

**BUDGET ADVISORY COMMITTEE
FEBRUARY 10, 2017**

- 1. PRESIDENT MURRAY'S ANNOUNCEMENT OF 2017/2018 BUDGET**
- 2. TRUSTEE BUDGET REPORT**

Dear Whitman parents,

I write to you to share important information about expenses for the upcoming academic year. I am sharing this same information with your students.

As we develop Whitman's budget, we involve students, faculty and staff in the process. As always, we focused our attention on areas critical to student learning while containing costs. The 2017-18 budget was approved by the Board of Trustees earlier this month. Tuition for 2017-18 will be \$49,390. Standard annual room and board charges total \$12,524. The Associated Students of Whitman College fee will be \$390. If you receive need-based financial aid, we will evaluate your financial aid package based on these increases and make adjustments as applicable.

Those of us who lead the College work hard to find an appropriate balance among being aspirational (in terms of programs, services and capital projects); taking care of the people who make up the Whitman community (through financial aid, salaries and benefits); and ensuring that increases to tuition and fees remain as minimal as possible. We believe our financial picture allows us to be bold in our aspirations for the College while remaining fiscally prudent.

This year's budget allows us to move forward with the Living at Whitman initiative, which will transform campus, adding a new sophomore residence hall and a community dining commons, bolstering the close-knit community that defines a Whitman experience. We will also be able to increase accessibility for more people of all financial means to attend Whitman by increasing need-based financial aid. We will be able to provide a small salary increase for faculty and staff, and account for rising costs of insurance and state minimum wage. Most importantly, the budget keeps us on solid financial ground and strengthens the College for years to come.

It is an exciting time at Whitman. We have spent this academic year in a strategic planning process that will set Whitman's vision for the next five years and beyond. This plan will be finalized, and implementation efforts will begin next fall. While the plan is still being developed, ongoing conversations are focused on issues of access and diversity, building on our excellent academic programs, understanding and strengthening our connection to the Walla Walla community and our region, and placing new emphasis on how students connect their Whitman experience to a successful life after Whitman.

I look forward to engaging the entire Whitman community as we work together to guide this special institution to even greater heights.

Sincerely yours,

Kathy Murray
President

2017 - 2018 PROPOSED BUDGET

BUDGET REVIEW COMMITTEE

Peter Harvey
Treasurer and CFO
February 2, 2017

Action Item: Recommend approval of 2017-2018 budget.

BUDGET BUILDING PROCESS

The budget building process begins in the summer with a retreat of the president's cabinet. Each officer reviews results of the previous year and their top priorities for the upcoming year(s). College officers then develop a set of institution-wide priorities to guide work with their departments in reallocating existing funds and to propose budget requests.

This year, the College faced several financial challenges:

- Continued enrollment challenges leading to the recognition that budgeted enrollment should be reduced from 1540 FTE to 1500 FTE for next year. This reduces net tuition revenue by over \$1M. The administration forecasts gradually growing enrollment back to approximately 1540 FTE over the next several years.
- The College's medical insurance premiums are increasing 26.5% on January 1, 2017. The original increase would have been 31%, but the College has increased deductibles and co-pays to lessen the impact. This significant increase comes after several years of favorable experience. Including the 2017 increase, Whitman's average increase in medical premiums over the past six years has been 5.8%. Working with the fringe benefits committees, the administration is adjusting the 50% dependent premium contribution so that lower paid employees will pay a little less and higher paid employees will pay a little more. The College contribution will continue to average 50% of the dependent cost. This increase, combined with forecasted increases in other benefits, is estimated to increase fringe benefit costs by \$1.1M next fiscal year compared to the 2016-2017 budget.
- In November, the Washington State voters approved a citizen's initiative to raise the minimum wage 16% on January 1, 2017 from \$9.47 per hour to \$11.00 per hour. The minimum wage will rise to \$11.50 in 2018, \$12.00 in 2019, and \$13.00 in 2020, and will be tied to CPI thereafter. This increase is estimated to increase student wage budgets for the College by \$200,000 next fiscal year, and staff wage

budgets by \$10,000. However, the biggest impact is on Bon Appetit which employs many students as well as many staff paid minimum wage.

Given the above financial challenges, the cabinet identified just three priorities to focus on in developing the budget:

- Improve access to a Whitman education by increasing the incoming student discount rate.
- Provide adequate funds to cover rising health insurance costs and offer reasonable merit salary pools.
- Phase in debt service to help cover capital construction costs of the Living at Whitman Initiative.

