

EXECUTIVE SUMMARY

Governor Steven L. Beshear presented his 2014-2016 Executive Budget and characterized it as “the fourth consecutive two-year period with a difficult fiscal environment.” He listed fiscal challenges including: “the imposing cost increases of honoring pension obligations enacted by the 2013 Session of the General Assembly, the requirement to maintain critical services especially in education and health, the cumulative impact of seven consecutive budget cuts, modest growth in revenue receipts, and investments to strengthen Kentucky’s competitiveness.”

House Bill 235, the Executive Branch Budget, was passed by the 2014 Regular Session of the Kentucky General Assembly and provides a state expenditure plan for the 2014-16 biennium. The budget is premised on modest revenue growth of 2.6 percent in each year of the biennium. However, the fiscal plan still calls for one-time funds to balance the budget. While Governor Beshear included a state funding reduction of 2.5 percent for postsecondary education institutions in his recommended budget, the General Assembly reduced the cut to 1.5 percent for FY 2015. This is in comparison to 5.0 percent state funding reductions to be implemented by many state agencies. Funding is being provided to increase the enrollment in the Gatton Academy of Math and Science from 120 to 200 students. Funding, with the exception of the Gatton Academy, will remain at the FY 2015 level for FY 2016.

In regard to state funding for WKU, the following state appropriation changes are included in the enacted biennial budget:

	<u>2014-15</u>	<u>2015-16</u>
Base Operating Funds		
KERS Employer Contribution	\$1,330,500	\$0
1.5% Reduction	(1,106,300)	0
Gatton Academy of Mathematics and Science	0	2,000,000
Total	\$224,200	\$2,000,000

WKU 2014-15 Budget

The *WKU 2014-15 Budget* is WKU’s financial plan for the fiscal year beginning July 1, 2014 and ending June 30, 2015, 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); and
- Capital Budget.

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 established to

account for resources which may be utilized at the discretion of the governing board. 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. It is noted that 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.

Operating Budget Summary

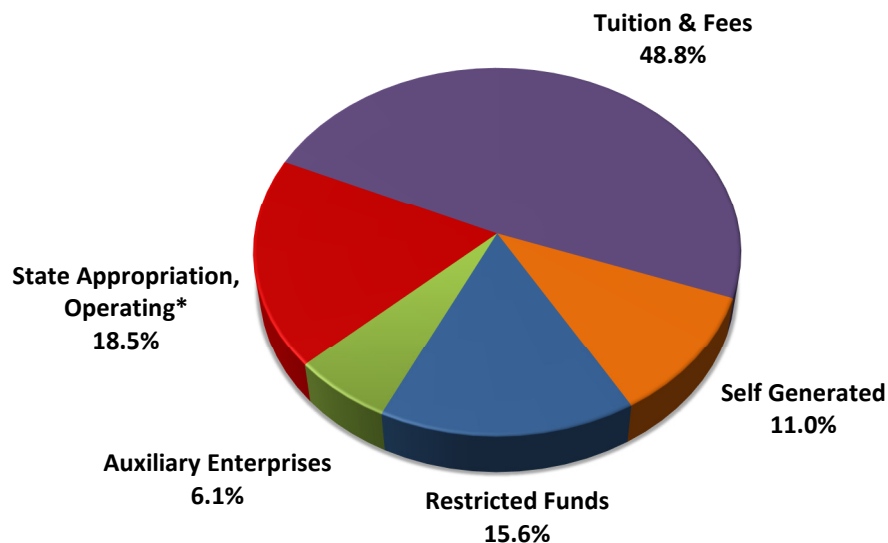
The 2014-15 Operating Budget and the dollar and percent increases, in comparison to the 2013-14 budget, are as follows:

	2014-15 Budget	Dollar Incr/Decr	Percent Incr/Decr
Total Budget	\$392,297,000	\$(1,662,000)	(.4%)
Total E&G	368,508,000	147,000	0%
Unrestricted E&G	307,126,000	3,899,000	1.3%
Restricted E&G	61,382,000	(3,752,000)	(5.8%)
Total Auxiliary Enterprises	23,789,000	(1,809,000)	(7.1%)

Revenue Highlights

2014-15 budgeted revenue by source:

FY 2015 Projected Revenue by Source



*Includes state funding for the Gatton Academy of Math and Science.

