



## THE WMU BUDGET: QUESTIONS AND ANSWERS

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*Why do we need a tuition increase when there is money available for new buildings?*

*Why doesn't the University use WMU Foundation money to make up for operating budget shortfalls?*

*We don't have a hiring freeze, so I don't understand why some University jobs are filled and some remain empty. Who decides what jobs are filled and what criteria are used for those decisions?*

*As Western Michigan University confronts the challenges brought about by the global and state economic crisis, a number of questions about the University's budget tend to come up routinely. And it's no surprise. WMU is a large institution engaged in a wide array of activities, each with its own funding sources and market dynamics. The funding of WMU is therefore complex.*

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To aid understanding, this document aims to provide members of the WMU community with basic facts about how Western Michigan University is funded. To illustrate a number of key issues, the document uses often-raised "Questions" about the University's funding sources as a starting point.

**QUESTION:** WMU is doing so well at fundraising. Could these funds be used to raise salaries, reduce student tuition increases, or make up for an operating budget shortfall?

**ANSWER:** Private giving adds greatly to what the University is able to accomplish for students and the people of the state, but the use of the funds is almost always restricted. Also, a gift is a one-time event while a budget need must be funded each year.

WMU works aggressively to get private donations to help maintain and enhance the quality of WMU programs, given that the University competes for students and faculty with more richly funded private institutions. But private donations are not intended to replace public support for the core instructional operations of a public university such as WMU.

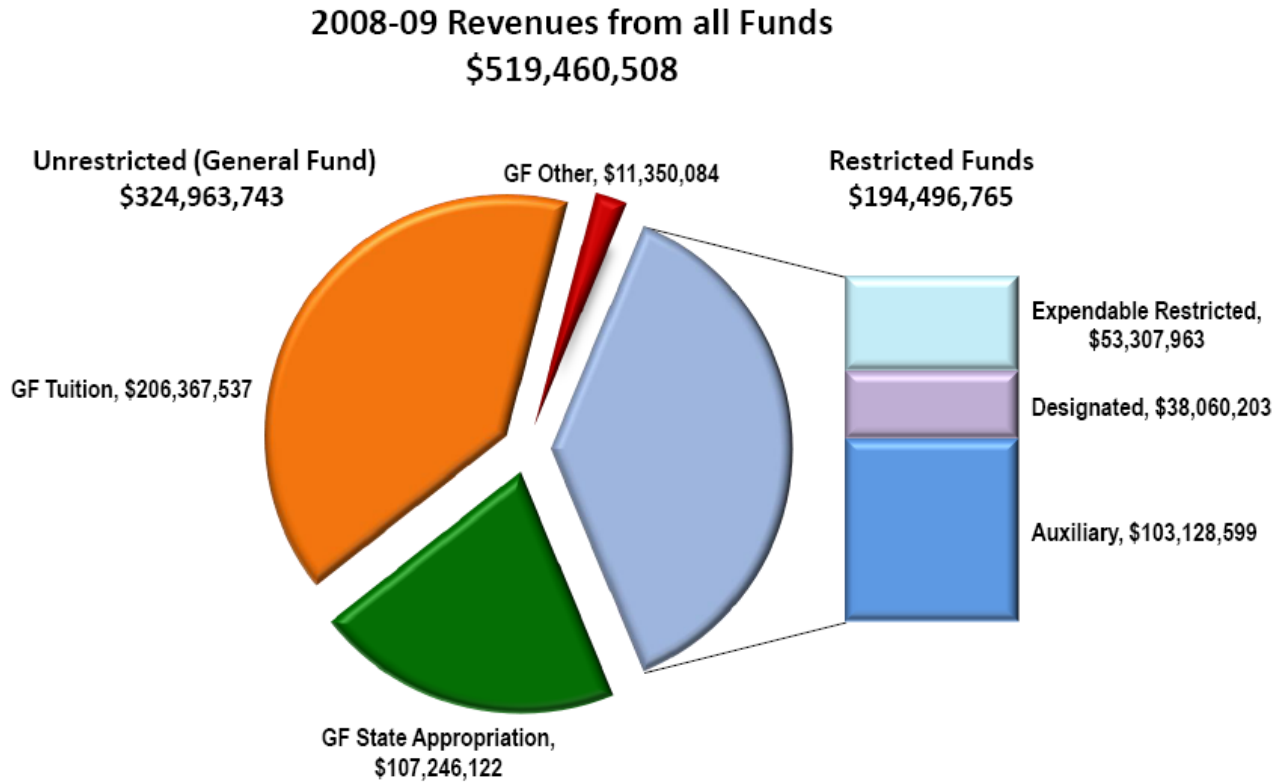
As with other restricted funds, a gift can only be used for the designated purpose. A donor might specify that a gift is for the construction of a building or undergraduate scholarships, or a host of other specific purposes. Only about 2.4% of private giving to WMU is "unrestricted" in purpose.