The cabinet asked administrative and academic department heads to look especially hard for opportunities to reallocate existing budgets and to only bring forward budget requests for items that were critical and unavoidable. The provost's office and human resources office focused on identifying opportunities to reduce the faculty and staff salary budgets in consultation with the cabinet which has been reviewing all vacant staff positions. In addition, the cabinet asked all departments to absorb the impact of the minimum wage increase for 2017 wherever possible by reducing the hours worked such that students still receive the same total compensation but work fewer hours.

The proposed budget for 2017-2018 is recommended by the president's cabinet and reflects the input of the on-campus committee. The budget is consistent with the planning assumptions approved by the trustees in November with the exception of the board increase which is above the approved range due to the significant impact of the minimum wage increase.

FOLLOWING ARE THE KEY BUDGET PARAMETERS FOR THE PROPOSED 2017-2018 BUDGET:

	<u>2016-2017</u>	<u>2017-2018</u>
Budgeted Enrollment (10 students = \$308,000)	1540 FTE	1500 FTE
Target first year & transfer students	435 FTE	435 FTE
Enrollment Contingency	\$1,735,000	\$1,335,000
Tuition Increase (1% = \$422,000)	3.75%	4.0%
Tuition Discount (Excluding Federal Support) (.50% = \$373,000)	36.8%	36.25%
Target first year & transfer discount rate	36.00%	37.0%
Gross Tuition	\$47,490	\$49,390
Budgeted Net Tuition	\$29,999	\$31,495
Endowment Payout	5.0%	5.0%
	\$23,622,000	\$24,336,000
Unrestricted Gifts	\$1,150,000	\$1,350,000
Life Cycle Contributions	(.80) \$2,819,000	(.73) \$2,725,000
Salary Pool for Faculty (1% = \$237,000)	3.0%	2.25%
Salary Pool for Staff (1% = \$232,000)	3.0%	2.25%
Fringe Benefit Rate (.50% = \$170,000)	35.5%	39.0%
Room Increase (1% = \$45,000)	3.0%	3.0%
Board Increase (1% = \$47,000)	3.0%	7.0%

HIGHLIGHTS OF THE PROPOSED BUDGET

COST SAVINGS

The cabinet has identified the following cost savings which are included in the proposed budget:

• Reduction in faculty salary budget	\$156,000
• Reduction in staff salary budget	220,000
• No pay increase for college officers	35,000
• OPE on salary savings	160,000
• Reduction in IT equipment replacement budget	22,000
• Reduction in life cycle replacement budget (.80% to .73%)	261,000
Total cost savings	\$851,000

The faculty salary savings comes from not filling 6.40 FTE non-tenure track positions which are vacant through attrition. The staff salary savings comes from not filling three staff positions and from filling vacant staff positions at lower salaries. The budget includes a \$100,000 contingency for faculty salaries and a \$50,000 contingency for staff salaries. The members of the cabinet have chosen to forgo their own pay increases this year, in an effort to help offset the large increase in medical insurance costs. While the cabinet does not see this approach as sustainable on an ongoing basis, which would make it difficult to attract and retain those in these leadership positions, the cabinet does believe it makes sense this year. The reduction in life cycle budget was approved by the Buildings and Grounds Committee and the trustees in November. The model still projects the funding rate can be reduced further from .73% to .65%. This reduction will be implemented when the Living at Whitman Initiative facilities are completed to help offset the life cycle costs for these projects.

BUDGET INCREASES

Almost all operating budgets remain unchanged for next year. A few received increases:

- Debt Service \$400,000

Debt service for the \$17M in bonds issued to support the \$46M Living at Whitman Initiative is being phased-in over the next two years. The interest rate of 4.02% was locked in in December. The first phase is being funded by reducing the enrollment contingency by an equivalent amount. Total annual debt service is \$1.1M.

- Property Insurance \$35,000

This is the first increase in several years. The College went out to bid and changed carriers this summer.

- Liability Insurance \$25,000

The College participates in a captive insurance company with nine other west coast private colleges. The increase was a total of \$100,000 and was primarily a result of Title IX defense costs on several claims. The increase is being phased into the operating budget over several years by drawing down the liability insurance reserve which had a balance of \$348,000 on June 30, 2016.

- Athletic Travel \$25,000

Increase will fund hotel expenses for varsity teams to enable every student to have their own bed. Currently, most teams have students share a bed. This change is the result of a Title IX external review recommendation.

- Assistant Coaches Wages \$10,000

This increase funds the minimum wage increase impact on part-time assistant coaches.

- Student Wages \$62,000

This increase covers a portion of the estimated \$200,000 impact of the new Washington State minimum wage increase. The balance will be offset by reducing hours in most departments such that student workers make roughly the same amount but work fewer hours.

