

**2017-2018 Annual Report on the UT Austin Budget
from A-2 Faculty Advisory Committee on Budgets**

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Summary: The UT Austin operating budget faces challenges on many fronts.

On the revenue side, these challenges are shown in the table below and include

- declining state general revenue,
- “flat” recurring Available University Fund (AUF) support, and
- “flat” tuition rates.

The Permanent University Fund has increased 47.8% in market value¹ from \$13.47B on Aug. 31, 2012, to \$19.91B on Aug. 31, 2017, and its recurring payout to the AUF increased by 55.7% from \$176M in 2012-13² to \$274M in 2017-18⁷. During this same period, the recurring payout to the AUF increased from 7.5% to 9.2% of the annual UT Austin budget.

On the expenditure side, these challenges include

- bringing faculty and staff compensation to more competitive levels,
- addressing inflationary pressures for non-capital expenses (3% increase or \$52M/year),
- servicing debt (\$129M/year), and
- maintaining buildings/equipment (\$250M/year; \$2B total; not in the budget).

Of the 2017-18 operating budget, faculty/staff salaries/benefits accounted for 51%.

Operating Budgets

UT Budget Sources	12-13²	13-14³	14-15⁴	15-16⁵	16-17⁶	17-18⁷
Tuition and Fees	25%	24%	22%	21%	21%	21%
State General Revenue	13%	13%	12%	13%	12%	12%
Avail. Univ. Fund (AUF)	8%	9%	9%	8%	9%	10%
AUF Medical School	n/a	n/a	1%	1%	1%	1%
AUF Temp. Increase	n/a	n/a	n/a	n/a	0%	1%
Gifts and Endowments	9%	10%	10%	9%	9%	9%
Research Grants/Other	45%	44%	46%	48%	48%	46%
Total	\$2.35B	\$2.48B	\$2.66B	\$2.81B	\$2.88B	\$2.98B
<i>Increase vs. Previous Year</i>		5.5%	7.3%	5.6%	2.5%	3.5%

Tuition: Significant annual losses in the academic core budget have been projected for 2018-19 to 2021-22, based on 2017-18 figures⁷. The project losses are \$41.9M, \$74.5M, \$79.5M and \$87.1M, respectively. In fall 2017, President Fenves convened a Tuition Policy Advisory Committee (TPAC) to recommend the amount of tuition needed to fund the university's forecasted core academic budget for 2018-19 and 2019-20. Their

recommendation is “a tuition increase of 2.00% in each year for 2018-19 and 2019-20 for Texas resident undergraduate students, non-resident undergraduate students, and graduate school students. (Professional school tuition is outside the scope of the committee.)” In fall 2016, six public universities in Texas charged higher undergraduate resident tuition than UT Austin. This was also the case in fall 2014. In fall 2015, TPAC recommended a 3.00% tuition increase. The UT System adopted the increase. The increase in net revenue from tuition has been about \$15M/year.

State General Revenue: The State Legislature decides the annual general revenue when they are in session every other year. The State General Revenue has been increasing slightly each year in absolute amounts, but has generally been declining in percentage of the operating budget²⁻⁷ with 2015-16 being an exception²⁻⁷. For example, State general revenue in 1984-85 accounted for 47% of the \$503M operating budget².

Available University Fund: The AUF includes income from the Permanent University Fund, which receives revenue from oil- and mineral-producing land. AUF is split 2/3 for The UT System and 1/3 for the Texas A&M System. UT Austin receives about 30% of the AUF funds each year⁵⁻⁷. For 2017-18, UT Austin received \$274M recurring revenue plus \$25M for the Medical School (same as in each of the previous three years) and \$39M as a one-time payout. One concern is the quadrupling of the UT System operating budget from 2011 to 2017 to a peak of \$143M^{20,21} which appears to have reduced the amount of Permanent University Fund revenue going to component institutions.

Research Grants/Contracts: In 2017-18, UT Austin earned \$551M in research contracts and grants, \$148M in other external revenue directly for an academic purpose, and \$479M in self-supporting revenue (including \$170M from athletics and \$97M from housing/food).⁷

Salaries/Benefits: The largest expenditure in the 2017-18 operating budget is salaries and benefits (\$1.515B; 51%)⁷. The academic core expenditures (\$1.524B) included \$877M in salaries and benefits. Of the \$877M, \$24M goes toward teaching assistant salaries/benefits and covers approximately half of the TA positions on campus. Within salaries and benefits, faculty salaries cost \$325M and staff salaries cost \$292M⁷. In fall 2015, excluding faculty members whose primary duties are administrative (deans, directors, administrative officials, etc.), UT Austin had 3,090 teaching faculty¹⁰ of which 61.5% are tenured/tenure-track faculty¹⁰, and more than 16,000 dedicated staff¹¹.

