Report of the Chair of the Senate Committee on Planning and Budgeting
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The Senate Committee on Planning and Budget (SCPB) meets weekly with the Provost, the Vice-Provost for Planning and Budget, and the head of the Board of Deans. SCPB is charged with consulting on all matters relating to the University budget and on a wide range of program and policy decisions.

The committee has met three times since the last SEC meeting. Committee members received an introduction to the sources of the now $7.25 billion annual budget of the UW. Nearly half of the core operating budget originates with UW Medicine Health Systems (48%). Grant and contract funds from both public and private sources account for about 18% of the budget and Designated Operating Funds (DOF, which includes allocations of indirect cost recovery from grants and contracts, summer quarter revenue, overhead revenue, fees, and discretionary investment income) account for 5%. State appropriations (5%) and Tuition (8%) components are in the single digits. Nevertheless, the State and Tuition components constitute a significant fraction of the “University Operating Resources” that support our core instructional mission. Annual Gift and Endowment funds account for 4% of the core operating budget. It is important to note, however, that these funds are generally “earmarked” and thus restricted in their use. University auxiliary activities round out the operating budget, and account for 12% of university operating resources.

Challenges that shape the UW’s budget were also identified, including limitations on enrollment growth and mix, per student funding levels, recent legislatively imposed constraints on our tuition-setting authority (which limit the UW to tuition increases of approximately 2% per year for the foreseeable future), rising compensation expenses, mandatory cost increases for utilities, property expenses and compliance, as well as federal funding and policy uncertainties. The committee will explore many of these specific challenges in greater depth over the course of the next few months. For additional information on FY18 budget development please explore the following links:

- [http://opb.washington.edu/content/annual-budgets](http://opb.washington.edu/content/annual-budgets)
- [https://opb.washington.edu/sites/default/files/opb/Budget/Adopted_FY18_Operating_Budget.pdf](https://opb.washington.edu/sites/default/files/opb/Budget/Adopted_FY18_Operating_Budget.pdf)

**FY18 Compensation and Merit**

The committee also explored in depth how the compensation pool for FY18 has been funded and allocated. The Provost authorized a 2% merit pool for eligible and meritorious faculty, librarians, and professional staff in FY18 (see [FY18 merit authorization letter](http://opb.washington.edu/content/annual-budgets) for details). In FY 18, UW Seattle will need $9.1 million to implement the 2% merit increases authorized by the Provost yet will receive only $8.5 million in new tuition and state revenue to support those increases. This discrepancy reflects inherited compensation costs incurred when we chose to make investments in UW merit pools in excess of state authorization and state funding levels during the FY14 – FY17 time period. As a consequence, the split between state and tuition funding of increases to our compensation base for UW faculty and professional staff has shifted such that the state funded portion decreased from approximately 50% in FY13 to 34% in FY18.

In addition to the challenges associated with shifts in the fund split, the UW has not been well served by the complex formulas that the legislative staff in Olympia used to calculate our state allocation for the current biennium. The UW will be requesting a revision of these formulas in the upcoming, supplemental legislative session.

Finally, availability of increased compensation dollars to fund FY18 regular merit has been impacted by the increase in promotion raises from 7.5% to 10% effected by changes made to Executive Order 64 last fall. Three hundred and two faculty received promotion raises this fall, accounting for $2.4 million of the overall FY18 incremental compensation pool.

Coincident with the aforementioned shift in funding split and compensation allocation, institutional flexibility has been further constrained by the imposition of new fees from the state which is now charging
the UW $2.4 million to cover the costs of central state agency services to us. Other local financial needs have also intensified, namely increased utility and compliance costs.

In short, while the state’s authorization for three 2% salary increases during the current biennium is a very positive development and appears to provide sufficient funding to cover the FY18 merit increase, in actuality new state dollars will cover only one-third of the costs associated with implementation of the 2% regular merit increase for faculty and professional staff. Thus the remaining two-thirds of the FY18 regular merit increase must be funded by the UW through tuition increases (which are constrained) and a redeployment of unit and central funds.

