources

	2009-10	Fiscal Year 2010-11	2011-12 est	Biennial Total 2009-2011
New Needs (Uses)				
Permanent Cut to Legislatively Funded Base	\$26,615,000	\$17,348,000	\$17,348,000	\$43,963,000
Other New Required Obligations and Mandates	\$4,093,637	\$6,186,765	\$6,650,040	\$10,280,402
NEW University Contingency Reserve	\$2,620,679	\$4,314,694	\$5,464,954	\$6,935,372
Items formerly and regularly funded from reserves	\$258,180	\$212,900	\$212,900	\$471,080
Other Proposed Initiatives	\$56,000	\$656,000	\$300,000	\$712,000
Proposed Uses Supported by Division-Level End of Year Balances	\$6,512,213	\$5,493,414	\$4,482,766	\$12,005,627
Total Needs	\$40,155,709	\$34,211,773	\$34,458,660	\$74,367,481
New Sources				
Federal Stimulus Dollars	\$8,885,000	\$0	\$0	\$8,885,000
Appropriations provided to cover Obligations and State Mandates	\$2,367,000	\$2,803,000	\$2,803,000	\$5,170,000
Tuition Increase Undergraduate Resident Students (14% + 14% for 2009-11 and estimated +7% for 2011-12)	\$6,633,304	\$13,730,938	\$17,047,590	\$20,364,242
Administrative Services Assessment	\$1,233,163	\$1,472,114	\$1,710,386	\$2,705,277
Accumulated One-Time Savings (primarily unbudgeted institutional reserve)	\$6,310,942	\$2,326,697	\$0	\$8,637,639
"Riskier Revenue" (Interest income & Tuition from non-state funded enrollment)	\$2,138,211	\$2,309,734	\$2,339,042	\$4,447,945
Cuts to Operating Budgets	\$6,075,875	\$6,075,875	\$6,075,875	\$12,151,751
Budgeted End of Year Division-Level Fund Balances	\$6,512,213	\$5,493,414	\$4,482,766	\$12,005,627
Total Sources	\$40,155,708	\$34,211,772	\$34,458,659	\$74,367,481
NEEDS - SOURCES	\$0	\$0	\$0	\$0

First please note that Table 1 looks at three years. Although it is only a biennial budget that we are building, we had to make sure we were not creating problems for the university coming out of the biennium. That is why we considered what 2011-12's budget might look like based upon decisions made for the 2009-11 biennium. *No programmatic decisions have been made for 2011-12 and thereafter.* Such decisions will be made as, during the upcoming biennium, we go through another open, transparent budget process to build that 2011-13 budget. At the university level of aggregation, though, we had to make sure that any decisions to use "one-time" monies this biennium (like stimulus dollars or reserves) did not create holes we would have to climb out of in future biennia.

Definitions and detail are available through clicking on any of the row labels in Table 1. I would offer these summary observations:

- This approach leaves us whole at the end of the biennium. No one-time funds like stimulus dollars or institutional reserves have to be carried over into the third year.
- Everything is shown. Reserves, end-of-year balances, and "riskier revenues" have not been explicitly budgeted in the past. That also means there are no hidden safety nets or pots of money set aside to fund commitments we have not all scrutinized through an open and transparent process.
- A 7.4% very real reduction in our operating budget – the \$18.9 million – is gone. Because formerly unbudgeted reserves and "riskier revenues" are now being used to dampen the impact on our university and our students, the reduction becomes somewhat less severe. While we do have that \$18.9 million hole to fill and it is filled, cuts to unit-level operating budgets total \$12.1 million for the biennium.
- The potential cut has been reduced, perhaps, but is still severe. These cuts remain at levels unprecedented for our university, and there will be serious consequences for those we proudly exist to serve: in the timeliness and comprehensiveness of support services (academic, student, business, physical plant, ...) and in the class sections and selections available for top quality learning and for timely graduation.
- Protecting core commitments was established by all of us, early on, as our foremost guiding principle. Cuts are not across the board. While not evident in Table 1, reductions in academic programs are, on average, significantly below the average cuts in other areas (5% for academic programs vs 7% to 10% elsewhere).
- Protecting people was another key principle previously agreed to. Most of our budget, though, about 83%, goes to pay people. We project that we will have 164 fewer employees next year (head count) as a result of the cut and in comparison to where we would have been had the maintenance level budget – nothing new, just the status quo budget – been funded. That number has important implications on our campus and for the services we do provide, in the classroom and outside. It also has important implications for Whatcom County in which we, at least until now, have been the largest employer. Nevertheless, by looking first at vacant positions and by finding other opportunities at Western for those in positions that would be eliminated, the impact on current employees has been substantially

reduced. In this we had the help of our unions in supporting internal transfers. Personnel impacts were also ameliorated through the willingness of our faculty and their union to postpone merit increases in order to offer more adjunct instruction; that is reflected in the additional \$436,000 (biennially) for adjunct instruction that you will find shown under the Provost's office plans for use of end of year balances. Still, we estimate that 25 colleagues have or will be laid off without another appropriate position being available at Western; another 40 individuals, approximately, while not technically being laid off, would expect, normally, to receive another annual contract offer but will not receive such an offer for the coming academic year.

- Tough as times are, vibrant organizations do not stop evolving and innovating. Certainly not Western. In the draft budget, we have proposed funding for a number of the initiatives. These were raised during listening sessions and were identified in [the report back to you at the mid-year convocation](#). The amounts are necessarily small given our fiscal situation. Even at symbolic levels, though, it is important to commit to moving ahead.
- Certainly, there are changes and shifts in curricular emphases and concentrations available in our academic programs, all driven by the need to reduce budgets while protecting highest quality. There are such shifts, though, in any budget year as colleagues reallocate funds and professional efforts to meet emerging needs, capitalize on alternatives, stay at the disciplinary cutting edge, and pursue entrepreneurial initiatives. Given the pervasive excellence in academic programs at Western, though, we made it a priority to not substantially reduce or eliminate any academic programs at the level of the major. Such possibilities were considered; none are included.