OTHER HIGHLIGHTS OF THE PROPOSED BUDGET

Enrollment and Contingencies

The proposed budget assumes a new class of 435 first-year and transfer students. This fall's class was 425 students, and the goal is achievable. The projected 1500 total enrollment also reflects changing the eligibility for seniors to go on pay-by-credit status their last semester from needing eight or fewer credits to needing four or fewer credits. This change was approved by the faculty.

The enrollment contingency is being lowered from \$1.735M to \$1.335M. This adjustment is part of a multi-year strategy to return the contingency to \$1M and use the savings to help fund the debt service for the Living at Whitman Initiative.

The budget continues to include a \$500,000 capital projects budget for renovations not eligible for life cycle funding. Staff is recommending to the Buildings and Grounds Committee that capital projects budget be used to fund phase 2 of the Whitman Technology Services building renovations.

Tuition Increase and Discount Rate

The proposed budget includes a 4% tuition increase and targets a 37% first-year and transfer student discount rate. As reported in November, the average increase in tuition for the Panel of 19 comparison schools was 4% over the last three years. Whitman's tuition is 4% below the median of the comparison group. The higher increase for Whitman this year will be used, in part, to increase the socio-economic and ethnic diversity of the incoming class. As was discussed in the budget modeling analysis, the increase in the rate of tuition growth and the first-year discount rate is part of a multi-year strategy to increase access and diversity.

Endowment Payout

The proposed budget continues the current endowment payout rate of 5% of a trailing three-year average. The increase in endowment support to operations is \$714,000. As the budget model indicates, one of the challenges going forward will be relatively flat endowment support unless investment returns improve significantly.

Other Revenue Sources

Unrestricted gifts to support operations are increasing \$200,000 as part of our strategy to support a higher discount rate. If donors respond positively, it is hoped unrestricted gifts can gradually grow to \$2M over the next several years.

Room charges are increasing 3%. Board charges are increasing 7% due to the increase in Washington State minimum wages. Bon Appetit employs many students at minimum wage rates as well as many part-time staff. This increase is above the range approved at the November meeting due to staff not anticipating the potential impact on Bon Appetit if the State initiative was approved.

Salary Pool

The cabinet recommends a 2.25% salary pool for both staff and faculty. We expect this will be on the low end of the range of our peer schools, but more is not possible given the increase in fringe benefit costs.

OTHER INITIATIVES

Strengthening Admissions

Out of her contingency, President Murray is funding a pilot program to purchase 30,000 more names in the College search process to grow the applicant pool. In addition, the College will pay a fee to a listing service to have Whitman's name appear on online college search and scholarship service web sites. The cost of these efforts is \$40,000 per year. If they are successful in their applicant yields, the cabinet will propose building the funding into the operating budget after two years.

Enhancing Development Technology

The cabinet has committed \$65,000 in departmental surplus to fund the first year of a new software interface for development's prospect management database. The new

system will significantly enhance the development office abilities to identify more prospects and grow our donor pipeline. The cabinet believes this is a critical priority that should be addressed before launching our next capital campaign. The ongoing costs will be proposed as a budget enhancement for the 2018-2019 fiscal year.

CONCLUSION

The proposed budget addresses critical financial challenges:

- Reducing budget enrollment to the more realistic level of 1500 FTE.
- Funding increased medical costs.
- Funding the Washington State higher minimum wage increase.

As a result, the budget focuses on just a few strategic priorities:

- Increasing the first-year discount rate as part of a multi-year strategy to increase the diversity of the student body.
- Phasing in the debt service for the Living at Whitman Initiative.
- A modest salary pool increase to remain competitive in recruiting and retaining quality faculty and staff.

The cabinet has reallocated over \$850,000 to balance the budget. While the 4% tuition increase is a little larger than Whitman has had in recent years, it is consistent with increases of our peer schools.

The cabinet recommends approving this budget.

