



WKU
Board of Regents

Special Budget Approval Meeting

June 21, 2019 – 9:00 a.m. (CDT)

*Jody Richards Hall
Cornelius A. Martin Regents Room*



WESTERN KENTUCKY UNIVERSITY
Board of Regents ~ Special Budget Approval Meeting
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AGENDA

- Call to Order (*Mr. Gillard B. Johnson III, Vice Chair*)
 - Roll Call (*Mr. Frederick A. Higdon, Secretary*)
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1. FINANCE AND BUDGET (*Mr. Gillard B. Johnson, III*)

Action Item:

FB-1 Approval of the 2019-20 Operating Budget [pp 1-6 and separate attachment / budget book]

2. NOMINATING COMMITTEE REPORT (*Mr. George Nichols III*)

Action Item:

NC-1 Election and Approval of the 2019-20 Slate of Elected and Appointed Officers [to be presented at the meeting]

3. OTHER BUSINESS (*Mr. Gillard B. Johnson III, Vice Chair*)

Upcoming calendar dates:

- August 1 – Retreat
 - August 2 – Third Quarterly Meeting
 - September 16-17 – Governor’s Symposium on Postsecondary Education Trusteeship
 - October 19 – WKU Homecoming
 - October 25 – Committee Meetings
 - December 13 – Fourth Quarterly Meeting
 - December 14 – College Recognition Ceremonies
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4. ADJOURNMENT

2019-20 OPERATING BUDGET

REQUEST:

Approve the 2019-20 Operating Budget.

FACTS:

The *WKU 2019-20 Budget* is WKU's financial plan for the fiscal year beginning July 1, 2019 and ending June 30, 2020, and it includes the Operating Budget and Capital Budget. The budget document includes the following components:

- Narratives by area that summarize Strategic Plan priorities;
- Revenue Summary;
- Expenditure Summary by Organizational Area (Unrestricted, Auxiliary Enterprises and Restricted) and Program Classification Structure (PCS);
- Expenditure Detail by unit (not included in the Summary Budget);
- Capital Budget; and
- Supplemental Information.

The Operating Budget includes Educational and General (E&G) and Auxiliary Enterprises revenues and expenditures. E&G revenue consists of unrestricted revenue (primarily state appropriation and tuition and fees) and restricted revenue (e.g., federal and state funds for student financial aid and for grants and contracts). Unrestricted funds are resources that are to be utilized at the discretion of the university. Restricted funds are separately identified resources for which external donors or agencies place limitations on how the funds may be used. Auxiliary Enterprises revenue is from the self-supporting activities of WKU such as housing (reimbursed costs from the Student Life Foundation), WKU Restaurant Group, the WKU Store, and student fees supporting Downing Student Union operating and debt costs.

The Capital Budget provides a listing of major capital and lease/purchase projects, funding sources, and the current status of these projects. The General Assembly authorizes a maximum funding for each project for a biennium. However, depending on funding available, some projects may be completed at less than the authorized amount.

The FY 2020 Operating Budget, in comparison to the FY 2019 budget, are as follows:

	FY 2020 Budget	Dollar Incr/Decr	Percent Incr/Decr
Total Budget	\$387,762,000	(\$657,000)	(0.2%)
Total E&G	364,353,000	(777,000)	(0.2%)
Unrestricted E&G	302,906,000	(1,972,000)	(0.6%)
Restricted E&G	61,447,000	1,195,000	2.0%
Total Auxiliary Enterprises	23,409,000	120,000	0.5%

Resource Allocation and Management Planning (RAMP) and Budget Development

In January 2018, WKU started a campus-wide initiative to create more decentralized financial management and a shared governance approach to budget development. We need to rebalance our internal investments based on strategic priorities while ensuring our budgeting system supports our core mission. RAMP is a financial management philosophy that supports decentralized decision-making and allows us to incentivize and reward performance.

