

WKU Budget Restructuring Plan:
Recommendations to President Caboni

WKU Budget Council

February 20, 2018

Executive Summary

In the fall of 2017, WKU President Timothy Caboni redefined the responsibilities of the WKU Budget Council (the Council). The reconstituted Council, which is advisory to the President, includes four faculty members, five staff members, and one student. President Caboni asked the Council to (1) address the current revenue shortfall, (2) examine current expenditures and funding priorities, and to (3) evaluate budget models that will (4) favorably position WKU in the context of the state's performance metrics for higher education. The Council developed the following recommendations to address charges (1) and (2), and recommended hiring a consulting firm, Huron, to address charges (3) and (4).

The current (FY 2018) deficit amounts to \$10,976,000, and WKU projects an additional \$3,900,000 deficit due to projected enrollment declines this year. The President gave the Council a budget reduction target of \$15 million for FY 2019, which is approximately 5% of WKU's unrestricted operating budget. At a later stage, the Council and the campus community will need to act to address an anticipated 2018-2019 enrollment decline, state funding cuts, and an increase in required pension contributions.

The Council limited its review of the current budget to unrestricted funds. The Council did not review restricted, carry forward, and auxiliary enterprise funds. The budgeted amount under review was approximately \$300 million. President Caboni asked the Council to recommend strategic, rather than across-the-board, budget reductions in order to balance the budget. To guide its evaluation and decision-making process, the Council compiled data and developed common criteria, standards, evaluative measures, and cost saving measures that it applied across the university's divisions and units. The Council attempted to meet its charges while also advancing the central mission of the university, which is to educate WKU's students, prepare them for lifelong success, and act as an economic and intellectual engine for the region.

Summarized below are the Council's recommended budget reductions by division and type. Recommendations reflect the majority opinion of the Budget Council.

Unit	Amount	% of Total Reduction
Academic Affairs	\$7,366,584	46.1%
Athletics	\$1,346,259	8.4%
Facilities	\$609,060	3.8%
Philanthropy	\$717,320	4.5%
Finance and Administration	\$718,537	4.5%
General Counsel	\$28,807	0.2%
Information Technology	\$844,287	5.3%
Public Affairs	\$540,479	3.4%
Student Affairs	\$888,760	5.6%
President	\$85,327	0.5%
University Wide	\$646,550	4.0%
Other (F&A, assessment on revenue, etc.)	\$2,192,953	13.7%
Total	\$15,984,923	

The following table illustrates the proportion of cuts to salaries and benefits (in both vacant and currently filled positions) to operating budget cuts in the reduction total.

	Personnel*	Non-Personnel	TBD
Reduction Total	\$9,924,205	\$3,064,968	\$3,005,671

**All position eliminations effective July 1, 2018*

Unit leaders—including Deans and Vice Presidents—who are closest to activities within their division may choose to implement these cuts in a manner different from the Council’s recommendations. The integrity of the budget stabilization process, however, requires that unit leaders strictly adhere to the split between personnel and non-personnel reductions.

WKU cannot continue to employ fiscal practices that use one-time funds to fill recurring deficits, budget on unrealistic revenue projections, or spend beyond its means. These recommendations are a long overdue and necessary first step in WKU’s budget stabilization and restructuring process. The ultimate goals of the process are to achieve sustainable solvency, transparency, and accountability. Achieving these goals will take time and coordination between the President, campus leadership, and the various bodies involved in strategic planning and budget model redesign.

Finally, The Council recommends a four percent campus-wide salary increase pool. The Committee’s hope is that going forward, WKU will employ a new budget model, base its budget on realistic revenue projections, and regularly re-evaluate and balance its budget. Furthermore, the budget will continue to evolve in response to enrollment trends, the state budget (including pension pressures), and the strategic planning process. The Budget Council is optimistic that WKU will emerge from the budget restructuring process with a firm foundation for continuing success. The Council recommends a four percent campus-wide salary increase pool—that goes into effect on January 1, 2019—for FY 2019.

Scope and Objectives

The scope for this project was limited to examining the unrestricted Educational and General (E & G) budget. The total budget balance under consideration was approximately \$300 million. The Council also examined WKU's budgeting and spending policies and procedures.

