

REPORT OF THE BUDGET TASK FORCE

The Budget Task Force prepared this report for President Crawford and we are sharing it with Puget Sound students, faculty, staff, and trustees. It is confidential and proprietary and not to be shared beyond these constituent groups.

PROCESS FOR DEVELOPING A BUDGET RECOMMENDATION

The University of Puget Sound has long utilized a collaborative budget planning process that engages students, staff and faculty through the work of the Budget Task Force (BTF). The task force is charged by the President to develop a recommendation for the university's unrestricted operating budget for the coming year that includes primary budget variables such as tuition, financial aid, and compensation pools, as well as other operating revenues and expenses. (Funds for major construction and renovation projects and funds with specific donor-use restrictions that are external to the unrestricted operating budget are outside of the scope of the process described in this document.)

The BTF is chaired by the Provost and includes the Executive Vice President and Chief Financial Officer, as well as two students, two faculty, and two staff members nominated by the ASUPS President, the Faculty Senate, and the Staff Senate, respectively, and appointed by the President. This year the BTF worked from December 2022 to April 2023, hearing first from President Crawford regarding priorities and parameters, then reviewing reports submitted by key campus leaders and groups, holding campus open forums, and engaging in more than 16 hours of meetings to listen, learn, analyze, deliberate and reach a consensus. In developing its recommendations for the 2023-24 budget, the BTF considered many factors:

- Economic, demographic and competitive realities that are challenging the higher education sector
- Mission, core values, strategic plan priorities, trends, challenges and opportunities specific to Puget Sound
- The vision of an ever more meaningful, relevant, accessible, and distinctive educational experience for our students, and their success to graduation
- Puget Sound's complex operations and the central role of faculty and staff in delivery of mission and implementation of vision
- Near and longer term institutional financial health
- Projected enrollment and available revenues for 2023-24 and ensuing years
- Benchmarks and metrics to assess efficiencies, effectiveness and market competitiveness
- Impacts an investment or budget reduction would have on delivery of mission, strategic objectives, programs and services, and student success to graduation
- Priorities articulated by President Crawford and parameters established by the Board of Trustees, including those in *A Sound Future*, the plan to return Puget Sound to financial equilibrium by June 30, 2026, the end of fiscal year 2026.

The BTF is grateful for the information and analysis provided by campus leaders in their reports and presentations to the task force. The BTF also appreciates that colleagues throughout campus engage in an ongoing way to understand the higher education business model and financial realities at Puget Sound. In addition, the task force members are especially proud that we, as a community, embrace innovation, seek cost savings, and participate in thinking about how to best support student and university success in the near and long term. We realize that economic challenges have been and continue to be difficult to navigate. They have created uncertainty, anxiety, and concern in professional and personal experiences. Like all of you, we hope we emerge from these concerns soon, and we acknowledge the hard work, collaboration, dedication and resilience of all members of our campus community.

CONTEXT IN WHICH THE BUDGET RECOMMENDATION WAS FORMED

The global pandemic intensified fiscal, enrollment, and staffing challenges, and underscored the need for change in higher education assumptions and practices. Declining numbers of high school graduates nationally, skepticism about the value of higher education, heightened competition to attract students, labor shortages, inflation and economic uncertainty require institutions to make difficult and necessary decisions to ensure long-term viability and relevance. Puget Sound remains focused on its 10-year *Leadership for a Changing World* strategic plan, designed to make Puget Sound an even stronger institution with even greater student success in the future.

Given the unprecedented and significant decline in enrollment and associated financial shock brought on by the pandemic, the university is temporarily leaning on its strong balance sheet for supplemental operating support by drawing on cash operating reserves and unrestricted quasi-endowment investments (endowments established through action of the Board rather than donor restriction). The Board approved this approach for covering limited and temporary operating losses in fiscal year 2020-21 through 2024-25 to give the university time to respond thoughtfully and effectively to the challenge. Investment earnings on operating reserves and unrestricted quasi-endowment are an important funding source for Puget Sound's annual budget. Spending reserves and unrestricted quasi-endowment helps in the short-run, but means less investment earnings to support the annual budget going forward. Current modeling estimates a cumulative withdrawal of \$24 million from reserves and quasi-endowment through 2024-25. This means an annual loss of revenue of \$1 million or more until funds are replaced, which could take years. Consequently, use of reserves and quasi-endowment to fund operating losses is not a sustainable, long-term strategy.