Total Budgeted Revenue by Source

	<u>Amount</u>	<u>Pct of Budget</u>
Tuition and Fees	\$191,246,000	48.8%
State Appropriations		
Operating	69,804,800	17.8
Kentucky Academy for M&S	2,844,600	.7
Restricted Funds		
Grants and Contracts	18,100,000	4.6
Student Financial Aid	43,282,000	11.0
Self-generated Funds (including carry forward)	43,230,600	11.0
Auxiliary Enterprises	23,789,000	6.1
TOTAL	\$392,297,000	100%

At its April 29, 2014 meeting, the Council on Postsecondary Education approved a resident, undergraduate tuition and mandatory fee ceiling for academic years 2014-15 and 2015-16 that equate to a maximum increase of 8.2 percent over the two years for WKU. CPE gives each institution more flexibility in determining all nonresident, online and graduate rates. WKU's 2014-15 Tuition and Fees Schedule, which is included in the Executive Summary, has been submitted for CPE approval at its June 20, 2014 meeting. WKU's resident, undergraduate tuition and mandatory fees will increase \$209/semester for a total increase of 4.8 percent.

With the exception of undergraduate distance learning and nonresident domestic graduate tuition rates, a five percent rate increase is recommended for most rates. The undergraduate distance learning rate will increase 4 percent with the multi-year goal to return to the distance learning rate being 20 percent higher than the resident undergraduate tuition rate. For 2014-15, this rate will be 21.5 percent of the resident undergraduate tuition rate. WKU's goal is to gradually increase the graduate nonresident domestic tuition rate and eliminate the graduate nonresident international tuition rate. The proposed rate increase for graduate nonresident domestic is 8 percent. There will not be an increase in the mandatory student fees (Student Athletics, Student Centers and DSU Renovation Bonds).

The Operating Budget includes projected revenue based on the 2014-15 tuition and fees rates, actual fall 2013 enrollment and projected growth in Navitas Pathway Program completers and continued growth in nursing and physical therapy. The budget includes tuition and fees totaling \$191,246,000, an increase of \$9,166,000 or 5 percent. Tuition and fees account for 48.8 percent of the total budget and 62.3 percent of the unrestricted E&G budget.

The budgeted state appropriation reflects the actions taken by the most recent Kentucky General Assembly. WKU's state appropriation has been reduced a total of \$17,176,200 since FY 2008. State appropriation will account for 18.5 percent of total budget and 23.7 percent of the unrestricted E&G budget of WKU.

The 2014-15 Operating Budget includes a total increase of \$293,000 resulting from projected growth in sales and services and other revenue sources.

Changes in self-generated revenue of departments across campus are allocated back to the departments associated with the respective programs and activities. A majority of these programs are called "Revenue Dependent" which identifies them as programs responsible for

funding all of their direct programmatic needs. Revenue Dependent programs' budgets are listed separately in the Expenditure Summary as the last listing within the Educational and General Budgeted Expenditures, Unrestricted Funds by Organizational Area.

More significant changes in unrestricted revenue include:

- WKU Athletics is projecting an increase in revenue of \$1,569,000 primarily due to Conference USA distributions;
- The FY 2015 budget includes the elimination of WKU Health Services clinical revenue in anticipation that the operation will be privatized;
- The Knicely Conference Center is projecting an increase of \$118,000 or a 12 percent increase in revenue;
- Harlaxton Program deposits are anticipated to increase by \$199,000 or almost 50 percent; and
- The budget includes net asset allocation (carry forward) as a revenue source. Across the divisions, the amount being budgeted is approximately \$16.6 million or 25% less than the previous year. Due to FY 2014 budget reductions, carry forward funds are likely to be less in FY 2015.

Restricted Fund budgets from grants and contracts and federal and state student financial assistance programs comprise 15.6 percent of the total budget. Grants and contracts revenue is projected to decline by \$1,975,000 or 9.8 percent primarily due to the loss of federal grants and contracts.

Budgeted student financial assistance is projected to decline by \$1,777,000 or 3.9 percent. This change in funding reflects a reduction in Pell Grant due to an estimated decline in the number of eligible recipients. In contrast, there is a projected increase in the state-funded College Access Program due to more students meeting the priority deadline and securing funds before the State funds are all allocated.