These are the key objectives of these recommendations:

- Reduce the university's E & G budget by at least \$15 million in FY 2019 in order to reduce the current budget shortfall.
- Implement budgeting and spending policies and procedures that will foster WKU's long-term solvency.
- Lay groundwork for WKU to not just survive but thrive in the face of adverse state funding and demographic trends.

Budget Reduction Plan Guiding Principles

The Council adopted the following guiding principles to provide consistency and accountability to its planning and recommendations:

- Minimize negative impacts on student success, academic excellence, and the health and safety of WKU's students and employees.
- Compile data and use it to develop evaluation measures that are applicable across WKU's unit and division boundaries and other silos of administrative authority or operations.
- Identify reasonable efficiencies wherever possible.
- Implement policies and best practices that will yield long-term solvency.
- Provide rationale for budget reduction recommendations that are supported by data or common criteria.
- While achieving the objectives, avoid making recommendations that are within the decision-making scope of the ongoing strategic planning and budget restructuring processes.

Budget Reduction Cost Drivers and Cost-Saving Measures

Cost Drivers

To determine appropriate cost reduction recommendations, The Council used the Fact Book and worked with Institutional Research to compile data and develop pertinent evaluative measures and cost driver models. Data collected spanned five fiscal years.

The Council considered a wide range of approaches. It developed the following evaluative measures and cost drivers and used them to inform its recommendations on budget reductions to units outside the university's academic colleges.

Cost Driver	Changes, 5 Year Trend
Number (#) of Full-time Staff	(11%)
Number (#) of Full-time Faculty	(1%)
Number (#) of Full-time Equivalent Students	(6%)*
Enrollment	(4%)
Administration:Instruction Spending Ratio	9%**

**Excludes dual credit and on-demand students*

***Actual spending on Administration has increased by 9.6% from FY 2013, while spending on Instruction has increased only 6.5%.*

The Council based recommended reductions to academic college and department budgets on long-term trends in SCHP (Student Credit Hour Production) and program enrollment. The following table shows five-year SCHP and enrollment trends by college.

College		
	SCHP	Enrollment
CEBS	(34.9%)	(32.1%)
OCSE	8%	10%
CHHS	(0.2%)	(1.3%)
GFCB	28.1%	17.5%
UC	(4.5%)	(30.2%)
PCAL	(10.7%)	(12.4%)

Summary of Cost-Saving Approaches

The Council applied the following cost saving and budget reduction approaches to academic and non-academic units as appropriate:

- Eliminate vacant faculty and staff positions.
- Combine or eliminate duplicative services, positions, or programs.
- Eliminate discretionary salary contingent budgets.
- Implement a seven percent assessment on revenue from workshop and revenue dependent indexes to assist with costs incurred by the university to support their operations. The Council recommends that these indexes be exempt from any future assessment on carry forward funds.
- Eliminate cell phone plan allowances to reflect that any work-related cell phone usage typically does not impose any incremental costs.
- Reduce the current fleet of all university owned vehicles of over 250 vehicles by 25 percent in the next twelve months. Create an approval process for any new acquisitions in an effort to continue fleet size reduction and to ensure cost effectiveness versus renting or leasing.
- Make revenue-producing units revenue-dependent when practical.
- Where feasible, reorganize units so that they share support services and administration (i.e., “core services model” organization).
- Implement a seven percent cut to top-level administrative indexes to reflect the fact that WKU is a smaller organization—both in terms of number of students we serve and the number of full-time faculty and staff—than it was five years ago.

Recommendations for the FY 2019 Budget

WKU will continue to use its current incremental budgeting model as it formulates the FY 2019 budget. Until WKU implements a new budget model, the Council recommends that the President and campus leadership pursue the following strategic objectives:

- **ACCEPT** - Compensation for faculty and staff is a critical strategic priority that must be addressed during the budget stabilization and restructuring process, and even as the university right-sizes itself. The Council recommends a four percent campus-wide salary increase pool—that goes into effect on January 1, 2019—for FY 2019.

- **ACCEPT** - The ongoing budget stabilization and restructuring process should advance the institutional goals and strategies outlined by the WKU Strategic Planning Committee, the Resource Allocation, Management, and Planning Committee (RAMP), and other relevant planning bodies.