Working within parameters established by the President and the Board of Trustees, the recommendation by the Budget Task Force for fiscal year 2023-24 is both transitional and exceptional. The recommended budget reflects an operating loss (expenses exceeding revenues) that will require a draw from unrestricted quasi-endowment. The Board of Trustees specified that the operating loss not exceed \$7.3 million and that the university return to balanced budgets by no later than fiscal year 2025-26. This provides the university time to rebound from the pandemic by implementing the strategies identified in *A Sound Future* and making further progress on the *Leadership for a Changing World* strategic plan.

This report presents a summary of the BTF's final recommendation for the 2023-24 unrestricted educational and general operating budget. We encourage all campus members to read it, attend the campus open session at 12:00 pm on April 12, 2023, attend one of the BTF presentations to Faculty Senate, Staff Senate and ASUPS Senate, and provide comments to President Crawford via email to president@pugetsound.edu by no later than Friday, April 21, 2023. The Board of Trustees will act on President Crawford's budget recommendation at its May 12, 2024, meeting.

In addition to this report, we encourage all campus members to review the presentation for the April 12 campus open session and a supplemental budget overview for the current fiscal year 2022-23. These documents and more information about Puget Sound's budgeting process can be found at <https://www.pugetsound.edu/finance-administration/budgeting-puget-sound> (login required).

Budget Task Force Members

Nick Kontogeorgopoulos, Chair, Interim Provost

Emmett Carrier '24, Major: Business Leadership; Minors: Math and Economics

Jackson Dennis '24, Major: Business Leadership with a Legal Studies Concentration; Minor: Spanish

Sara Freeman, Professor, Theatre Arts Department

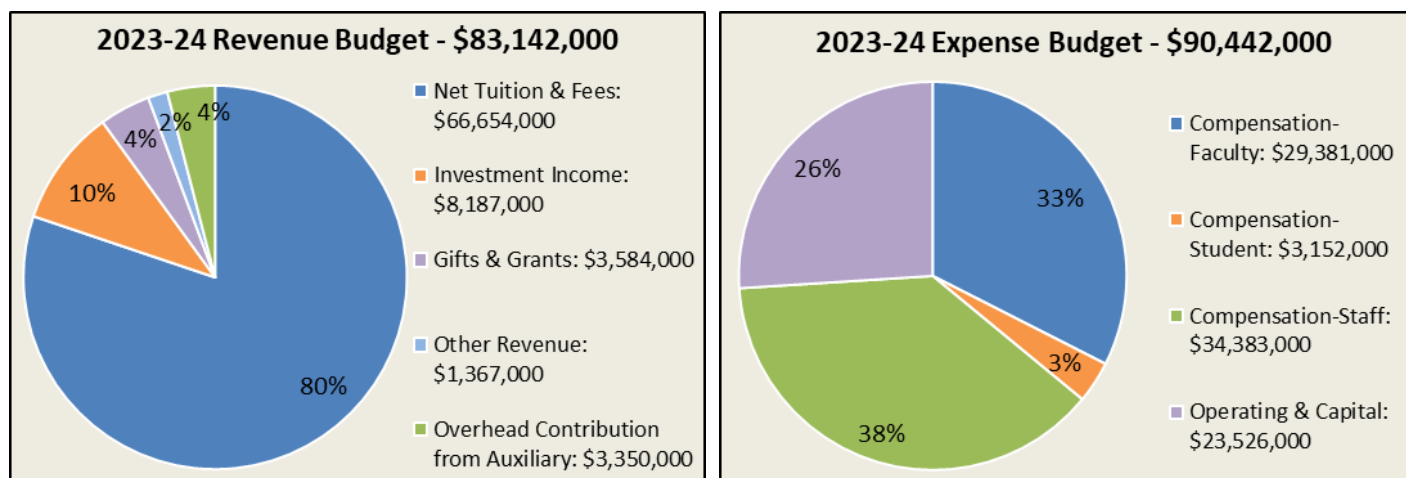
Alan Krause, Associate Professor, School of Business & Leadership

