

EXECUTIVE SUMMARY

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 division 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 may be utilized at the discretion of the University with the exception of the Kentucky Mesonet and the Gatton Academy of Mathematics and Science that are line-item state appropriations. 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, and the WKU Store.

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 the maximum funding for each project for a biennium. However, depending on funding availability, some projects may be completed at less than the authorized amount.

Resource Allocation and Management Planning (RAMP)

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 2019-20 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.

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.

Operating Budget Summary

The 2019-20 Operating Budget and the dollar and percent changes, in comparison to the original board-approved 2018-19 budget, are as follows:

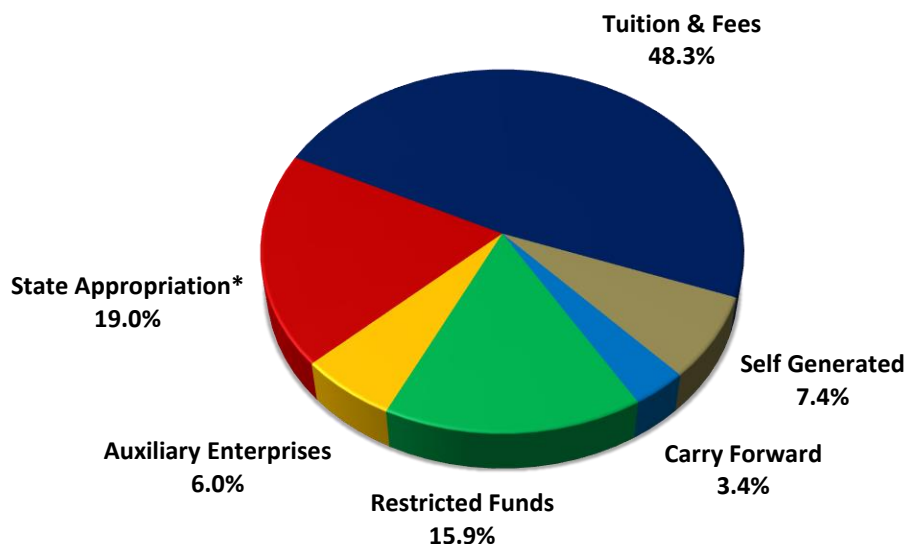
	2019-20 Budget	Dollar Incr/Decr	Percent Incr/Decr
Total Budget	\$387,762,000	(\$657,000)	(0.2%)
Total E&G	364,353,000	(777,000)	(0.2%)
Unrestricted E&G	302,906,000	(1,972,000)	(0.6%)
Restricted E&G	61,447,000	1,195,000	2.0%
Total Auxiliary Enterprises	23,409,000	120,000	0.5%

Revenue Highlights

2019-20 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%

2019-20 Projected Revenue by Source



*Includes state funding for the Gatton Academy of Mathematics and Science and Kentucky Mesonet.

State appropriations and tuition and fees account for slightly more than 67 percent of the total operating budget. Thus, decisions made by the General Assembly and the Council on Postsecondary Education (CPE) have a significant impact on operating funds for WKU. House Bill 200, the Executive Branch Budget enacted by the 2018 Regular Session of the Kentucky General Assembly, provides a state expenditure plan for the 2018-20 biennium. The final bill includes a 6.25 percent reduction to postsecondary education institutions' state appropriation in 2018-19, a Performance Fund pool, and increased Kentucky Employer Retirement System rates with no increase in state funding. The budget bill included \$31,000,000 (2018-19) and \$38,665,800 (2019-20) in the Postsecondary Education Performance Fund (funded by reallocation of postsecondary education colleges and universities funds) to be distributed annually by the Council on Postsecondary Education.

