From: president@bu.edu
Sent: Friday, September 28, 2018 3:01 PM
Subject: Boston University Fiscal 2020 Budget Process

September 28, 2018

Dear Colleagues:

This letter officially launches the University’s Fiscal Year 2020 Stage I budget-development process and sets the context for budget submissions by academic and administrative units. All areas reporting to the University Provost have already received a memorandum about specific strategic budget-planning principles. This letter is intended to provide additional context and guidance.

We launch the Fiscal Year 2020 budgeting process following another outstanding fiscal year. Fiscal Year 2018 was highlighted by disciplined expense control, strategic deployment of resources including increased undergraduate financial aid, healthy endowment income growth, increased graduate professional enrollments and research awards, and continued success in our capital campaign. My fall letter to faculty and staff will be sent in early October so I will not repeat the details you will find there. I am grateful to each of you for your outstanding efforts that have contributed to our success year after year.

Our goal for the Fiscal Year 2020 budget process is to put in place a budget that allows us to maintain the positive momentum we have developed over the last several years and that accounts for expenses that we know we will need to absorb in the next budget year.

New initiatives and the potential realignment of priorities will result from the ongoing strategic planning process that is being led by Jean Morrison, University Provost and Chief Academic Officer. While these are being developed, we are also planning for additional expenses in FY2020 associated with the following items:
1. Supporting the continuing implementation of the BU Hub, our new undergraduate general education program;
2. Increasing undergraduate student financial aid to account for the growth in the number of our Pell Grant–eligible students (this is the third year of funding for this initiative);
3. Reducing the fall freshman class to 3,100 while increasing the January CGS cohort to 600 students.
4. Funding initiatives to increase the diversity of faculty, staff, and students across the University;
5. The development and continuing support of our new Student Information System;
6. A new debt issuance for major capital projects;
7. New recurring funds for the University Provost as well as funding for faculty hiring;
8. Implementing the recommendations of the Climate Action Plan Task Force.

The combination of pressure to moderate tuition increases and the rigorousness of competition for federal research awards cause us to anticipate relatively modest increases in revenue in the next fiscal year and require that we be prudent and disciplined in preparing the Fiscal Year 2020 budget.

As in prior years, our Fiscal Year 2020 budget will be developed on an assumption of expanding graduate professional enrollments (our target again is 5% growth), increasing philanthropic support, and continued achievement of operational efficiencies to reduce expenses. We need to continue to work together to develop realistic budgets based on all sources of funding without losing sight of our strategic goals. I am confident that by working together—focusing on our priorities and planning carefully—we will continue to succeed.

Let me briefly recap the Fiscal Year 2018 final operating results before I discuss Fiscal Year 2019 and outline some guiding principles for the Fiscal Year 2020 budget-development submissions.

**Fiscal Year 2018**

The Fiscal Year 2018 year-end financial operating results were much better than expected and represented a very strong outcome compared to prior fiscal years. The University’s Fiscal Year 2018 ended with funds of $188.2 million available for reinvestment. This balance compares to end-of-year balances of $180.3 million in Fiscal Year 2017 and $157.5 million in Fiscal Year 2016.

It is important to note that this strong year-end performance was achieved during a particularly busy year due to the merger of Boston University and Wheelock College. This
process was seamless thanks to the very professional efforts of many people across the University.

I would like to remind you how these end-of-year funds are generated. When we develop our annual operating budgets, we include “operating contingency reserves” for areas where funds may be needed as a hedge against unexpected expenses or decreases in revenues. At the end of the budget year, any unused operating reserves are deployed to support University priorities. In Fiscal Year 2018, all our operating contingency reserves were available for redeployment.

A portion of these end-of-year balances are funds that were generated as part of revenue-sharing agreements with schools and colleges that are designed to incentivize academic programs to develop high-quality, revenue-generating master’s programs. These funds are distributed from the end-of-year balances back to the academic units for reinvestment in the academic enterprise. In Fiscal Year 2018, this total was $31.5 million.

Our end-of-year balances also include unspent funds. Where we have specific agreements that unspent funds may be retained to be used in the following fiscal years, these funds are returned to units for reinvestment.

Our continued efforts to moderate expense growth and create operational efficiencies were evident once again in Fiscal Year 2018. Almost all operating units met or surpassed their financial targets. Administrative leaders also continue to look strategically at administrative head count.

The $188.2 million end-of-year reserve balance includes approximately $115.2 million to support renovation and expansion of our facilities. Major capital projects funded by these reserves included the completion of the new Boston University Joan & Edgar Booth Theatre and College of Fine Arts Production Center; the new Dahod Family Alumni Center at the Castle; expansion of the Henry M. Goldman School of Dental Medicine; as well as a series of strategic academic and research renovations and relocations. Over $41.5 million of one-time funding went to additional academic initiatives, including start-up costs for faculty hiring and research initiatives undertaken by the University Provost.