Even so, in addition to regular merit, the Provost has allocated extra unit adjustment funds to UW Seattle schools and colleges based on the number of senior faculty in the unit. He is providing $2 million in central funds (secured through central administrative cost savings) to match academic units’ self-funded unit adjustments in FY18. The SCPB seeks to assure that the academic units are strongly positioned to take advantage of the Provost’s matching funds in order to address the compression, equity and other strategic compensation needs they have prioritized locally. Thus, the committee is continuing its collaboration with the Provost, Board of Deans and Chancellors, and Elected Faculty Councils to support units’ budget analysis and compensation planning efforts. The first deadline for submission of unit adjustment proposals was November 1 for implementation in February 2018. The second deadline for submission of unit adjustment proposals is January 1, 2018, for implementation in April 2018. The committee will begin reviewing unit adjustment proposals received prior to the November 1 deadline later this month and will continue these reviews through the month of January.

It is important to note that all net operating fee revenue (i.e., tuition after waivers and other financial aid) from UW Bothell and UW Tacoma is distributed in full to each campus. Net operating fee revenue is distributed to Seattle schools and colleges in accordance with Activity Based Budgeting (ABB) formulas.

The formulaic portion of each unit’s ABB budget provides 35 percent of the indirect cost recovery funds generated by the unit and 70 percent of net tuition funds generated by the unit’s students, using a mix of student credit hours (80%) and degrees or majors (20%) as the measure of activity. Thus, academic units across the university (including UWT and UWB) are differentially enabled to fund the authorized 2% merit pool and unit adjustments. For more information on compensation, please see http://opb.washington.edu/content/compensation.

**Activity Based Budgeting**

In line with recommendations of the [2017 ABB Oversight Committee](http://opb.washington.edu/abb-committees-and-reports), the SCPB will review the impact that changes in the ABB formulas effected last year have on unit funding, as well as the purpose and calculation of the ABB supplements. Supplement funds provide support for activities that do not generate tuition revenue (e.g. research, service), and for tuition-generating instructional programs that generate insufficient tuition revenue to cover instructional costs. Despite the very simple calculation that generates supplement values, it has been described as the primary means by which schools and colleges have cross-subsidized each other, as well as the primary means by which state support was directly appropriated for unique and specific programs managed by schools and colleges. The 2017 ABB Oversight Committee suggested that supplement funding levels could be adjusted in response to various changes, including costs due to inflation or evolution of the scope or scale of unit programs. To facilitate its review of the role and calculation of ABB supplements, the committee has formed a small working group which will report back to the larger committee with recommendations for general discussion in early 2018. For more information about ABB and how its implementation has evolved, see: [http://opb.washington.edu/content/compensation](http://opb.washington.edu/content/compensation).

Other topics the committee has begun to address include several requests for consideration of a limited RCEP (Reorganization, Consolidation or Elimination of Program). We have also begun our annual review of units in deficit. This week we heard on the good progress being made at the law school and were updated on the situation in Dentistry. SCPB will continue its review of deficits in the coming months, including an update on Intercollegiate Athletics and central units in deficit (e.g., UW Press, UW TV).
**Updates on Requests for Information Regarding the University Budget and Finances**

In this section of my report, I have compiled the requests for information that were made at the last Senate meeting or directed to me as chair of the SCPB via email in the interim. Responses are those provided by relevant staff at the Office of Planning and Budgeting with input from other administrative groups where relevant. If the topic was also addressed at SCPB, the responses below are reflective of what was learned during our SCPB discussion. I would like to thank Jeff Scott, Executive Vice President for Finance and Administration, Associate Vice Provost for Planning and Budgeting Sarah Hall and their staffs for their timely and instructive responses to these questions.