Our budget model and the new governance structures of Auxiliary and Support Unit Allocation Committee, Executive Budget Committee (EBC), and the Space Allocation Committee are all components of RAMP. The budget model uses the principles of responsibility-centered management (RCM) and reflects what campuses across the nation have been adopting. Ultimately, the incentives built into the budget model should position WKU to be competitive in Kentucky’s new performance funding model as existing dollars within the state’s higher education system shift between institutions.

Budget model development concluded in November 2018. Shortly afterward, the Auxiliary and Support Unit Allocation Committee and the Executive Budget Committee, which include staff, faculty and student representation, were asked to make recommendations for the FY 2020 operating budget. Over the winter, these committees received and evaluated budget requests and the EBC submitted recommendations to President Caboni on March 15. Many of the recommendations for strategic investments and fixed costs allocations are a part of this budget and are described later in this agenda item.

Given the complexity of the new model, a compressed timeline for decision-making, and the need for additional training for budget officers in the colleges, there is a phased implementation of the new model. The goal is to implement the budget model with the 2020-21 budget, though it may be three to five years before we see full achievement of our vision for a RCM budget model.

Revenue Highlights

FY 2020 budgeted revenue by source:

	<u>Amount</u>	<u>Pct of Budget</u>
Tuition and Fees	\$187,313,000	48.3%
State Appropriations		
Operating	68,225,600	17.6
Kentucky Academy for M&S	4,747,700	1.2
Kentucky Mesonet	750,000	0.2
Restricted Funds		
Grants and Contracts	18,070,000	4.7
Student Financial Aid	43,377,000	11.2
Self-generated Funds	28,649,700	7.4
Carry Forward Funds	13,220,000	3.4
Auxiliary Enterprises	23,409,000	6.0
TOTAL	\$387,762,000	100.0%

Tuition and fees and state appropriations account for 67 percent of the total budget. While the total budget changes very little from FY 2019, there are some changes by fund sources. The budget includes a projected decline of \$10.5 million or 5 percent in tuition and fees based on a projected decline in enrollment. The offices of Enrollment Management, Institutional Research, International Enrollment Management, Admissions, and Budget all contributed to an enrollment forecast to build the FY 2020 budget; however, an early forecast had to be finalized in February 2019 in order to complete the budget development process. The forecast takes into account projected graduations, historical student progression toward degree, and a conservative estimate of no increase in the entering freshman class. The projected decline of 690 students excludes dual credit students and the practice-based doctoral programs.

The enacted state budget, House Bill 200, included reallocation of postsecondary education institutions' base budget into the Performance Fund. The reallocation for FY 2020 is one percent of the FY 2019 state appropriation for operating. The loss of \$60,100 between FY 2019 and FY 2020 is due to WKU's performance funding outcomes in relationship to other universities. (See Supplemental Information section in budget book.)

The FY 2020 budget includes an increase of \$9.6 million from carry forward. The FY 2019 budget included a budgeted carry forward of \$3,665,000 which was necessary to balance the budget. The actual total carry forward in FY 2019 was \$27,162,454. It is anticipated that conservative spending in FY 2019 will result in carry forward exceeding the \$9.6 million being budgeted. Any requests for additional expenditure authority of carry forward will be submitted to the Board of Regents for approval.

Expenditure Highlights

The FY 2020 budget reflects the decision to align the projected revenue generated by the two percent tuition rate increase for returning students with what traditionally have been called fixed or unavoidable costs increases. The projected funding allocations are:

2019-20 FIXED OR UNAVOIDABLE COSTS ALLOCATIONS

<u>Provost/Academic Affairs</u>	
Faculty promotions	\$331,635
<u>VP Enrollment and Student Experience</u>	
Student accommodations (disability services)	114,500
<u>Chief Facilities Officer</u>	
Sodexo hourly and management contracts	102,195
Trash, elevator and chiller contracts	27,577
<u>EVP Strategy, Operations and Finance</u>	
ITS maintenance and licensing agreements	155,278
<u>University-Wide</u>	
Employer health insurance	869,000
Total	\$1,600,185

The budget includes the Strategic Investment Fund with \$2.5 million to be funded from new tuition revenue and from carry forward funds held from FY 2018. The Strategic Investment Fund will provide seed money for one or two years that can be used to create, grow or enhance programs until revenue is sufficient to sustain the respective initiative. Emphasis will be placed on areas where enrollment and revenue growth can be achieved. A preliminary allocation list is provided below. There will be a reserve held for future opportunities and investments.