Kim Kvaal, Executive Vice President and Chief Financial Officer

Matthew Link, Deputy CIO, Client Support & Educational Technology Services

Cyrus Shafiei, Admission Counselor, Office of Admission

OVERVIEW OF PROPOSED EDUCATIONAL AND GENERAL BUDGET



The budget overview charts above reflect the BTF's final recommendation. Projected revenue sources for fiscal year 2023-24 are on the left. While there is some diversification in Puget Sound's revenue streams, the primary source is net tuition (tuition less institutional financial aid), representing 80% of the educational and general revenue budget. On the right is projected fiscal year 2023-24 expense that exceeds anticipated total revenue by \$7.3 million. On average, colleges and universities typically devote 65 to 75 percent of their spending to compensation. The recommended budget allocates 74 percent of budgeted expenses to the compensation of faculty, staff and student staff.

SUMMARY OF KEY ASSUMPTIONS AND RECOMMENDATIONS

The BTF's recommendation is built on the key assumptions detailed below. The BTF's April 12 campus open session presentation provides additional information about these and other assumptions. As noted above, the open session presentation is available at <https://www.pugetsound.edu/finance-administration/budgeting-puget-sound> (login required).

- A decrease of .5% in the total educational & general revenue budget, reflecting the following:
 - Average fall and spring enrollment of 1,845 students (full-time equivalent or FTE)
 - A tuition and fee increase of 3.51%
 - New comprehensive student fee of \$560 for full-time undergraduate students (includes \$300 ASUPS fee) and \$260 for part-time undergraduate and all graduate students
 - \$1.9 million (rounded) decrease in net tuition and fees because of fewer students
 - \$1.3 million (rounded) increase in investment income from cash investments and endowment payout
 - \$200,000 (rounded) increase in the contribution from auxiliary operations for shared institutional costs, resulting from improved housing and dining net revenues
 - Minimal change in total unrestricted gifts, grants and other revenue
- An increase of about .1% in the total educational & general expense budget, including:
 - Net decrease of \$1 million (rounded) in the total educational & general compensation budget that includes:
 - Faculty and staff position reductions (budget reduction \$4.1 million; FTE estimate 33)
 - Faculty and staff salary pool increases of 5% (the largest compensation pool increase in over a decade)

- Additional 1% staff salary pool increase plus benefits held in reserve for minimum wage increases
 - Office of Institutional Equity & Diversity staffing increase \$36,000
 - Benefit budget increase of 3% to maintain existing benefits
- Net increase of \$700,000 (rounded) in the educational & general operating and capital expense budget, including \$488,000 funded by the new comprehensive student fee for new services for students
- Increase the enrollment contingency budget by \$421,000
- If the university achieves the assumptions in the 2023-24 budget, the BTF recommends awarding \$400,000 from the enrollment contingency budget for staff bonuses.
- The BTF also received two requests from the Division of Student Affairs for one-time funding to replace life safety equipment and supplies. The BTF recommends both requests be approved, if one-time funding can be identified.

Closing Comments

Our work required a significant investment of time to understand the complexities and financial challenges within higher education and at Puget Sound, especially given the challenging budgetary circumstances. We also realize that difficult work for Puget Sound continues as we strive to achieve institutional goals and financial equilibrium. We believe that the Budget Task Force's recommendation is a responsible step toward achieving the financial stability needed to best deliver on mission and achieve goals, and one that recognizes the continued need for compensation increases. The BTF's work this year, as it has in previous years, offered a greater understanding of the ways component parts of a complex university come together to support an exceptional educational experience for Puget Sound students. Although we were unable to identify funding for several of the requests that were presented to us, through our discussion and perspectives, we have presented a set of budgetary recommendations that recognizes needs and opportunities for students, staff, and faculty.

Note: Certain assumptions outlined in this report were formulated based on information available as of March 2023. As always, should actual data or updated projections, especially those concerning enrollment and net tuition revenues, vary from the budget assumptions described herein, modifications to the recommended 2023-24 budget may subsequently be necessary.