

WASHINGTON AND LEE
UNIVERSITY

Lexington, Virginia 24450-0303

To: Campus Community
From: Steve McAllister
Subject: 2008-09 Operating Budget Update and Parameters
Date: April 7, 2008

I would like to take an opportunity to bring you up to date on the work of the Budget Advisory Committee this year and outline how that impacts the parameters for the 2008-09 Operating Budget. The committee has been diligent in its work to review position requests and identify expenditure parameters within the context of the revenues that are expected to be available for next year. Highlights of the 2008-09 budget as it is shaping up include strong revenue growth, six new positions beyond the commitment to additional faculty in all three schools, increases in student financial aid as a result of the Johnson Program and salary pools that exceed the national inflation rate for 2007. The following provides greater detail into these highlights.

First, it would be useful to provide information on the revenue projections for next year in order to help you gain a better understanding of the financial flexibility which the committee utilized in its deliberations on expenditure parameters. In general, the University is anticipating strong revenue growth for 2008-09. Gross tuition is expected to grow by \$5.3 million, a 7.4% increase to the current year's budget. This reflects an undergraduate tuition increase of 5.4% and a law school tuition increase of 7.5%. In addition, enrollment will be slightly inflated to accommodate increases in student aid spending to the 2007-08 first-year class. Student financial aid which is often referred to as a discount of tuition is scheduled to increase from 32% to 35% of the gross tuition for 2008-09. This largely reflects the increase in scholarship assistance that is afforded the University through the Johnson Scholars Program. Endowment allocation which is governed by a spending policy is anticipated to grow by 4.0%. With new gifts to endowment over the last year total spending from endowment is set to increase by \$2.5 million. Distributions from Trusts Held by Others (Lettie Pate Evans Fund, Edward Lewis Trust and the Barron Trust) are expected to grow by \$825,000 (10.0%), while Annual Giving for operations and financial aid is expected to climb by 5% or \$300,000. Finally, auxiliary operations buoyed by increases in Board and Housing rates are expected to increase their net contribution to operations by \$550,000. In aggregate, revenues are expected to increase by 5.1% to \$100 million in 2008-09.

In crafting the expenditure parameters, the committee reviews commitments and policies with which the University's administration is expected to comply. Among these is a set of recommendations approved by President Ruscio and Provost Aprille to establish three new faculty positions. These positions (one in law, one in accounting and one in Biology/Environmental Studies) build upon the base of faculty that was established as the undergraduate course load was decreased to six per year and go towards meeting strategic objectives that were approved in May 2007. In addition, the administration has established with the Board of Trustees a set of reserves to provide funding should an operational or capital shortfall occur. These reserves were ratified by the Board of Trustees two years ago and should be fully funded over the next three years unless they have to be tapped. The majority of the reserves are funded through the increase in tuition revenues. In 2008-09, the University is committed to setting aside \$6.4 million in these reserves which is an increase of \$600,000 over the current year. It is expected that by 2010-11, the majority of these reserves will be funded and this allocation will be available to support strategic initiatives. Finally, the University carries \$129 million in debt. Debt service is scheduled to increase from \$9.4 million in the current year to \$9.5 million in 2008-09.

With these known commitments, we were able to develop the parameter recommendations along with recommendations for enhancements within the University to address needs that had been identified through a variety of sources over the past year. The Finance Office developed the initial parameters to the expenditure budget including salary pools, benefit budgets, S&E allocations and the annual capital budget to be funded by operations. This provided a context for flexibility to address budget enhancements and prioritize the budget areas that would benefit from additional funding.

One of these related to new positions. For 2008-09, the BAC requested from across all of the divisions on campus new positions and position redefinitions to be considered. These were submitted to the committee for review in the fall. Twenty-six new positions were proposed for inclusion in the 2008-09 operating budget. The committee carefully reviewed the proposals and established a pool of \$300,000 to fund the highest priority positions in 2008-09. The following were the recommendations:

- Administrative Assistant in Admissions;
- Associate Provost/Johnson Scholars Program Director;
- Network Engineer in University Computing;
- Public Safety Officer for Campus and Athletics;
- Payroll Assistant in Business Office; and
- Buyer, University Store.

Beyond these positions, four adjunct/instructor positions were also upgraded to full-time. Two of these are in Music, one in Art and one in Chinese Language.

