

Agency: 360 University of Washington
Decision Package Code/Title: A3 2012 Second 5% GF-S Reduction
Budget Period: 2011-13
Budget Level: PL - Performance Level

Recommendation Summary Text:

The UW is submitting separate decision packages for a 5 and 10 percent reduction of general fund state at the performance level, as required by the Office of Financial Management. The University anticipates that the 2012 Legislative Session will likely result in a fifth round of general fund budget reductions. As a result, this decision package addresses both the impact of continued reductions as well as several critical reforms that would lower University costs and generate new revenue to supplant deteriorating state support.

The information included in this decision package must be considered in the context of prior budget decisions made by the Provost and President of the University. During FY 2010 and FY 2011, the UW concentrated budget cuts in administrative units to help protect the core education functions of the institution. Having reconciled double digit percentage cuts up to this point, note that it is no longer feasible that the institution shield the core academic units as it has in the past.

Fiscal Detail

Operating Expenditures	<u>FY 2012</u>	<u>FY 2013</u>	<u>Total</u>
001-1 General Fund - Basic Account-State	(10,074,000)	(10,326,000)	(20,400,000)
Total Cost	(10,074,000)	(10,326,000)	(20,400,000)

Package Description:

The UW has experienced a series of state funding reductions as the Governor and Legislature faced difficult decisions in the midst of a continuing economic crisis:

2009-11 Biennium

State funding was cut \$94,724,000 in FY 2010

State funding was cut \$20,559,000 in FY 2011

State funding was cut by an additional \$11,400,000 in FY 2011 due to the Governor's across the board cuts

The Legislature provided additional funding for benefits and provisos in both fiscal years of the 2009-11 biennium, but all such increases were associated with mandatory increases in expenditures and did not replace cut funds.

2011-13 Biennium

State funding was cut by \$207,000,000 for the new biennium (FY 2012 and FY 2013)

During the 2009-11 biennium, reductions in funding for the UW's core education budget were concentrated in administrative units in an

effort to shield academic units from budget reductions during an era of unprecedented student demand. However, because the work of some administrative units proved integral to academic units and the student experience, both academic and administrative leadership formed a new set of criteria to guide the implementation of FY 2012 budget reductions. All units were deemed subject to a Provost evaluation based on a mutually determined set of criteria:

- Provision of learning support
- Provision of student and faculty support services
- Maintenance of security, safety and related compliance
- Total cumulative cuts received in prior years

Based on the criteria above, academic and administrative units that educated or supported a significant population of undergraduate students received net budget increases, while academic units supporting relatively few or no undergraduate students received net budget cuts. Additional reductions in FY 2013 would be handled in a similar manner.

No matter how the UW distributes additional state funding cuts across University units, the depth of the cuts has become so deep that the institution's ability to sustain normal operations and compete well with its peers is in jeopardy.

Although not ideal, it is critical that state funding cuts are mitigated by other revenue streams. In addition, we request that the institution be empowered by the state to pursue a number of innovative efficiency measures that would enable the University to transform key business practices in the coming years. Following in the Governor's ambitious footsteps to transform state government by improving efficiency and cost-effectiveness of processes and procedures, the UW has developed a number of proposals, outlined briefly in this decision package, to improve efficiency and effectiveness in both inter-agency and internal business.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

After having lost half of its state funding in only four years, the UW anticipates that an additional \$20.4 (5%) to \$40.8 (10%) million reduction in state funding will further erode the core education budget and continue to drive up undergraduate resident tuition, which has already increased from \$6,250 in FY 2009 to \$9,746 in FY 2012, as well as other tuition categories. As a result of increased tuition, the level of funding support on a per student basis has remained relatively flat over twenty years, but the burden of supporting core educational expenses has shifted from the state to students and families.

This year, the UW increased financial aid to meet growing student need, awarding nearly \$38 million in grants and waivers to students in need. However, as tuition continues to increase, and student need alongside it, the UW may not be able to maintain as generous a financial aid program at the same level due to a lack of resources.

The quality and international competitiveness of the UW has never been more important to maintain as we seek to attract federal grants and contracts, the most talented students and faculty, and transfer the intellectual property of UW researchers into workable business ventures. The continued excellence of the institution is not only dependent on stable central funding, the burden for which will continue to shift away from the state and onto the student, but on doing University work differently and more efficiently in the future. A number of ideas and proposals will be described in greater detail as the 2012 legislative session draws near but most fall into one of several categories:

Revenue Generating Ideas

Greater ability to diversify the University's investment portfolio would be expected to, generate a significant amount additional annual investment income for university operations.