The Auxiliary Enterprises revenue estimates are reduced by \$1,809,000 or 7.1 percent for FY 2015. In FY 2014 approximately \$1,500,000 of the revenue was projected Apple computer sales from our new Apple Campus store. However, department computers are currently bought through the Purchasing Department and not through the WKU Store as originally projected. FY 2015 estimates reflect current year WKU Store sales and a more accurate projection for the WKU Store's Technology Department sales. Additionally, Student Life Foundation reimbursements will increase due to opening additional apartments.

2014-15 Budget Reduction/Base Reallocation Plan

WKU is achieving a total budget reduction and base reallocation of approximately \$5.3 million that will allow us to adjust WKU's budget in recognition of the 1.5 percent state appropriation cut, a decline in FY 2014 tuition receipts and the small balance of funding required to meet the FY 2015 funding commitments. The single most significant component of the plan is the planned privatization of WKU Health Services. Successful privatization of WKU Health Services should create approximately \$1.1 million available for reallocation or over 20 percent of the total needed for a balanced budget. An administrative reorganization will contribute an additional \$166,000 to offset reductions.

Budget reduction/base reallocations are being achieved through the following actions within divisions:

Academic Affairs, \$3,107,905

Eliminating salaries and benefits in a number of vacant faculty positions and eliminating the following budgets: stipend salary and benefits and the Provost's budgets for classroom improvements and teaching and research equipment funds. Increasing revenue from DELO incubator programs moved to base and from various programs offered at the CHHS Health Science Complex. Finally, absorbing a portion of the reduction through the Summer School budget, a move which will not impact the summer course schedule.

Athletics, \$79,959

Reducing contingency funds in Athletic Facilities that are held for repairs and maintenance. Further, Athletics will be reducing team air charter flights.

Chief Diversity, \$891

Reducing Diversity travel funds, general and administrative expenses, and supplies.

Chief Facilities Officer, \$467,086

Reducing general operating funds in Environmental Health and Safety, campus maintenance, central plant, building services in the Department of Facilities Management, and utilities budgets as a result of energy conservation initiatives.

Development and Alumni Relations, \$6,030

Reducing salary and benefits available to hire Assistant Director of Donor Acquisition and Retention.

Finance and Administration, \$20,917

Eliminating the permanent Vehicle Replacement budget and relying on one-time funds to replace vehicles. In addition, non-personnel budgets are being reduced across the division.

Information Technology, \$189,179

Reducing all non-personnel budgets by 3% with the exception of the IT Capital Budget being reduced by 11%.

President and General Counsel, \$9,272

Reducing President's Home general operating supplies and maintenance and repair funds.

Public Affairs, \$2,493

Reducing general operating funds.

Research, \$41,675

Reducing travel and supplies budgets as well as cutting funds for student and faculty research.

Student Affairs, \$95,736

Reducing operating, travel and training budgets, contingency lines, salary savings, WKU Police Department fuel, and Student Government Association and Campus Activities support. Shifting costs to revenue generating operations to minimize impact of service reductions.

Total \$4,021,143

Expenditure Highlights

2014-15 Fixed Costs and Recurring Commitments

Fixed cost projections were calculated as part of the 2014-16 biennial budget request process. Throughout legislative sessions, these projections have been revised to support the need for continuing state funding and the need for a modest tuition rate increase. Approximately \$1.3 million in state funding is being provided for the Kentucky Employee Retirement System (KERS) employer rate increase. It is estimated that retirement systems rate increases will cost approximately \$2.5 million excluding the cost increase to be paid for by grants and contracts, revenue dependent units and auxiliary enterprises. The remainder of the fixed cost increases will be funded by a combination of projected increases in tuition revenue and divisional reallocations.