Strategic Investment Fund

Investments to grow/enhance academic programs (5)	\$483,900
Enrollment and SE: KHEAA student aid verifications software	45,000
CEBS communications specialist	42,000
Global Learning and International Affairs, international recruitment	100,000
ITS strategic initiatives	263,000
Philanthropy capital campaign	150,000
Student recruitment, marketing and enhancements	300,000
Future opportunities/investments	1,116,100
Total	\$2,500,000

Achieving a Balanced Budget

While improvements in student retention will continue, the overall enrollment is expected to decline as fewer students begin postsecondary education, international students continue to decline and larger classes graduate creating tuition revenue challenges. The budget will include a 5.0 percent decline in tuition and increases for tuition discounting and bad debt expenses that combine to calculate the change in net tuition. Additionally, there is a projected decline in mandatory student fees (MSF) revenue.

Summary of Unrestricted E&G Budget Balancing:

Projected <u>net</u> tuition revenue loss	(\$15,872,000)
State appropriation loss	(60,100)
Subtotal	(\$15,932,100)
E&G mandatory student fees loss	(528,000)
Total	(\$16,460,100)

Budget Adjustments

Carry forward allocation for balancing budget	5,755,000
Carry forward allocation offset, support/auxiliary units	1,900,000
Subtotal	7,655,000
Reduction targets including mandatory student fees:	
Colleges	3,409,300
Support/auxiliary units	5,234,700
Subtotal	8,644,000
Reallocation, University-wide for MSF debt	161,100
Total	\$16,460,100

Excluding the loss of mandatory student fees, the reduction targets are split \$3,409,300 (33.5 percent) to the colleges and \$6,767,700 (66.5 percent) to auxiliary/support units. The split is consistent percentage wise with the Executive Budget Committee’s recommendation that utilized data from the FY 2019 budget model. The reduction target for support/auxiliary of \$5,234,700 reflects an adjustment with a carry forward allocation of \$1.9 million. Utilizing carry forward is necessary to ensure the combined reductions from FY 2019 and FY 2020 for support and auxiliary units are sustainable. Implementing the full \$6.8 million in reduction targets was not achievable without jeopardizing operational capacity.

These reduction targets by college and by division are to be achieved over the course of the next fiscal year. For example, colleges, auxiliary, and support units may make decentralized decisions to use carry forward, unbudgeted revenue, professional development or lapse salary to manage their reduction target in FY 2020.

Distributions to colleges were determined in consideration of base budgets and performance metrics. Target reductions reflect recommendations from Provost Stevens for the colleges to President Caboni.

Reduction Targets (including Mandatory Student Fees)

<i>Colleges:</i>	
Gordon Ford College of Business	\$266,058
College of Education and Behavioral Sciences	391,109
Potter College of Arts and Letters	1,253,585
Ogden College of Science and Engineering	859,895
College of Health and Human Services	638,653
Subtotal	\$3,409,300
 <i>Auxiliary/Support Units (budget model):</i>	
Provost (support units)	\$1,173,193
Athletics	365,915
Chief Facilities Officer	1,190,616
Enrollment and Student Experience	305,433
Philanthropy and Alumni Engagement	180,611
Presidential	37,651
Strategic Communications and Marketing	204,158
Strategy, Operations and Finance	475,665
University-wide	1,301,458
Subtotal	\$5,234,700
 Total	 \$8,644,000

Capital Budget

The Capital Budget totals \$49,500,000 from all sources of funds. HB 200 does not include any state funding for WKU requested capital construction projects.

RECOMMENDATION:

President Timothy C. Caboni recommends that the Board of Regents approve the 2019-20 Operating Budget.

MOTION:

Approve the 2019-20 Operating Budget.