In addition to positions that were considered, one benefit change has been considered. It relates to the University's contribution toward Health Insurance. While the Employee Benefits Committee is reviewing options for the health plan for the July 1, 2008 renewal, the administration has made a commitment to add as much as \$200,000 to its contribution toward the plan in 2008-09. This additional allocation is beyond the anticipated increase to hold the University share of premium at 62.5%. You will be hearing more about the health plan in the coming weeks as the Employee Benefits Committee completes their work on the renewal.

Beyond these adjustments, the committee also looked at adjustments needed for continued operations. This process resulted in an increase for the salary and wage pool for continuing faculty and staff of 5%. Each Dean and Vice President has full discretion in creating a strategy for how to allocate the pool within their division. Strategies may address meritorious performance, satisfactory performance and appropriate equity adjustments. In addition, the Lenfest Challenge which was announced last year, has already yielded substantial results. This has allowed the University to set aside an additional pool equivalent to 1.5% for faculty salaries in 2008-09. Provost Aprille has worked with each of the Deans on the process for allocating these funds.

Adjusting for utilities, the S&E budget has an aggregate pool adjustment of 3.5%. While the University has benefited from reductions in usage as a result of the energy performance contract completed over the last two years, utility rates continue to escalate. As a result, costs for utilities are expected to increase from this year's budget by 10%. Finally, the funds from operation supporting the capital budget will increase by 3.5%. The 2008-09 Capital Budget should be completed in the next two weeks and includes projects to improve the main floor of Leyburn Library, create faculty offices in what has been Baker Residence Hall, create a set of University technology-enabled classrooms in DuPont Hall, and improve the air quality within the Warner Center pool area.

As a final item, the 2008-09 budget will include a separate initiatives fund. The purpose of the fund is to allow for a vehicle to advance objectives within the Strategic Plan. With the information that has been gained through various committees and studies on campus this year (Mercer HR consulting, Childcare Task Force, Grievance Procedure Task Force, Task Force on the Status of Women at the University and SACS Planning Group for the QEP), the initiatives funds will be utilized to address needs that are identified through these

various reports and studies. As these are determined and evaluated, the community will be informed of the initiatives that are adopted for 2008-09.

I hope that this memorandum provides you a better sense and context for decisions that have been and will be made related to the 2008-09 Operating Budget. Should you have any questions or need additional information, please feel free to contact me or June Aprille as chair of Budget Advisory Committee.

WASHINGTON & LEE UNIVERSITY
2008-09 RECOMMENDED OPERATING BUDGET
(\$000s)