Whitman College Budget Report

	2015/16 Approved Budget	% Total	2016/17 Approved Budget	% Total	2017/18 Proposed Budget	% Total
CURRENT FUND SOURCES						
Full-time equivalent students	1,540		1,540		1,500	
Annual tuition charge	45,770		47,490		49,390	
Annual tuition increase	3.00%		3.75%		4.00%	
Discount rate	34.80%		36.80%		36.25%	
TUITION & FEES	70,485,800		73,134,600		74,102,886	
LESS UNRESTRICTED FINANCIAL AID	(17,076,634)		(18,813,134)		(18,461,759)	
LESS RESTRICTED FINANCIAL AID	(7,480,619)		(8,122,339)		(8,398,835)	
SUBTOTAL INSTITUTIONAL AID	<u>(24,557,253)</u>		<u>(26,935,473)</u>		<u>(26,860,594)</u>	
NET TUITION REVENUE	45,928,547	64%	46,199,127	62%	47,242,292	62%
INSTRUCTIONAL FEES	380,000	1%	389,727	1%	396,795	1%
UNRESTRICTED GIFTS	1,150,000	2%	1,150,000	2%	1,350,000	2%
FEDERAL FINANCIAL AID	340,000	0%	340,000	0%	330,000	0%
ENDOWMENT INCOME	21,647,025	30%	23,621,762	32%	24,336,634	32%
INVESTMENT INCOME	25,000	0%	25,000	0%	25,000	0%
MISCELLANEOUS INCOME	230,000	0%	230,000	0%	230,000	0%
ASWC FEES	520,000	1%	535,600	1%	550,680	1%
SPONSORED PROGRAMS	450,000	1%	450,000	1%	425,000	1%
AUXILIARY TRANSFER	1,004,000	1%	1,004,000	1%	1,004,000	1%
SUBTOTAL EDUCATION & GENERAL	<u>71,674,572</u>	<u>100%</u>	<u>73,945,216</u>	<u>100%</u>	<u>75,890,401</u>	<u>100%</u>
RESIDENCE HALLS	4,326,000	40%	4,393,062	40%	4,550,000	40%
FOOD SERVICE	4,635,000	43%	4,646,920	43%	4,980,000	44%
BOOKSTORE	1,191,082	11%	1,192,810	11%	1,050,000	9%
OTHER AUXILIARY	682,970	6%	689,191	6%	710,000	6%
SUBTOTAL AUXILIARY	<u>10,835,052</u>	<u>100%</u>	<u>10,921,983</u>	<u>100%</u>	<u>11,290,000</u>	<u>100%</u>
TOTAL CURRENT FUND SOURCES	<u>82,509,624</u>		<u>84,867,199</u>		<u>87,180,401</u>	

Whitman College Budget Report

CURRENT FUND USES	2015/16		2016/17		2017/18	
	Approved Budget	% Total	Approved Budget	% Total	Proposed Budget	% Total
Faculty salary change		3.00%		3.00%		2.25%
Staff salary change		3.50%		3.00%		2.25%
Fringe benefit rate - OPE		36.00%		35.50%		39.00%
INSTRUCTION	27,878,191	41%	28,723,576	41%	29,841,589	41%
ACADEMIC SUPPORT	9,326,784	14%	9,503,853	14%	9,809,399	14%
SPONSORED PROGRAMS	450,000	1%	455,315	1%	430,744	1%
STUDENT SERVICES	9,398,111	14%	9,799,746	14%	10,292,432	14%
INSTITUTIONAL SUPPORT	11,507,436	17%	12,087,584	17%	12,128,782	17%
PHYSICAL PLANT	9,064,050	13%	9,234,422	13%	9,758,455	13%
FEDERAL FINANCIAL AID	180,000	0%	180,000	0%	180,000	0%
SUBTOTAL EDUCATION & GENERAL	<u>67,804,572</u>	<u>100%</u>	<u>69,984,496</u>	<u>100%</u>	<u>72,441,401</u>	<u>100%</u>
RESIDENCE HALLS	3,826,000	37%	3,885,062	38%	4,027,000	38%
FOOD SERVICE	4,564,000	44%	4,566,640	44%	4,897,000	46%
BOOKSTORE	1,186,082	12%	1,187,810	12%	1,045,000	10%
OTHER AUXILIARY	682,970	7%	689,191	7%	710,000	7%
SUBTOTAL AUXILIARY	<u>10,259,052</u>	<u>100%</u>	<u>10,328,703</u>	<u>100%</u>	<u>10,679,000</u>	<u>100%</u>
SUBTOTAL OPERATING EXPENSES	<u>78,063,624</u>		<u>80,313,199</u>		<u>83,120,401</u>	
CAMPUS REPLACEMENT RESERVE	2,135,000	79%	2,225,720	79%	2,114,000	78%
AUXILIARY REPLACEMENT RESERVE	576,000	21%	593,280	21%	611,000	22%
SUBTOTAL REPLACEMENT RESERVE	<u>2,711,000</u>	<u>100%</u>	<u>2,819,000</u>	<u>100%</u>	<u>2,725,000</u>	<u>100%</u>
ENROLLMENT CONTINGENCY	1,735,000		1,735,000		1,335,000	
TOTAL CURRENT FUND USES	<u>82,509,624</u>		<u>84,867,199</u>		<u>87,180,401</u>	
NET SOURCES / (USES)	<u>0</u>		<u>0</u>		<u>0</u>	