Other Fiscal Year 2018 highlights include:

- Total University enrollment for fall 2017 was 27,179 FTE, of which 15,876 FTE were undergraduates. Fall 2016 to fall 2017 freshman-to-sophomore retention rates were 92.8% and we anticipate the fall 2018 year-over-year to be 94.0%, the highest in our history. Our six-year graduation rate for Fiscal Year 2018 was 86.8% and our preliminary six-year graduation rate estimate for Fiscal Year 2019 is 88.0%, again a record.
The University exceeded all entering, continuing, and transfer undergraduate student enrollment and budget targets for both fall 2017 and spring 2018.

Overall, graduate professional programs exceeded the fall 2017 enrollment target by 86 FTE or 2.0%. The University exceeded its three-year goal of increasing graduate program enrollments by 15% between Fiscal Year 2015 and Fiscal Year 2018. The final result was 19% growth in graduate professional revenue, net of our tuition increase, compared to the Fiscal Year 2015 target. We have built another 5% growth into the Fiscal Year 2019 budget.

New awards of research contracts and grants grew by 21% to $486.8 million.

In Fiscal Year 2018, for budget purposes, 4.1% of our revenue ($101.2 million) was from endowment income and gifts. The endowment stands at $2.18 billion as of June 30, 2018.

Total University salaries and wages charged to all sources increased by $45.0 million, or 5.3%, from Fiscal Year 2017 to Fiscal Year 2018. Fringe-benefit expenses also grew by 5.3%, or an additional $13.0 million. Salaries and benefits make up over 50% of the University’s operating budget. This growth is driven by salary increases and the coupled increase in benefit costs (approximately 22.0% of this total) and by growth in the number of staff and faculty.

Fiscal Year 2020 Budget Framework and Guiding Principles

As we begin the Fiscal Year 2020 budget process, our assumptions about the University’s five main revenue streams are similar to last year:

1. Undergraduate Tuition – Net revenue growth from undergraduate tuition will be limited to modest tuition increases, not increasing class size, and providing more need-based financial aid to qualified students. We need to continue to be mindful of the impact the economy may have on the overall need for financial aid.

2. Auxiliaries – The Fenway Campus will provide additional housing and dining program revenue in Fiscal Year 2019. However, absence of growth in the total size of our student body means that our housing and dining program revenue is likely to remain flat.

3. Research – No growth in the federally-sponsored research budgets is budgeted.

4. Fundraising – Our efforts to increase philanthropic support for the University continue to show remarkable success. In fact, Fiscal Year 2018 was the most successful fundraising year in BU’s history. A record $158.5 million in cash was received. We also recorded $252.8 million in gifts and pledges. Generous support for undergraduate financial aid has helped the University substitute grants for loans in many aid packages, thereby enhancing the economic diversity of our incoming freshman class. In addition to University investment, gifts from alumni and friends continued to help transform our physical infrastructure, including the
Joan & Edgar Booth Theatre and the College of Fine Arts Production Center, the BUIld Lab, the Dahod Family Alumni Center, and expansion of the Goldman School of Dental Medicine. The University is well positioned for a strong finish to the campaign in September 2019 and for subsequent fundraising initiatives.

5. Graduate Professional Tuition – We will look to continue to grow these programs and ideally look for a 5% increase compared to Fiscal Year 2019.

Fiscal Year 2020 Budgeting Guidelines

As always, Fiscal Year 2020 planning begins with the goal of continuing to raise Boston University’s stature as a major private residential research university. To do this, we must focus any new resources in areas of critical academic importance and work to minimize other expense increases across the University.

This year’s budget guidelines are as follows:

- New staff positions or similar funding will not be approved unless they are directly connected to critical initiatives clearly aligned with strategic priorities or to new revenue streams.
- Plan for Fiscal Year 2020 budgets that are flat at Fiscal Year 2019 levels. Requests for funding of new initiatives should be focused only on those programs that bring high value to the education and research missions of the University and where a clear case can be made that these initiatives cannot be funded by redirection of existing funds in the unit.

As I mentioned, the University Provost has already provided detailed guidance about the narrative justifications required with submissions to the academic and administrative units reporting to her. The University Provost, Senior Vice Presidents, and I will hold budget meetings with each of our direct reports. The Vice President for Budget, Planning & Business Affairs will also attend these meetings.

The Budget & Planning office will continue to provide most schools, colleges, and administrative units with submission templates and data that are intended to inform budget development and support the achievement of strategic goals. For all areas, the Fiscal Year 2020 budget-planning process will also coincide with the first quarter budget review for Fiscal Year 2019. We also ask that you additionally provide any minor or major capital improvement requests in a separate narrative that will help to inform the University Capital Budget and Plan.
The Budget & Planning office will also continue to model the University budget based on both aggregate and individual budget submissions. We will continue to use a standard budget submission process for all units. Fiscal Year 2020 budget submissions should include a written summary of no more than five to seven pages that explains proposals in accordance with the principles enumerated earlier. The Budget & Planning office has forwarded information and instructions for the online tools to be used to submit your projections. Due dates are included in those instructions.

We look forward to our discussions with you as we begin to develop the Fiscal Year 2020 budget. With a continued spirit of cooperation, we will be successful and will keep Boston University moving forward.

Sincerely,

Robert A. Brown
President