The following unavoidable cost and recurring commitment allocations are included in the 2014-15 Operating Budget:

Cost of Living Adjustment	\$1,488,600
Academics (library books/subscriptions, faculty promotions, minority faculty hiring plan)	567,000
Retirement Systems Rate Increases	2,533,000
Student Financial Assistance (scholarships/waivers/grants in aid)	4,233,000
Health Insurance, Increase Effective January 2014	1,004,000
Contractual Obligations (leases, debt, maintenance and IT software contracts)	799,000
Police Radio System and CAD System	69,000
Permanent Budget, Military Services Coordinator and Support Position	112,000
Quality Enhancement Program (QEP evidence and argument)	50,000
International Students Support Services	200,000
Other Operating Expenses	140,000
Subtotal	\$11,195,600
 <u>Program Allocations</u>	
Nursing Growth including DNP	(41,000)
Physical Therapy Doctoral Program	844,000
DELO Programs	1,253,000
Summer School	(221,000)
International Students Support (tuition surcharge)	50,000
Cohort Programs from DELO to departments	894,000
Subtotal	\$2,779,000
 TOTAL	 \$13,974,600

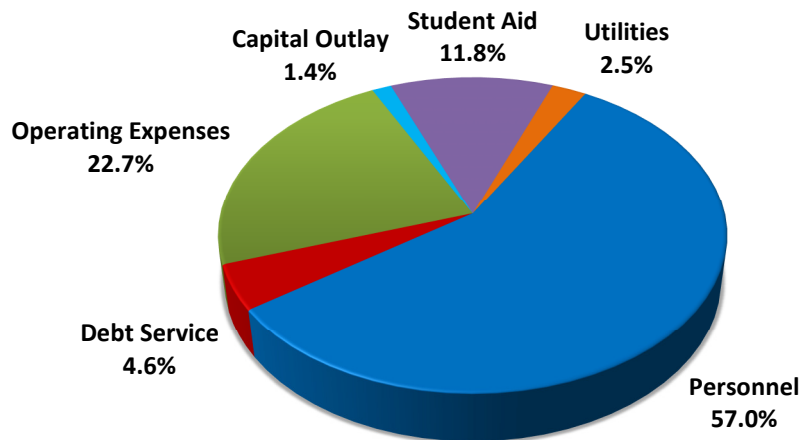
PROJECTED STATE APPROPRIATION & TUITION REVENUE INCREASE

State appropriation (KERS)	\$1,330,500
Fall/spring tuition (including EdD)	9,591,000
International tuition surcharge (undergraduate students)	50,000
DELO distribution to Central Budget	894,000
Nursing Growth/DNP/DPT	803,000
Summer	(221,000)
DELO registration fees	1,253,000
TOTAL INCREASE	\$13,700,500

Expenditure Reallocations Necessary to Balance Budget **\$ 274,100**

The FY 2015 budgeted expenditures, by major classification of expenditure, are summarized as follows:

**Unrestricted E&G
Expenditures by Major Classification**



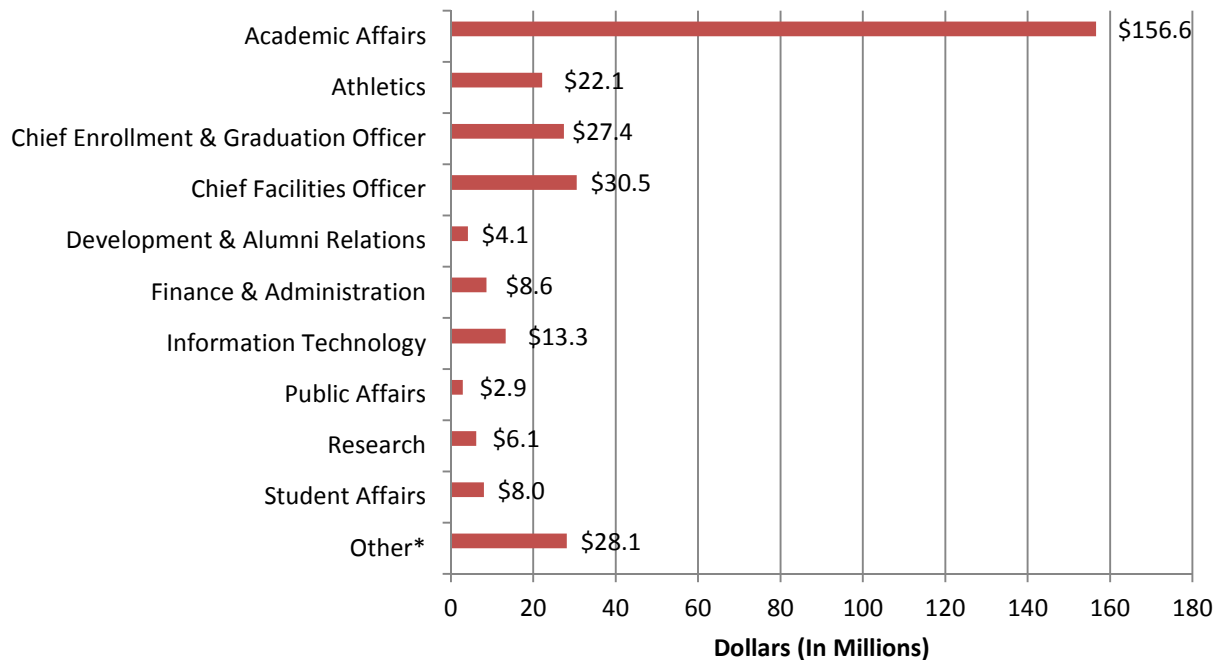
Total Budgeted Expenditures (In Millions)