Medical School: Recurring cost for the Medical School increased from \$26.5M in 2014-15 to \$66.8M in 2015-16¹¹. The Medical School accepted its first class in fall 2016.

Debt Service: President Fenves analyzed the \$129M in debt service in his remarks at the Jan. 22, 2018, Faculty Council meeting²² as follows. 40% is debt service for construction of academic buildings, including Engineering Education & Research Center, Belo Center for New Media, Gates-Dell Complex, and the Norman Hackerman Building. 22% is for the three new Dell Medical School Buildings. 14% (\$18M) is for debt service for new Athletic facilities (tennis complex, etc.). Other debt service is for dormitories and parking garages.

Accounting for Costs: Costs associated with faculty time are sometimes not included in cost-benefit analysis for a decision and that it would be a win to streamline paperwork, e.g. for acquisition, accounting and faculty activity reports*. Mr. Bazzell agreed and mentioned that at his previous university position, they streamlined bureaucracy. For example, they reduced access to new external funding from 119 days to 19 days. Perhaps most important is that Darrell Bazzell emphasized that a university is not a business. The university provides an experience in learning and personal development in the classroom and extra-curricular activities, for undergraduate and graduate students.

** Over the summer of 2015, Prof. Janet Dukerich (Senior Vice Provost, Faculty Affairs) removed the requirement of filing the faculty annual report with the Provost's Office; however, many departments, schools and colleges may still require faculty to file one.*

On January 23, 2018, we met with CFO Darrell Bazzell and Kristen M. Walker (Asst. VP of Accounting and Financial Management) to discuss a UT Austin proposal to pool fringe benefits rates into a small number of budget groups. The proposal does not affect the actual benefits received by faculty, staff and graduate student academic employees, but instead simplifies the accounting calculations, e.g. for grants and contracts. The fringe benefits rate is fringe benefits cost divided by gross salary. The cost of fringe benefits is fixed depending on whether the employee will be receiving health insurance for an individual, family or family with dependents. Since gross salary varies with the individual, the fringe benefit rate is different for each individual; UT Austin has essentially 21,000 different fringe benefit rates. Peer institutions are pooling fringe benefits rates into 2-11 budget groups depending on the institution. Using a small number of budget groups

- can greatly simplify budgeting for proposals
- is required by Workday
- will treat employees the same
- will gain efficiency in having the correct fringe benefits cost allocation up front

We recommended using a small the number of fringe benefits budget groups, for example three, to simplify the accounting calculations. Again, the actual benefits received by faculty, staff and graduate student academic employees remain the same.

Fringe benefit rates are different for each individual, so UT Austin has essentially 21,000 different fringe benefit rates.

On August 18, 2016, CFO Darrell Bazzel sent e-mail to all UT Austin employees entitled "Update on Central Business Office (CBO) Pilot Program". He writes:

This included a review of the Shared Services pilot program, which is intended to provide centralized support services to individual colleges, schools and units through the Academic Technology Support (ATS) and the Central Business Office (CBO) units. I have determined that the CBO pilot program has not produced the savings and efficiencies initially anticipated when it was launched in 2014.

For this reason, it is necessary to phase out the CBO in its current structure.

Shared Services is part of Transforming UT, which was launched in spring 2013 to increase productivity in university business operations. The others are administrative systems modernization, asset utilization and technology commercialization.

The 2015-2016 Faculty Advisory Committee on Budgets also raised the following issues:

- Create an electronic idea box for university apps and software
- Create focus groups on purchasing with faculty from large research centers and from music/fine arts because of their unusual requests
- Simplify initiating purchases and reconciling purchases after the fact

We suggested drawing inspiration from the federal Paperwork Reduction Act (1980) to reduce the amount of information needed and let faculty take on the responsibility.

The 2014-15 Faculty Advisory Committee on Budgets also raised the following issues:

- The online conflict of interest forms are also difficult to use and understand
- Cluster hiring of senior faculty allocated to five of the 18 colleges/schools &
- Destination of funds raised during the \$3B Capital Campaign.³

& Concerns include how the five colleges/schools were chosen, and what will happen to the ability to hire at the Assistant Professor level in those colleges/schools.

The 2013-14 Faculty Advisory Committee on Budgets also raised the issues below¹⁵:

- Distribution of 2% contingency fund held by each department
- Relative weighting of research, teaching and service in annual faculty evaluations
- Work with Legislature to fulfill its financial commitment to excellence in higher ed
- Integration of Medical School students, faculty, staff and processes with campus
- Concern about applying a uniform standard for merit raises across departments
- Request for university-wide policy on the percentage of faculty to receive merit raises

UT Austin has many tough choices ahead to balance budgets in the face of anticipated deficits while fulfilling its increasing commitments to undergraduate, professional and graduate education. Especially during this time of austerity, many non-administrative faculty members would like to have greater input in administrative decisions on budgetary matters in departments, colleges and upper administration.

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