Recommended Policies, Strategies, and Procedures

WKU must implement new policies, strategies, and practices to balance and rationalize the university's budget. The overarching goals of the following recommendations are to (a) enact "best practice" policies that will encourage fiscal sustainability and accountability; (b) support WKU's strategic realignment; and (c) reduce unnecessary costs.

I. Policy Recommendations: The Budget Council recommends implementing the following: within the next 12-18 months.

- **ACCEPT - Regional Campuses:** Evaluate viability of all regional campuses. Where possible, communicate with local government leaders in each location to explore potential fiscal partnerships. However, WKU should remain fully committed to its mission of providing postsecondary throughout its service region.
- **ACCEPT - Activities-Based Costing and Resource Allocation:** Where feasible, align budget allocations to expenditures and changes in staffing and activities. Going forward, productivity data, net tuition revenue, and other appropriate metrics should drive resource allocation decisions.
- **TO STRATEGIC PLANNING - Institutional Scholarships:** Develop and implement a new strategy that balances awarding scholarships based on academic merit and financial need; focuses on enhancing student retention and persistence, and stabilizing enrollment; and results in "net revenue positive" investments in students.
- **TO STRATEGIC PLANNING - Academic Program Review:** The Academic Program Review process should be revised to incorporate measures of fiscal accountability that are related to long-term trends in programs' academic activities and demand for services. The revised Academic Program Review process should be used to restructure program budgets accordingly, on an ongoing basis. The revised Academic Program Review process should align with SACSCOC and AAUP guidelines and best practices, and be used to support the new Strategic Plan.
 - While the foundation for the Program Review should be laid as soon as possible, the formal process should begin as soon as the new Provost takes office in July 2018. One outcome of this Program Review may be to realize quantifiable savings. The Program Review should be completed by Nov. 30th 2018.
- **TO STRATEGIC PLANNING - Post Tenure Review for Faculty:** WKU's institutional success rests on faculty tenure. WKU should explore instituting a post-tenure review process that adheres to AAUP and other professional "best practices," and enhances the effectiveness of tenured faculty.
- **ACCEPT - Continuance Reviews for all University Leadership Positions:** Establish regular continuance reviews for all University leadership positions, similar to existing processes for Deans and Department heads.

- **ACCEPT - Shared Service Model:** Improve collaboration between service units, and explore a shared service center model to improve efficiency and effectiveness.
- **ACCEPT - Faculty Transitional Retirement:** In consultation with Council of Academic Deans and Human Resources, restructure the Transitional Retirement program to be responsive to future resource needs and to make it more cost-effective. For example, consider shortening the program to an initial 2 years (with possibility of an additional year, subject to review) at 50 percent of base salary and include a mandatory one-year notification period. Any faculty transitional retirement options are contingent upon university needs and approval of unit head.
- **ACCEPT - Staff Transitional Retirement:** In consultation with Human Resources, develop and implement an optional transitional retirement plan for staff. Any staff transitional retirement options will be contingent upon university needs and approval of unit head.
- **Construction Projects:**
 - **REJECT** - Until the budget is balanced, freeze new building projects that add fixed costs to the university's operating budget.
 - **ACCEPT** - Develop a policy that requires a full assessment of and plan for budgeting ongoing operating costs (maintenance, utility costs, depreciation, etc.) in addition to the construction and financing costs.
- **ACCEPT - Inter-Office Charging:** Implement a policy stating that units should not cover any budget reductions-increasing charges to other units for services performed. (Parking Services is excluded because going forward they will be revenue dependent, and current parking fees are below benchmarks.)
- **EVALUATE / TAKE UNDER ADVISEMENT - Administrator Salaries:** Implement a policy stating that as contracts or employee agreements are created for senior administrators with academic rank (i.e. EEO 10), position salaries should be bifurcated into a core faculty salary with an administrative supplement. At the conclusion of administrative service and departure from the administrative role, the salary calculation for those who return to faculty status will not include the administrative increment. The core faculty salary may not then be higher than the highest faculty salary of their same rank in their tenure home.
- **ACCEPT - Revenue-Dependent Units:** Where feasible, make revenue producing units revenue dependent. Implement a 7% assessment on actual revenue from revenue dependent and workshop indexes to assist with operating costs incurred by the university on their behalf, and revise the Carry Forward policy as appropriate.