	Actual 2006-07 A	Budget 2007-08 B	Estimated 2007-08 C	Approved 2008-09 D	Change in Budget from 2007-08 E	2008-09 Prelim. as a % of 2007-08 Budget D/B	% Change 2008-09 Prelim. vs. 2007-08 Est. D vs. C	% Change 2008-09 Prelim. vs. 2006-07 Actual D vs. A
REVENUES (\$000s)								
Educational and General								
Tuition:								
Undergraduate Gross	52,488	58,040	59,707	62,747	4,707	108.1%	5.1%	19.5%
Less: Undergraduate Grants	<u>(17,044)</u>	<u>(18,364)</u>	<u>(19,701)</u>	<u>(22,727)</u>	<u>(4,363)</u>	<u>123.8%</u>	<u>15.4%</u>	<u>33.3%</u>
Net Undergraduate Tuition	35,445	39,676	40,006	40,020	344	100.9%	0.0%	12.9%
Law Tuition Gross	12,078	13,166	13,072	13,937	771	105.9%	6.6%	15.4%
Less: Law Grants	<u>(3,236)</u>	<u>(3,876)</u>	<u>(3,665)</u>	<u>(4,184)</u>	<u>(308)</u>	<u>107.9%</u>	<u>14.2%</u>	<u>29.3%</u>
Net Law School Tuition	<u>8,841</u>	<u>9,290</u>	<u>9,407</u>	<u>9,753</u>	<u>463</u>	<u>105.0%</u>	<u>3.7%</u>	<u>10.3%</u>
Total Net Tuition	44,286	48,966	49,413	49,773	807	101.6%	0.7%	12.4%
Fees	917	942	948	1,110	168	117.8%	17.1%	21.0%
Endowment Allocation								
Unrestricted Operations	11,427	12,296	12,212	13,226	930	107.6%	8.3%	15.7%
Student Financial Aid	<u>12,651</u>	<u>13,275</u>	<u>13,372</u>	<u>15,132</u>	<u>1,857</u>	<u>114.0%</u>	<u>13.2%</u>	<u>19.6%</u>
Total Endowment Allocation	24,078	25,571	25,583	28,358	2,787	110.9%	10.8%	17.8%
Short-Term Investment Earnings	1,409	900	1,234	1,049	149	116.6%	-15.0%	-25.6%
Annual Giving								
Annual Fund	6,132	6,051	6,300	6,615	564	109.3%	5.0%	7.9%
Student Financial Aid	<u>613</u>	<u>611</u>	<u>611</u>	<u>639</u>	<u>28</u>	<u>104.6%</u>	<u>4.6%</u>	<u>4.2%</u>
Total Annual Giving	6,745	6,662	6,911	7,254	592	108.9%	5.0%	7.5%
Special Gifts - Net	100	100	100	100	0	100.0%	0.0%	0.0%
Outside Trust Distributions								
Unrestricted Operations	6,606	7,034	7,206	7,886	852	112.1%	9.4%	19.4%
Student Financial Aid	<u>1,262</u>	<u>1,240</u>	<u>1,242</u>	<u>1,271</u>	<u>31</u>	<u>102.5%</u>	<u>2.3%</u>	<u>0.7%</u>
Total Outside Trust Distributions	7,868	8,274	8,448	9,157	883	110.7%	8.4%	16.4%
Miscellaneous	<u>168</u>	<u>132</u>	<u>168</u>	<u>160</u>	<u>29</u>	<u>121.7%</u>	<u>-4.6%</u>	<u>-4.6%</u>
Total E&G Revenue	85,571	91,547	92,805	96,961	5,414	105.9%	4.5%	13.3%
Auxiliary Enterprises								
Student Housing:								
Revenues	4,710	5,225	4,973	5,439	214	104.1%	9.4%	15.5%
Expenditures	<u>(2,683)</u>	<u>(2,743)</u>	<u>(2,743)</u>	<u>(2,808)</u>	<u>(65)</u>	<u>102.4%</u>	<u>2.4%</u>	<u>4.7%</u>
Net Revenues, Student Housing	2,027	2,483	2,230	2,631	148	106.0%	18.0%	29.8%
Dining Services:								
Revenues	4,586	4,386	4,930	4,750	364	108.3%	-3.7%	3.6%
Expenditures	<u>(3,584)</u>	<u>(3,718)</u>	<u>(3,993)</u>	<u>(3,843)</u>	<u>(125)</u>	<u>103.4%</u>	<u>-3.8%</u>	<u>7.2%</u>
Net Revenues, Dining Services	1,002	668	937	907	239	135.7%	-3.2%	-9.5%
Bookstore:								
Revenues	3,414	3,516	3,653	3,692	176	105.0%	1.1%	8.1%
Expenditures	<u>(2,704)</u>	<u>(2,936)</u>	<u>(2,922)</u>	<u>(3,027)</u>	<u>(91)</u>	<u>103.1%</u>	<u>3.6%</u>	<u>11.9%</u>
Net Revenues, Book Store	710	580	731	665	85	114.6%	-9.0%	-6.3%
Printing and Copying:								
Revenues	475	496	480	506	10	102.0%	5.5%	6.5%
Expenditures	<u>(286)</u>	<u>(360)</u>	<u>(315)</u>	<u>(331)</u>	<u>29</u>	<u>92.0%</u>	<u>5.1%</u>	<u>15.9%</u>
Net Revenues, Printing and Copying	190	136	165	175	38	128.2%	6.2%	-7.8%
Other Auxiliaries:								
Revenues	621	618	603	748	129	120.9%	24.1%	20.4%
Expenditures	<u>(403)</u>	<u>(549)</u>	<u>(562)</u>	<u>(542)</u>	<u>7</u>	<u>98.7%</u>	<u>-3.6%</u>	<u>34.5%</u>
Net Revenues, Other Auxiliaries	<u>218</u>	<u>69</u>	<u>41</u>	<u>206</u>	<u>137</u>	<u>299.1%</u>	<u>407.4%</u>	<u>-5.7%</u>
Total Net Revenues, Auxiliary Enterprises	4,147	3,936	4,103	4,583	647	116.4%	11.7%	10.5%
Total Revenues	89,717	95,483	96,908	101,545	6,061	106.3%	4.8%	13.2%

