

Report of the WKU Senate Budget and Finance Committee

3/26/2020

Our committee met via Zoom on 3/26/2020.

Members Present: Guy Jordan (chair), Lester Archer, Uta Ziegler, Kara Haughtigan, Marc Eagle, and Margaret Crowder

Guests: Susan Howarth, Jennifer Tougas, Tony Glisson

The purpose of our meeting was to ask Executive Vice President for Strategy, Operations and Finance Susan Howarth and Jennifer Tougas, CAPP, Director of Parking and Transportation, about the plan (now awaiting feedback before it goes before the Board of Regents) to privatize the WKU Store. Yesterday, on March 25th, Susan Howarth informed campus via email that the committee convened to evaluate proposals has chosen Barnes & Noble to take over operations of the store. We also asked Ms. Howarth about the general financial condition and outlook of WKU as we confront the COVID-19 emergency.

Below is a summary of the meeting made by the chair, Guy Jordan, to the best of his ability. He is a mediocre typist, but hopefully the gist of the conversation comes through. We apologize if some details are missing, but we hope that this proves informative and provides the Senate with a good sense of what was discussed. It does not necessarily represent the exact words of the individuals involved. We appreciate Susan, Jennifer, and Tony for taking time from their hectic schedules to meet with our committee

Guy Jordan asked: What was the rationale behind the move to privatize the store? What is your long-term outlook for the partnership?

Jennifer Tougas replied that the outlook is good. The RFP Committee thought that this was the best proposal. It creates a financial contribution to the university of about \$700,000 per year, depending on how the retail goes. While the store currently makes money for the university, rising pension costs are a problem if we keep the employees on our books. That eats significantly into the store's potential to generate higher revenues. Reduced enrollment has also limited the store's ability to make money. Sales per unit is up, which is impressive, but fewer students means less revenue.

Susan Howarth: It was a very hard decision. Jennifer can you talk about the tipping point?

Jennifer Tougas: At first it seemed strange, but sitting through the RFP Proposals, it was clear that the private sector/outside world had moved beyond where the store was at, especially in terms of tech. The services they (Barnes & Noble) offer with online tech and their app brought

more to the table than what we are able to do. We will be able to provide more to our customers, students, and to our nation. This decision had a lot to do with expanding what the store can offer to our customers and students.

Guy Jordan asked: What is the length of the contract?

Susan Howarth: The RFP is on a 10 year timeframe. At this point we have a letter of intent, not a contract. We are in the process of gathering community feedback.

Uta Ziegler: What do we commit to them (Barnes & Noble) long term?

Jennifer Tougas: We have not had those negotiations yet. In order for this partnership to work, we have to drive people to the store.

Margaret Crowder asked: Barnes & Noble says they get a 7% increase in sales when they take over a store. Will prices go up? That may be how they generate that increase. Our current service is excellent. There are issues, we're all human, but generally the service is great. Students can also use their WKU accounts to purchase books, which is a plus re: the way things are currently done.

Susan Howarth: An awful lot is still under faculty control re: cost to students, such as the textbook titles we choose, searching for low-priced course options, etc. Barnes & Noble has day one access just like we do. They use the same textbook pricing calculations as we do. The choices that faculty make in textbook options drive that cost more than anything else. Jennifer is working with Marko Dumančić and Rob Hale to maximize cost benefits and efficiencies, and to highlight features for students.

Guy Jordan asked: Is lower pay for new hires/re-hires a concern?

Marc Eagle added: What about benefits?

Jennifer Tougas: It is a concern but Barnes & Noble typically offers benefits...health care, 401K, etc. They have expressed interest in hiring as many staff as they can.

Susan Howarth: Generally, public university bookstore salaries are higher and benefits are a bit lower. With a private company, it is often the other way around. Barnes & Noble generally takes advantage of the institutional knowledge of the prior staff they hire on.

Margaret Crowder asked: Where do you get the \$700K figure?

Jennifer Tougas: This is a calculation that is based on projections that we made given what we spend and earn now and what we will earn under the new proposal.

Margaret Crowder: So right now we are clearing around 150-250K annually. So we would be taking away the salary and benefits of our employees and transferring those to Barnes & Noble. So basically we are cutting people. We have no control over whether they get hired or not.

Jennifer Tougas: I don't know that I have a direct answer to that. I'm going out on a limb here, but I don't expect them to hire 100% of our staff. When these things happen, staffs tend to get a little smaller. Also, the additional 7% of revenue is their anticipated expanded market share.

Margaret Crowder asked: I'm still not clear where the additional money comes from. Going from clearing \$200K to clearing \$700K is a lot more than 7%. Is that just cutting people?

Susan Howarth: This is based on current performance and there could be some variability. It's like transit ridership, with fewer students, that can go down. We can't control the number of customers, enrollment, etc.

Margaret Crowder: If this is going to make us extra money, but the only extra money we get is because we let people go, that should be stated. There may be benefits, but if the money we save is mainly because we cut X number of staff, then we should just say we are cutting staff.

Jennifer Tougas: From our perspective, the focus was more on the service side than the financial side. As a committee we took it in two steps, (1) do we need to outsource and (2) if so, what company do we go with? It turned out that those outside companies had more to provide than our current in-house way of doing things. The Barnes & Noble pro forma was in excess of what the current store is able to do.

Guy Jordan asked: Is this move connected to our current budget shortfalls?

Susan Howarth: This is independent of that, it's just what most campuses are looking at.

Guy Jordan asked: The library recently got a WKU Sisterhood Grant to develop low-cost textbook options for students and they were working closely with the store on that. Will they be able to work with Barnes & Noble in the same way?

Susan Howarth: They (Barnes & Noble) are/will be in contact with Laura DeLancey at the Library to help with the textbook transfer.

[Note: During the meeting, Jennifer Tougas showed us a useful summary document that compared the financials of how the store operates now with how the store will operate under Barnes & Noble. This was very useful. If Susan and Jennifer want to share that with the full Senate—or some sort of public version of those numbers—that would be very helpful]

[The rest of the meeting was about the current COVID-19 emergency and its impact on WKU]

Guy Jordan asked: How are we doing? What is our financial outlook going forward?

Margaret Crowder added: Is there any expectation of help for us re: state funding?

Susan Howarth: It is too early to know what the cost of this is going to be. From a state perspective, they asked us some questions to provide an estimate of our costs. It's just too early to tell. We know there will be costs associated with this and we are gathering info of what those costs might look like. We may get some FEMA relief, but that can be 2-3 years

away. We are monitoring our costs and collecting info. No one knows what this means for us a month from now, two months from now, three months from now, but we are planning for contingencies. Dr. Caboni is pushing full speed ahead to maintain our projected increase in the freshman class, but we don't know what that's going to look like yet. We are looking at cost savings in the next budget. We have joined an administrative benchmarking consortium and we are looking at how we might size ourselves differently on the administrative side, and we are looking at other cost saving measures and that will be part of the building process for the next budget. We are looking at a lot of different things but there is a lot we don't yet know. We are postponing billing notices for students and we are doing everything we can to meet students where they are. We are erring on the side of compassion and we are also doing ongoing analyses of what the costs of these moves will be. We are offering housing refunds, food refunds (through Aramark), and parking refunds that are coming out of the parking reserve, which means we may have to postpone some parking projects. If you ask Jace Lux, he would say we are holding pretty strong.

[To end the meeting, we noted the positive things happening at our university in response to the current COVID-19-related challenges, our commitment to our students, our effective transitions to online teaching, and the fortuitous availability of more need-based scholarship aid for incoming students when they may need it most.]