II. Division-specific recommendations. The Budget Council recommends that WKU consider implementing the following strategies, taking into consideration the new Strategic Plan and budget model.

- **ACCEPT -Travel:**
 - Explore new policies or practices to reduce travel costs. New software (such as Concur) or outsourcing of travel services may reduce travel expenses and standardize travel spending behaviors for more efficient tracking and processing of travel expense vouchers.

- Review faculty-led Study Abroad options, policies, and procedures.
- **ACCEPT - DELO:** Reevaluate DELO's governance structure for more accountability, and reevaluate revenue sharing and definition of effort.
- **Enrollment Management:**
 - **TO STRATEGIC PLANNING** - Hire expert consultants to examine WKU's Enrollment Management structure and strategies, with an eye toward consolidating EM personnel, strategies, and practices and increasing their effectiveness.
 - **ACCEPT** - Consolidate enrollment management and student-facing units under a single organizational structure.
- **ACCEPT - Fees:** Conduct a comprehensive evaluation of all university and academic fees with an eye toward simplification, transparency, and reduction where feasible.
- **TO STRATEGIC PLANNING - Internationalization Programs:** Programs, offices, and personnel associated with WKU's international foci (both "outbound" and "inbound" programs) should be reviewed, with an eye toward consolidating personnel, strategies, and services that are redundant, and where synergies could advance the overall internationalization agenda.
- **TO STRATEGIC PLANNING - Advising:** Review advising structures for effectiveness and efficiency.
- **ACCEPT - Foundations:** Find efficiencies through examining operations of and possible organizational combinations of WKU Research Foundation, the Office of Research and Creative Activity and the Center for Research and Development.
- **ACCEPT - Philanthropy:** Any post-capital campaign bonuses must be funded by campaign dollars.
- **Athletics:**
 - **ACCEPT** - Ensure institutional support for Athletics is addressed in the RAMP process in the development of a new budget model.
 - **EVALUATE / TAKE UNDER ADVISEMENT** - The growth in per athlete athletic spending should not outpace the growth in per student academic spending.
- **EVALUATE / TAKE UNDER ADVISEMENT - Office of Internal Audit:** The Board of Regents is encouraged to consider moving the reporting structure of the Office of Internal Audit to report administratively directly to the WKU President while reporting functionally to the Board of Regents.
- **Admissions and Recruitment:**
 - **TO STRATEGIC PLANNING** - Tuition Strategy: Consider implementing new tuition structures including:
 - Incremental tuition: Charge additional tuition to undergraduate students who enroll in more than 16 credit hours of coursework in a semester.
 - Differential tuition: Explore implementing new tuition structures that take into account cost of instruction/delivery of programs and student demand.

- **ACCEPT** - Undergraduate Admissions: To enhance retention and persistence, revise admission policies/practices to end admission of undergraduate students with CAI scores below 60.
- **EVALUATE / TAKE UNDER ADVISEMENT** - WKU should explore the implications of raising the CAI threshold to 65 or higher.
- **Human Resources:**
 - **TO STRATEGIC PLANNING** - Standardization: Standardize the processes and policies for awarding staff compensation adjustments and reclassifying positions. Standardize position descriptions and pay grades for similar positions across campus.
 - **ACCEPT** - Personnel Actions Approval Committee (PAAC): Continue to use PAAC to control personnel costs strategically until WKU fully implements the new budget model.
- **Purchasing:**
 - **ACCEPT** - Continue to evaluate spending in order to reduce unnecessary purchasing and Personal Services Contracts (especially during the final three months of the fiscal year).
 - **ACCEPT** - Reduce number of WKU owned vehicles by 25% (from more than 250). Create a process by which any new acquisition will be approved in an effort to continue fleet size reduction and to ensure cost effectiveness versus renting or leasing.
- **ACCEPT FOR OVER A CERTAIN SALARY / EVALUATE REST - Cell Phones:** Eliminate cell phone plan allowances to reflect that any work-related cell phone usage typically does not impose any incremental costs.