Gifts for endowment, as well as existing endowment funds, are similarly restricted by donors for specific purposes. If a gift is given to establish a faculty chair in nursing, the gift has to be used for that purpose.

In addition, the legal terms of an endowment result in a further restriction – only the income/payout of an endowment (typically 4-5%) can be expended in any given year, not the core balance or “corpus” of the endowment. It’s like being able to spend the interest on a bank account balance, not the balance itself. (Many donors give endowments because they are perpetual in nature and thus allow a gift to continue helping the University into the indefinite future. Also, over a long period of time, the earnings on an endowment can increase the total value of the gift).

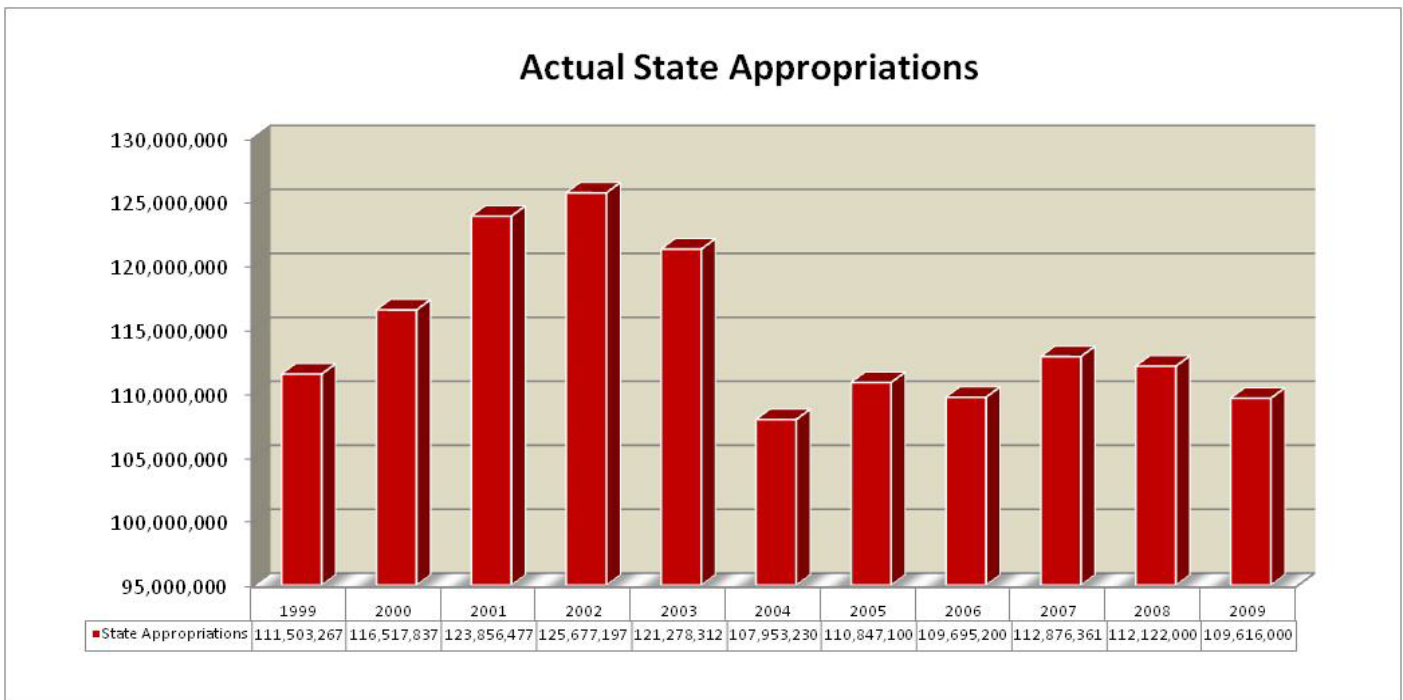
**QUESTION:** Since WMU has so many different funding sources, does it really have a budget problem?