The enacted budget and the Council on Postsecondary Education's distribution of the Performance Fund for WKU are as follows for the 2018-20 biennium:

	<u>2018-19</u>	<u>2019-20</u>
General Operating	\$64,537,100	\$63,846,500
Gatton Academy of Mathematics and Science	4,747,700	4,747,700
Kentucky Mesonet	750,000	750,000
Subtotal	\$70,034,800	\$69,344,200
Performance Fund	3,748,600	4,379,100
Total	\$73,783,400	\$73,723,300

The WKU allocations are final distributions determined by the CPE based on institutional performance. State appropriation will account for 19.0 percent of WKU's total budget and 24.3 percent of unrestricted E&G budget.

At its April 27, 2018 meeting, the Council on Postsecondary Education (CPE) adopted a two-year resident undergraduate tuition and fee rate increase ceiling of no more than six percent over two years and no more than four percent in any one year for the universities. Institutions have more latitude to set online, graduate and nonresident rates. With approval of the *WKU 2018-19*

Operating Budget, the WKU Board of Regents approved a tuition rate increase of four percent leaving an increase of two percent for resident undergraduates for 2019-20. The Board of Regents approved the 2019-20 Tuition and Fees Schedule at its March 3, 2019 meeting and the rate was subsequently approved by the CPE at its April 26, 2019 meeting. The Tuition and Fees Schedule is in the Supplemental Information section of the operating budget.

The Operating Budget includes projected tuition revenue based on the 2019-20 tuition and fees rates and projected 2019-20 enrollment. The offices of Enrollment Management, Institutional Research, International Enrollment Management, Admissions, and Budget all contributed to an enrollment forecast to build the 2019-20 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 respective departments recommend doctoral programs' tuition rates and anticipated enrollment and revenue. The budget includes tuition and fees totaling \$187,313,000, a decrease of \$10,545,000 or five percent. Tuition and fees account for 48.3 percent of the total budget and 61.8 percent of the unrestricted E&G budget.

Changes in self-generated revenue of departments across campus are allocated back to the division associated with the respective programs and activities.

The budget includes an estimated carry forward allocation of \$13,220,000. If the actual carry forward amount is higher than the budget, an expenditure approval request will be submitted to the Board of Regents. While carry forward funds were drawn down in 2018-19 to balance the budget, divisions will lapse funds due to restrictive hiring and spending decisions and such actions will create the year-end balance to be carried forward.

The proposed use of budgeted carry forward is as follows:

Facilities Infrastructure	\$400,000
IT Infrastructure	250,000
Strategic Investment Fund	1,900,000
Budget Balance, 2019-20	5,755,000
Budget Balance, 2018-19	3,015,000
Reduction Targets Assistance	1,900,000
Total	\$13,220,000

Year-end balances as of June 30, 2019 will be subject to the current Carry Forward Policy. Funds necessary to balance the budget are to be reserved first, and then decisions about balances potentially returned to the divisions will be made after the close of the 2018-19 fiscal year.

Significant changes in unrestricted revenue include:

- Budgeted fall and spring tuition is projected to decline by \$9.3 million. The estimate includes a two percent tuition rate increase for resident undergraduate students plus a revenue adjustment for an enrollment decline in 2018-19 and projected decline in 2019-20;
- Overall, DELO tuition revenue is projected to decline \$185,000 including changes in Winter Term, cohort programs, professional MBA, WKU On Demand, and dual credit;
- E&G mandatory student fees and Auxiliary Enterprises mandatory student fees revenue are projected to decline \$528,000 and \$236,000, respectively, based on changes in enrollment;

- DELO is projecting \$684,000 or 14 percent less revenue from the online course fee assessed to full-time students;
- Program fees are projected to decline by \$202,000 due to the elimination of the fee associated with the Educational Leadership doctoral program;
- Faculty led study abroad deposits are projected to increase \$200,000;
- The Center for Gifted Studies is reducing its revenue projection by \$279,000;
- Endowment income, transferred from the WKU Foundation to WKU, is projected to be \$196,000 less next year; and
- Parking revenue is projected to be \$190,000 less in 2019-20.

Restricted Fund budgets from grants and contracts and federal and state student financial assistance programs comprise 15.8 percent of the total budget. Grants and contracts revenue is projected to increase by \$570,000 or three percent due to projected funding from private gifts, grants and contracts.

