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February 12, 2014

**MEMORANDUM**

TO: Dr. Margaret Crowder, Chair, University Senate

FROM: Gary A. Ransdell *Gary*

SUBJECT: Funding Priorities

Margaret, at a recent Senate meeting, you asked me to prepare a brief list of our funding priorities for next year. Unfortunately, our priorities relate more to covering deficits, cuts and obligations than funding new programs. Nevertheless, I trust this is helpful.

Let me know if you need clarification or more information.

GAR:sh

Attachment

Funding Challenges for WKU  
Spring 2014  
Gary A. Ransdell, President

At the request of the University Senate, I will attempt to describe the funding challenges we face as a campus this spring as we prepare a balanced budget for FY 2014-15.

**Funding Priorities**

1. Our first priority is to cover the revenue shortfall from a decline in enrollment. The fall 2013 enrollment decline is WKU's first in the last 16 years. Last fall's decline of 668 students obviously carries over into the spring semester and results in a budget shortfall going into next year's budget. A significant contributor to this number is unsatisfactory retention of WKU students both from fall to spring semesters and freshman to sophomore years. The positive news is the growing number of international students does partially offset this decline.

Additionally, there is a projected deficit through the end of the fiscal year in scholarships and mandated waivers (required by the State). Going into FY 2014-15, these shortfalls in enrollment-driven tuition revenue and scholarships deficits could be as much \$3.7 million. This is a preliminary estimate and will be revised after the spring 2014 student drop for nonpayment has been completed.

2. The second funding priority will be to cover a proposed 2.5 percent cut in state funding for next year. This amounts to approximately \$1.8 million for WKU. We are doing our best to work with the General Assembly to remove this cut to Higher Education through the Legislative budgeting process, but that will not be determined until the 2014-16 biennial state budget is finalized in April.
3. The third funding priority for us will be that of covering campus cost increases for the coming year. These costs can be divided into three categories: compensation/benefits, unavoidable fixed costs, and strategic investments needed to meet our Action Plan priorities. Below are some of the expected budget requirements and preliminary estimates. These numbers will be finalized over the next 30 days.

**Compensation/Benefits:**

- Health Insurance - the University's health insurance contribution per full-time employee increased from \$471 to \$525/month January 2014 with no permanent funding in place. This increase is projected to cost slightly over \$1 million.
- Mandated employer rate increases required by the Kentucky Retirement System are significant. The preliminary estimate is over \$2.5 million. (Governor Beshear has recommended that about \$1.3 million be funded by the State.)
- Continued implementation of the Minority Faculty Hiring Plan - \$80,000
- Faculty promotions - \$298,000
- Compensation for employees achieving degree certification levels - \$5,000
- Legislatively-proposed minimum wage increase (\$7.25 to \$8.10) - \$421,000
- A two percent faculty and staff salary increase – in excess of \$2.2 million

**Unavoidable Fixed Costs:**

- Contractual obligations - \$901,000
- Insurance increases - \$20,000
- Legal expenses – \$148,000
- Bank service charges – \$45,000
- Student financial assistance (based on an estimated 4% tuition rate increase) – in excess of \$1.5 million
- Utility costs – \$130,000
- NCAA Academic Compliance (Registrar's Office) – \$30,000
- Title IX Coordination – \$28,000
- Library books and subscriptions with inflationary adjustment – \$189,000

**Strategic Investments to Achieve Action Plan Priorities:**

- Police radio system and CAD system – \$69,000
- Psychiatrist for WKU Health Services (student mental health) – \$100,000
- Permanent budget, Military Services Coordinator and support staff – \$112,000
- Financial Aid Counselor – \$50,000
- Social Media support – \$50,000
- Accreditation Q.E.P. support – \$50,000

The total sum of costs in these three categories may exceed \$10 million.

The **total** of all expenses for next year (including tuition shortfall, a state budget cut, campus cost increases, and a two percent salary increase) could be as much as \$15-16 million.

The only two revenue streams to help cover these costs to date are a projected tuition rate increase and a projected increase in state appropriations to cover 50 percent of the KERS Retirement System mandate—\$1,330,500. The authority to set the maximum tuition rate increase rests with the Council on Postsecondary Education. Preliminary discussions are underway, and we should know this variable by April. For planning purposes only, we are estimating a 4 percent tuition rate increase which could generate approximately \$7.4 million.

Therefore, the total projected cost increases minus the projected revenues produces a shortfall of \$7-8 million. This means that we will have to reduce our spending by that amount in order to achieve a balanced budget for next year. This budget reduction will be spread across all divisions. Unfortunately, we will not be able to fund any other significant new priorities; rather, we are once again dealing with how to reduce spending.

Once we are able to achieve a balanced budget for next year, we must refocus our energy and attention on our enrollment profile and our capacity to retain students. Student recruitment, retention, and graduation are keys to our financial stability going forward.

I trust this is helpful in outlining our funding challenges and spending priorities for the coming year. Reduction priorities will be left to the respective divisions of the university. I will continue to be focused on reducing administrative spending, wherever possible.