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EXPENDITURES (\$000s)								
Educational and General								
Compensation:								
Salaries and Wages:								
Faculty	22,376	23,934	23,891	25,712	1,778	107.4%	7.6%	14.9%
Administrative	13,105	14,749	14,643	15,595	846	105.7%	6.5%	19.0%
Staff	6,657	7,017	6,895	7,416	399	105.7%	7.6%	11.4%
Budgeted Savings	0	0	0	0	0	n/a	n/a	n/a
Subtotal Salaries and Wages	42,137	45,700	45,429	48,723	3,023	106.6%	7.3%	15.6%
Employee Benefits								
Retirement	3,635	3,925	3,845	4,191	266	106.8%	9.0%	15.3%
FICA	2,892	3,196	3,108	3,414	218	106.8%	9.9%	18.0%
Health Insurance	2,828	3,289	3,080	3,832	543	116.5%	24.4%	35.5%
Educational Grant	1,323	1,593	1,418	1,710	116	107.3%	20.6%	29.2%
Mortgage Program (Opportunity Cost)	0	0	914	978	978	n/a	7.0%	n/a
Others	1,008	1,095	1,054	1,276	181	116.5%	21.0%	26.5%
Subtotal Employee Benefits	11,686	13,098	13,417	15,400	2,302	117.6%	14.8%	31.8%
Total Compensation	53,823	58,798	58,846	64,123	5,325	109.1%	9.0%	19.1%
Supplies and Equipment								
Travel	2,013	2,156	2,551	2,209	53	102.5%	-13.4%	9.7%
Utilities	2,517	2,409	2,409	2,748	339	114.1%	14.1%	9.2%
Library Acquisitions	1,447	1,495	1,536	1,546	51	103.4%	0.6%	6.8%
Printing	1,495	1,775	1,839	1,653	(122)	93.2%	-10.1%	10.6%
Postage	526	596	530	566	(30)	95.0%	6.8%	7.6%
Entertainment	1,267	1,309	1,492	1,301	(8)	99.4%	-12.8%	2.7%
Subscriptions	1,013	1,099	1,038	1,152	53	104.8%	11.0%	13.7%
Supplies, Office and Expendable	1,414	1,371	1,694	1,451	80	105.8%	-14.3%	2.6%
Non-student Temporaries	778	731	866	741	10	101.4%	-14.4%	-4.8%
Service Contracts	705	878	782	1,006	128	114.6%	28.6%	42.7%
Insurance	601	660	650	639	(21)	96.8%	-1.7%	6.3%
Other	2,415	2,591	2,740	2,812	221	108.5%	2.6%	16.4%
Budgeted Savings	0	(269)	0	(181)	88	67.3%	n/a	n/a
Total Supplies and Equipment	16,190	16,799	18,127	17,641	842	105.0%	-2.7%	9.0%
Presidential Initiatives	0	0	0	250	250	n/a	n/a	n/a
Capital Projects	3,867	4,002	4,002	4,143	141	103.5%	3.5%	7.1%
Debt Service	8,728	9,403	9,403	9,486	83	100.9%	0.9%	8.7%
Total E&G Expenditures	82,608	89,002	90,378	95,643	6,641	107.5%	5.8%	15.8%
Transfers and Adjustments								
To: Board-designated Endowments	726	0	0	0	0	n/a	n/a	n/a
(From): Reserve Funds (Advancement)	0	0	0	0	0	n/a	n/a	n/a
To: Trustee Reserve Fund	3,532	4,916	4,916	5,182	266	105.4%	5.4%	46.7%
To: Operational/Capital Reserves	633	1,043	1,051	1,225	182	117.4%	16.5%	93.4%
To: Restricted Operations Support	2,193	372	612	379	7	102.0%	-38.0%	-82.7%
(From): Endowment (Opportunity Cost)	0	0	(914)	(978)	(978)	n/a	7.0%	n/a
Total Transfers and Adjustments	7,084	6,331	5,665	5,808	(523)	91.7%	2.5%	-18.0%
Total Expenditures and Transfers	89,692	95,333	96,043	101,451	6,118	106.4%	5.6%	13.1%
NET CHANGE FROM OPERATIONS	25	150	865	93	(57)	62.1%	-89.2%	268.4%