**ANSWER:** WMU’s budget is made up of many different fund sources, but most of them are restricted to specific uses and cannot be used for other purposes. A federal grant can’t be used to fund a deficit in the English department. A payment for room and board in the residence halls can’t be redirected to fund graduate students. WMU’s 2008-09 total revenues – for everything including research, housing and dining services, and other activities – were approximately \$519 million. But only a portion of that total is tied to the University’s basic instructional program and the activities that support it. The general fund, which is about 63% of the University’s total revenues, consists mostly of state funds and student tuition. The pie chart below shows the \$519 million revenues from all funds. The general fund section (on the left), represents the core operating funds of the University. The other funds (on the right) generally come with restrictions on the use of the funds.



**QUESTION:** Are salaries and bargaining unit agreements the cause of student tuition increases in the general fund.

**ANSWER:** Rising student tuition is the direct result of falling state investment in higher education. Financial aid resources are being expanded to help reduce the impact. In 2002, WMU received approximately \$125 million in annual support from the State of Michigan. By 2009, this amount had declined by \$16 million to an annual appropriation of \$109 million. This is a decline in state support in real dollars of approximately 13%.



The General Fund consists of two major revenue components (see chart below): the annual state appropriation (33.8%) and tuition income (63.5%). It is also important to note that operating expenses increase every year because of salary increases and the higher cost associated with goods and services in higher education.

A 1% increase in state appropriation on our 2009-10 budget base equals \$1.1 million.

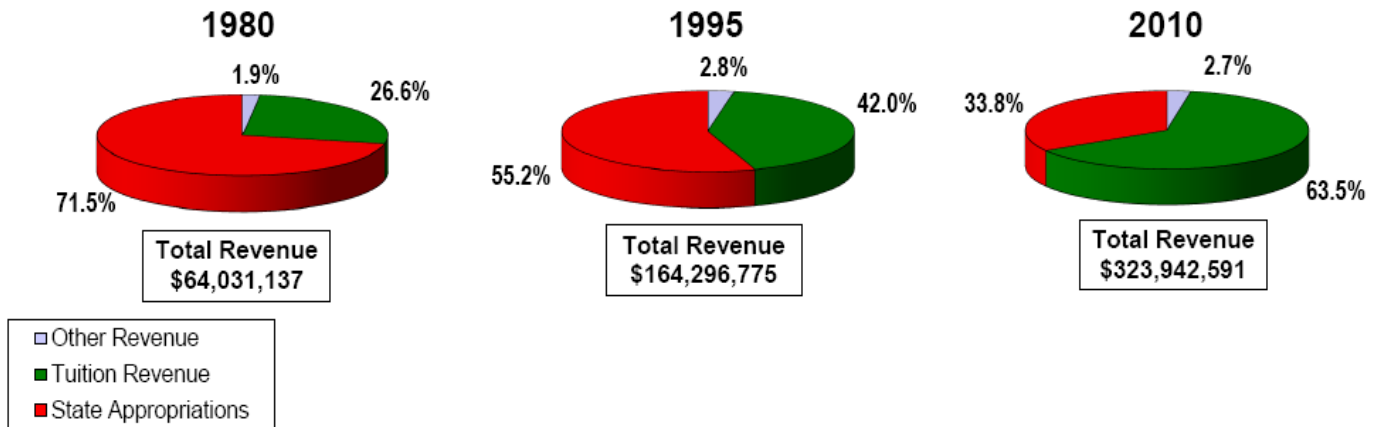
A 1% increase in tuition on our 2009-2010 enrollment base equals approximately \$1.8 million.

Our 2009-10 General Fund budget is \$323.9 million. If we were to assume the need of a low 3% increase in operating costs to cover salary increases and general inflation, we would need \$9.7 million in new monies. A state appropriation increase of 4% would generate \$4.4 million (4 x \$1.1 million), leaving an operating deficit of \$5.3 million. The only other revenue source that can bridge the gap is tuition. This demonstrates the direct relationship between state appropriation and tuition increases. If state appropriations are high (6% in 2000-01), tuition increases can be low (4% in the same year). If state appropriations are low (1% in 2008-09), tuition increases need to be high (9% in the same year).

To minimize the level of tuition increase, it is critically important that Western Michigan University receives a significant increase in state appropriations.

We are mindful of the state's dire economic straits, but the only way to avoid a tuition increase is for the state to increase our funding level. We will continue our commitment to budget reductions and careful spending, but after years of budget cuts, there's little more that can be cut without affecting the quality of our academic offerings and our services for students.

## 2009-10 GENERAL FUND REVENUE HISTORY



**QUESTION:** Has the University attempted to save money by cutting costs in the general fund budget?

**ANSWER:** The University has done permanent budget reductions from 1991 to 2003 totaling \$31.2 million. In the more recent 2004 through 2010 time span, an additional \$56.2 million has been cut from the budget. We try to operate as cost effectively as possible, but the central cost increases are beyond our control.