Budgeted student financial assistance is projected to increase by \$625,000 or 1.5 percent. This change reflects a decrease in Pell Grant funding and additional funding for KEES, Teacher Scholarship, and College Access Program.

The Auxiliary Enterprises revenue estimates increased by \$120,000 for 2019-20 because of budgeting \$125,000 in carry forward to offset the partial loss in mandatory student fees.

Expenditure Highlights

The 2019-20 budget reflects the decision to align the 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 2017-18. 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	5,755,000
Carry forward allocation offset, support/auxiliary	1,900,000
Subtotal	7,655,000
Reduction targets:	
Colleges	3,409,300
Support/Auxiliary reduced by carry forward	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 2018-19 budget model. The reduction target for support/auxiliary is lowered by a carry forward allocation of \$1.9 million. Utilizing carry forward is necessary to ensure the combined reductions from 2018-19 and 2019-20 for support and auxiliary units are sustainable. Implementing the full \$6.8 million in reduction targets was not achievable without jeopardizing operational capacity.

These are reduction targets by college and by division 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 2019-20.

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

Colleges:

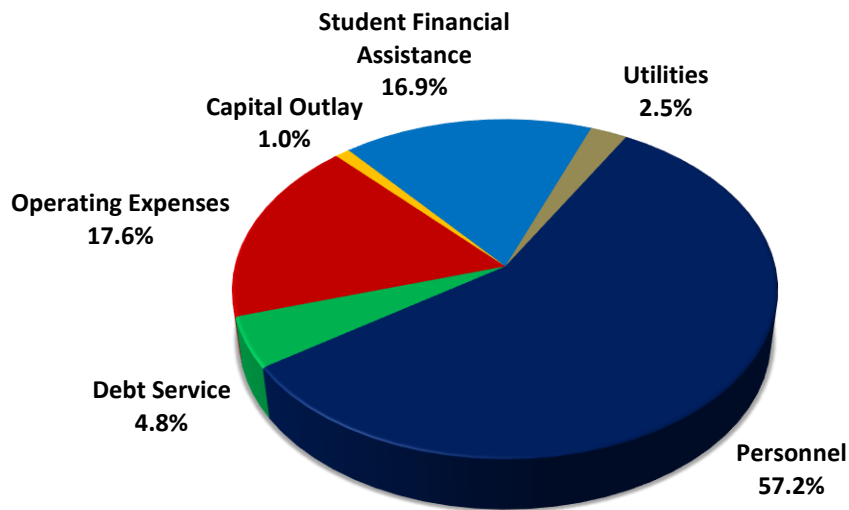
Gordon Ford College of Business	\$266,058
College of Education and Behavioral Sciences	391,109
Potter College of Arts and Letters	1,253,585
Ogden College of Science and Engineering	859,895
College of Health and Human Services	638,653
Subtotal	\$3,409,300

Auxiliary/Support Units (budget model):

Provost	\$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

The 2019-20 budgeted expenditures, by major classification of expenditure, are summarized as follows:

2019-20 Unrestricted E&G Expenditures by Major Classification



Total Budgeted Expenditures (In Millions)