**Q:** *What is the rate of growth for unrestricted net assets at the UW?*

There is no predictable, reliable “growth rate” that can be attributed to Unrestricted Net Position. The components of activity in this category of net position typically include the following:

- Operating losses on unrestricted budgets
- State operating and capital appropriations
- Investment income on unrestricted operating funds
- Interest paid on external debt

These amounts can vary significantly from year to year. Unrestricted Net Position has also been impacted in recent years by Governmental Accounting Standards Board (GASB) accounting changes regarding pension liabilities. These accounting changes have required the UW to reflect a reduction of Unrestricted Net Position equal to our current obligation to fund future pension-related payments (described below).

**Q:** *Can these resources be deployed to something like faculty salaries?*

Unrestricted Net Position will become a deficit by the end of FY18, due to required recognition of the UW’s obligation related to future pension benefits and funding of other post-employment benefits (OPEB) already earned by UW employees. As such, there will be no “surplus” resources at the center available for redeployment to faculty salaries.

**Q:** *How much of the unrestricted net assets went to construction and future retirement liability? Was $800 Million was transferred out of unrestricted assets to cover pension liabilities, and if so, what was the motivating situation (e.g., bad forecasting, a shift in salary composition)?*

In FY17 the University purchased or constructed $688 million of capitalized assets. Building & infrastructure additions were $494 million, and equipment additions were $152 million. The rest of the additions were for library materials and significant software solutions such as completion of HR/Payroll Modernization and for UW Medicine’s clinical departments.

The amounts that have been recognized to fund future retirement obligations are as follows:

- For unfunded statewide plans (PERS, TRS, etc.) -- $984 million as of FY17
- For UWSRP retiree benefits earned -- $439 million as of FY17
- For statewide OPEB -- $1,200 million (estimate) to be recognized FY18. Note that recognition of this obligation in FY18 will create a significant deficit in Unrestricted Net Position.

Importantly, the pension liability issue may appear as straightforward, but the University’s supplemental retirement plan (closed to new members March, 2011) requires that we actively save funds to disburse payments to members. It is also important to note that many of the folks included in the plan continue to work and are thus remain eligible under the plan, even though the plan may be closed to new members. Currently, our plan has a healthy savings, but does not have all the cash needed to cover its liabilities.

**Q:** *And why were those decisions made, if they were made?*

As a governmental entity, the UW is required to comply with GASB accounting standards and as such, has no choice but to recognize our obligations for pension and OPEB liabilities.
Q: Have any other major items been prioritized over the faculty salary compensation with respect to unrestricted assets?

Faculty compensation has been (and is currently) the top priority in all university budget decisions. Nothing takes higher priority. When the legislature was not able to provide incremental funding for compensation, the University used what reserves it had and cost savings achieved centrally to provide merit pools of 4% in FY14 and FY15 for UW faculty and professional staff when the state authorized 0% and funded 0%. In FY16 the UW implemented a 3% merit pool, which the state authorized at 3% but state funds only covered 38% of the incremental compensation. In FY17 the UW implemented a 4% compensation increase, although the state authorized only a 1.8% increase and state funds covered only 34% of the incremental compensation. Certainly, there have been expenses that we have covered with temporary reserves recently (e.g., maintaining facilities services staff without a capital budget), but we have had to be extremely cautious about use of any funds, whether unrestricted and recurring or temporary, given broader concerns about our University’s long-term financial health.

In closing, I encourage any SEC member, Senator or faculty who has questions about the budget or finances to submit his or her questions to me as Chair of SCPB at: senate@uw.edu. The SCPB will compile these questions and answers so as to not overburden our OPB staff, who are working extremely hard to address the complexities of our budget. When analyses and materials in response to questions that are posed by Senators or faculty are shared with the SCPB, I will be sure to include a summary of the SCPB discussions and related materials in my regular reports. This will streamline information sharing while assuring faculty voice and that all faculty have access to the full breadth of responses and related materials.