<u>Major Classification</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Auxiliary</u>	<u>Total</u>
Personnel	\$175.2	\$0.1	\$9.3	\$184.6
Operating Expenses	69.5	17.7	8.9	96.1
Utilities	7.7	0	2.4	10.1
Capital Outlay	4.4	0	0.5	4.9
Student Aid	36.2	43.6	0	79.8
Debt Service	14.1	0	2.7	16.8
Total	\$307.1	\$61.4	\$23.8	\$392.3

Projected personnel expenditures include salary and benefits for approximately 2,100 budgeted, full-time filled positions and 150 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 than the pool budgets.

The following graph summarizes FY 2015 budgeted unrestricted E&G expenditures by organizational area. The Narrative section of the budget sets forth each division’s strategic priorities for FY 2015.

FY15 Budgeted Expenditures by Organizational Area



*Other includes Office of the President, Chief Diversity Officer, General Counsel, and University-Wide.

Note: Budgeted expenditures include \$621,600 of restricted, federally-funded College Work Study that cannot be separately identified. Work Study funds are distributed throughout the divisions.

- ❖ The Division of Academic Affairs, the largest division, totals \$156.6 million or about 51 percent of the unrestricted E&G budget.
- ❖ Chief Facilities Officer, the second largest division, has a budget totaling \$30.5 million or about 10 percent of the unrestricted E&G budget.
- ❖ Other includes Office of the President, Chief Diversity Officer, General Counsel, and University-Wide. The most significant funding items in University-Wide include funding for statutorily-mandated scholarships, undistributed staff benefits, general institutional expenses and funding for principal and interest payments on bonded debt.

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 \$600,000 do not require General Assembly approval and are not included in the Capital Budget. Many projects with a scope of less than \$600,000 will address deferred maintenance needs and classroom improvements.

The 2014-16 Biennial Budget includes state bonds (\$48 million) to complete the Science Campus.

Most of the capital projects reflect legislative authorization; projects 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 FY 2015 are identified separately.

The Capital Budget totals \$185,960,500 from all sources of funds.

**TUITION AND MANDATORY STUDENT FEES SCHEDULE
PER SEMESTER**

<u>Student Level/Enrollment</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Summer 2015/ Rate per Credit Hour</u>
Undergraduate			
Resident*	\$4,361	\$4,570	\$381
Nonresident	11,124	11,676	973
International	11,448	12,000	1,000
Incentive	5,784	6,072	506
Graduate (Per Credit Hour)			
Resident	490	515	515
Nonresident, International	962	962	962
Nonresident, Domestic	640	691	691
Doctorate, Nurse Practitioner (Per Credit Hour)			
Resident	590	620	620
Nonresident	737	775	775
Doctorate, Physical Therapy (Per Credit Hour)			
Resident	590	620	620
Nonresident	737	775	775
Professional MBA**			
Continuing Students	4,794	5,034	
New Students	5,034	5,285	
Distance Learning (Per Credit Hour)**			
Undergraduate	445	463	463
Graduate (Excluding DNP and DPT)	588	618	618
Active Military (Per Credit Hour)**	250	250	250
Dual Credit (Per Credit Hour)**	70	70	70
WKU On Demand (Per Credit Hour)			
Undergraduate	363	381	381
Graduate	490	515	515

Mandatory Student Fees:

Student Athletics Fee	\$212
Student Centers Fee	\$60
Student Centers Fee, DSU	
Renovation Bonds	\$70

*Resident rate increase of 4.8 percent.

**Mandatory student fees are not assessed to these students.