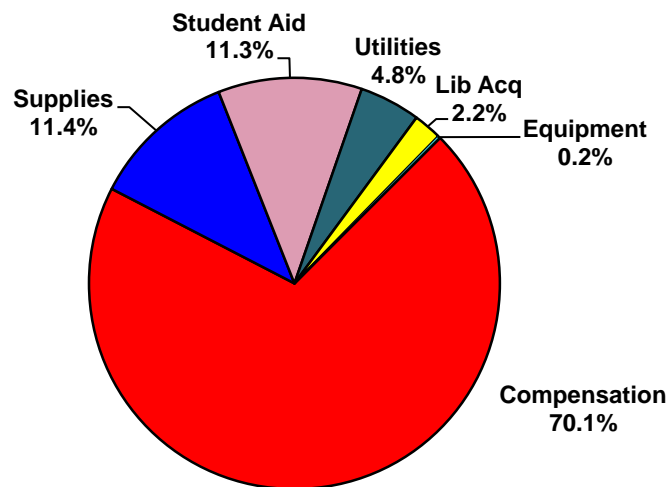


While budget reductions have been consistently taken in each of the past several years, the university's focus on maintaining and enhancing the academic experience has led it to continue moving forward by making needed academic investments. New investments in programming, equipment and library and research resources have continued throughout the budget reduction process and are routinely built into each new budget protocol.

As with all universities, WMU's biggest cost item is personnel. In 2010, 70% of our general fund budget was allocated for compensation (see chart below). Each 1% increase in salaries and fringe benefits costs the University \$2.3 million. In addition, many mandated programs legislated by state and federal government (handicap access, asbestos removal, PCB removal, employee benefits, equity issues, increase in minimum wage and numerous others), while laudable and necessary, are required, but not funded by the legislature. Also, increases in medical costs, utility expenses, federal government postage increases, the price of print materials for the libraries and others far outpace the rate of inflation. Our aim is to contain costs wherever possible and to decelerate cost increase.

Energy conservation at WMU has resulted in savings that allows the University to focus more of its resources on its core mission—education. Over the past 13 years, the University has avoided \$82.5 million in costs that would have been incurred without—such aggressive energy conservation. In fact, while energy costs have soared nationwide, WMU's award-winning energy conservation efforts have allowed the University to expand its physical plant size by 19% and still reduce its energy consumption by 17%. Today, the WMU campus is visited by public- and private-sector organizations from around the nation who are eager to learn about and adopt the tools used by WMU to save money and direct more resources to its core business.

**General Fund Exp Components (FY 2009-10)**



**QUESTION:** We don't have a hiring freeze, so I don't understand why some University jobs are filled and some remain empty. Who decides what jobs are filled and what criteria are used for those decisions?

**ANSWER:** There is no hiring freeze in place because such blanket measures can be counterproductive to maintaining the important academic and student services. Each vice president at the University has a budget to meet and each has been given the responsibility of setting priorities within his or her area so that the budget goal is met and critical functions are maintained at the highest level possible.

In addition, each academic dean has the responsibility for determining hiring priorities in his or her college. After several years of budget reductions such prioritizing often means deciding between or among positions of nearly equal importance to the University's core mission. Given the budget realities, not all positions can be filled. On the administrative side, WMU's ranks are extremely thin, and the University has the second leanest administrator/student ratio in Michigan. University-wide, individuals in every area are filling multiple positions so that services important to students, faculty and the community can be sustained.

**QUESTION:** Why doesn't WMU tap into the money that is being used to fund new buildings and building remodeling instead of raising tuition rates?

**ANSWER:** While it is true that in the last several years the University has made many necessary improvements and initiated building projects, it is important to understand how we fund these projects and the restrictions placed on the funds. When the University receives funding from the state of Michigan for constructing buildings (capital outlay), these funds are restricted for that purpose only. These funds cannot be used for ongoing University operations such as the funding of employee salaries and increases, utility cost increases, or any other University operating costs. Annual ongoing operating costs like salaries and utility increases of the University are built into the base or permanent University budget.

This is also true for funds that the University borrows for constructions projects or remodeling. Any funds borrowed for a specific project cannot be commingled with University operating expenditures. In other words, the University cannot use the borrowed funds in addition to tuition increase revenue in support of ongoing University operations. Similarly, operating or one-time funds cannot be used to sustain the ongoing permanent or base budget process for the University.