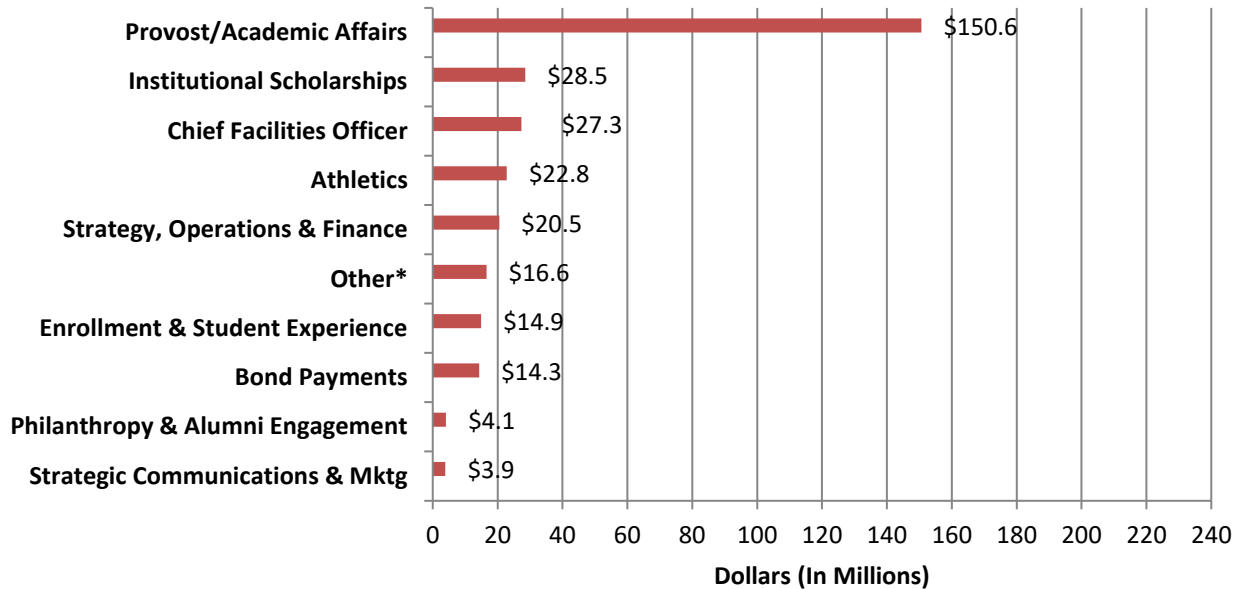
<u>Major Classification</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary</u>	<u>Total</u>
Personnel	\$173.4	\$0.1	\$7.8	\$181.3
Operating Expenses	53.2	17.7	9.4	80.3
Utilities	7.5	0	3.1	10.6
Capital Outlay	2.9	0	0.5	3.4
Student Financial Assistance	51.2	43.7	0	94.9
Debt Service	14.7	0	2.6	17.3
Total	\$302.9	\$61.5	\$23.4	\$387.8

Projected personnel expenditures include salary and benefits for approximately 1,700 budgeted, full-time filled positions and 175 budgeted, full-time vacant positions. Also included in personnel costs are pool budgets for part-time faculty and staff, graduate assistants, and student employees.

The Restricted Fund budget for grants and contracts are budgeted in pools: instruction, research, public service, and student financial aid. Funds are allocated to specific grants and contracts once awards are made by the respective entities. Thus, the actual distribution of expenditures by major classification will likely be different from the pool budgets.

The following graph summarizes 2019-20 budgeted unrestricted E&G expenditures. The Narrative section of the budget sets forth each division's strategic priorities for 2019-20.

2019-20 Unrestricted Budgeted Expenditures



*Other includes Presidential and other University-Wide.

- ❖ The Division of Provost/Academic Affairs, the largest division, totals \$150.6 million or about 49.7 percent of the unrestricted E&G budget.
- ❖ Chief Facilities Officer, the second largest division, has a budget totaling \$27.3 million or about 9.0 percent of the unrestricted E&G budget.
- ❖ Other includes Presidential and University-Wide. Bond payments and institutional scholarships are separately identified components of University-Wide.

Capital Budget Summary

The Capital Budget includes legislatively authorized capital projects that will be under way next year or are currently under way including the source of funding, estimated cost, and the status of each respective project. Projects with a scope less than \$1,000,000 do not require General Assembly approval and are not included in the Capital Budget. Many projects with a scope of less than \$1,000,000 will address deferred maintenance needs and classroom improvements.

Most of the capital projects reflect legislative authorization; projects known to be started at an amount less than the authorized amount are displayed at the intended scope. Projects authorized but not funded to date or scheduled for 2019-20 are listed separately.

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.