Again, for further detail on items summarized in Table 1, just click on the appropriate line in the table.

Different Budget; Different Budgeting

Throughout the listening sessions, one of the most consistent messages was your identifying the need to develop open and transparent budgeting and decision-making processes. That struck me as a fairly straightforward assignment and we, with your advice and counsel, sketched such a process last fall. We stuck to the process. And, in so doing, I was very impressed by the progress we have made. And, I learned more about the further progress we must and will make. First, I will note the progress made. Then, turn to the remaining challenges we will successfully take on.

As we move to more open and transparent processes, these significant improvements have been made:

- Budgets were developed bottom up through 16 planning units. There were explicit strategic planning elements in each and, at the university level, the bottom-up processes used were explicitly identified by each planning unit. Did every unit follow a textbook perfect process clear and obvious to all? No. But, it

is something new, we will critically examine what has been done, and do a better job each year.

- At the university level, we have taken a number of steps to provide greater transparency. They include explicitly budgeting the several revenue streams (what we started to refer to as “riskier revenues”) that had not been a part of past budgets.
- These revenue streams helped build a reserve that was used to fund any number of important priorities but these, again, were not part of any transparent budget process. The full reserve is now explicitly in the budget.
- We are explicitly showing recapture of end of year balances and uses to which they are to be put.
- Treatment of end-of-year balances is changing in other ways but not as a means of increasing university-level budget flexibility – i.e., we are not trying to take money from the university’s constituent units. Rather, the changes are essential to assure that budgets really do paint an accurate picture of actual expenditures. If you are interested in these details, [click here](#).

We have considerable progress to make:

- For “bottom up” to work, people really have to believe that is how budgets are being built. We can prescribe such an approach but it only works if people become involved at the beginning: if people understand that their ability to meaningfully influence a budget happens at the beginning and not near the end (like now) after hundreds of people have explored thousands of options to come up with the draft.
- Budgets and actuals can vary greatly. For a particular program or area, the end of year, bottom line budget usually balances. But, half the lines are likely to be significantly over budget and half under budget. This means that our beginning budget, no matter how transparent, paints a very incomplete picture of how we actually operate. There is an educational process here: helping people understand how to build meaningful budgets, how to make budget transfers during the year, how to encumber funds, how to keep up-to-date with expenditures, and a myriad of related steps. Also, accuracy in budgeting has to matter. Our treatment of end-of-year balances, [described in detail later](#), is intended to do just that.
- The foregoing needs for accurate budgeting do require extra effort. But, only because we currently do not have the ability to create effective management reports utilizing data from both finance and human resources. As a first step, we will need to bring up Banner budget. That involves a major short-term investment of staff resources as we migrate to a new system and a new approach to our chart of accounts. However, there will also be savings in people’s time, in transparency, in accuracy of leadership and management. Today, without Banner budget and effective report writing, people are laboring with myriad home-grown systems requiring repeated and duplicative entry of data that would be available had we brought up a budget model integrated with our HR module and our Finance module. Vice President Wetherell has been charged with leading this effort.

- The approaches to budgeting that we have relied upon to this point have worked and outstanding leaders have used them to effectively serve university needs. But, relying on unclear reserves and end-of-year balances not only limits transparency. It also reinforces silos. As we worked through the current budget challenges, there were remarkable improvements in the capacity of those with budget responsibilities to share information and help each other accurately understand. That momentum must be sustained. We have asked University Budget Officer Paula Gilman to form a council of budget officers (name to be determined) to regularly meet to identify ways to improve budgeting, reduce silos, and collectively take on tasks as they identify the needs.

So, while our purpose has been to come up with a budget for the next biennium that adheres to the principles with which we began, we also have worked to come up with a better budgeting process. You have asked for transparency. We – you, all of us – are delivering and we will, together, continue to make further strides.

Transparency, yes. But, I must stress another reason: Institutional effectiveness and integrity. Without a modern, comprehensive approach to budgets and budgeting, we have faced challenge after challenge by making incremental adjustments. All by good people doing necessary things to meet pressing needs. One consequence, though, is that our budgeting and budget processes have formed through what looks to me to be a process of accretion. They boggle the mind in their complexity; at least, they certainly confuse mine. They require a lot of effort by many people to maintain shadow systems. And, of most concern to me, they can create misunderstandings.

Several times in the last few weeks, I have reached conclusions on available information that seemed entirely reliable. The conclusions were wrong, critically so. One case was publically embarrassingly as it reflected a \$700,000 mistake that resulted from years of misunderstanding. We must have in place the comprehensive systems necessary to fully support what has been a growing enterprise with increasing complexity. So, together, we need to take our initial steps toward transparency to further levels for the sake of more openness, yes. But, also for reasons of assured continuing institutional effectiveness and integrity.

Conclusions:

The proposal before you is just that, a proposal. Ideas for improvement can be shared through a [web forum](#) and at a public forum. The public form is scheduled for May 14th at 2:30 p.m., AIC West 204. The opportunity for comment concludes on May 16th which is 10 days after the issuance of this report. We will then develop a final budget that it will be my responsibility to recommend to our Trustees for their further consideration at their meeting on June 12th.

We will, as this year's budget cycle comes to conclusion, ask those involved to participate in a critical debriefing: what did we learn? what can we do better? We will

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then refine and propose a budgeting process for the next cycle. We will never get the process exactly right. We will get better and better.