Purchasing Efficiencies Examples

Aligning procurement and personal service bid thresholds (\$10,000 for informal bids and \$100,000 for formal bids) would save the UW approximately \$316,000 annually. Aligning thresholds will allow the University to save funds on labor costs. Each of the University's approximately 2,000 annual requisitions made for amounts between \$3,500 to \$10,000 requires three hours of labor. Additionally, four hours of University labor supports each formal solicitation process for approximately 1,000 annual requisitions valued between \$20,000 and \$100,000. If both informal and formal bid thresholds were elevated to \$10,000 and \$100,000, the University would realize significant savings.

Electronic Signature Reform

Like other large state agencies, the University processes thousands of paper forms annually. In the Benefits Office alone, more than 15,000 paper forms are processed per year; more than 13 percent of these forms are returned to employees for corrections. If the University was allowed to use electronic signatures and electronic forms, our benefits enrollment and correction processes would be significantly reformed and brought in line with modern processing protocol. We estimated that this change could save \$41,025 per year.

The above, combined with additional ideas for human resources, fixed asset management, and more, have the potential to streamline and modernize University operations, freeing up to \$1.2 million annually for support of core educational activities, including instruction, research, and student support.

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

The reduction levels described in this decision package adversely affect the institution's ability to maintain and improve every part of the vision and values that inform the strategic priorities of the University of Washington, including integrity, diversity, excellence, collaboration, innovation, and respect.

Does this decision package provide essential support to one of the Governor's priorities?

As discussed below, this decision package is expected to have some adverse impacts on multiple Statewide Result Areas, while contributing to the area of efficiency given the UW's proposal of a number of more cost-effective, efficient ways to complete agency activities.

Efficiency Measures: The UW has advocated for numerous efficiency measures and under HB 1795, the Council of Presidents is expected to convene an interagency workgroup to develop and implement improved administration and management practices that enhance the efficiency and effectiveness of operations throughout higher education campuses. While this work is underway, it is important to note that many of these efficiency measures would create real and significant savings on campuses as soon as they are implemented.

Reductions of 5 to 10 percent would have a significantly negative impact on several of the Governor's priorities, including:

Improve the value of postsecondary learning: These cuts directly affect this Statewide Result area and challenge the UW's ability to maintain progress in every identifiable strategy for achieving this result.

Improve the economic vitality of businesses and individuals: These cuts reduce the University's ability to educate as many students as it otherwise could, and thwart the development of the state's human capital. Additionally, the UW plays a strong role in state wide entrepreneurial activity, and any decline in University resources could be expected to negatively impact that activity. These cuts could also jeopardize the amount of financial aid available to students who have high levels of financial need, creating a barrier to attendance and socio-economic mobility for students from lower income families.

Improve the safety of people and property: These cuts will necessitate further public safety related budget reductions across campus, including fewer UW police officers and mental health experts, and deterioration of the physical plant due to deferred maintenance. Overall, these cuts will degrade the high level of safety that the UW strives to provide for all individuals and property on and near the UW campus.

Improve cultural and recreational opportunities throughout the state: These cuts threaten the institution's ability to continue to offer cultural and recreational opportunities to the UW community and to the public, including lectures, art, music, festivals, movies, speakers, and more.

Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government process?

Higher education is universally recognized as an economic engine that becomes even more important in rough economic times when more citizens seek to become employable through education and training, and when the new discoveries made by researchers form the foundation for the knowledge that will drive the economy of the future. Higher education is also a great engine of social-economic mobility. Another 10 percent state funding cut for the UW will significantly jeopardize the institution's ability to recruit and retain the best researchers, and enroll as many qualified applicants as we might otherwise, which will have a great and negative impact on the State of Washington, its economy, human capital and culture, into the future.

What are the other important connections or impacts related to this proposal?

This proposal will have implications for the state's future workforce and economy, as well as potential impact on the characteristics of our student body, including its economic and geographic profile. As the University's state funding continues to erode, the likelihood that the University will be able to continue its current business practices remains unclear.

What alternatives were explored by the agency, and why was this alternative chosen?

This decision package is being submitted under the direction of OFM.

What are the consequences of not funding this package?

Not applicable.

What is the relationship, if any, to the state's capital budget?

There are no immediate connections to the state's capital budget however, a number of the efficiency measures that the University is pursuing would save state and local capital resources in the future.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

It is important to note that another 5 to 10 percent reduction in funding for the UW will have an impact on the institution's ability to meet already established performance and/or accountability measures. A number of the efficiency measures listed will require collaboration with state agencies and statutes may need to be revised. We will provide more information about relevant and necessary changes as legislative session approaches.

Expenditure and revenue calculations and assumptions

None.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Another reduction in state general funds will further erode the core education budget at the UW, and the resulting impact is expected to be ongoing. In this decision package, we attempted to shed light on the types of budget reductions that have occurred on campus during the last biennium, how we have managed those reductions, and how we propose reconciling more reductions in the coming fiscal year.

FY12 budget reductions were offset mostly by tuition increases in all student categories but the Legislature now has the unique opportunity to propel several unique efficiency measures forward and offset additional cuts they may be forced levy on the UW.