

*Summary Transcription of the March 25<sup>th</sup> discussion between the WKU Senate Budget and Finance Committee and Susan Howarth, WKU Vice President of Strategy, Operations, and Finance.*

Susan Howarth:

Good afternoon to everyone, I want to keep this as informal as possible. I've got a few slides to lead us through the conversation. It feels like we are late in the budget process, but we are still in the stage of the Budget Executive Committee deliberating on issues and no decisions have been made. I had a meeting today with the Chair of the Board (of Regents) and the Vice Chair of the Finance Committee, and he wants the board to start talking about budget items at their next meeting. So again there have been no decisions made and the BEC is just getting into deliberating important items such as salaries and things like that.

First, I want to hit some highlights on the state budget process since that is wrapping up. Normally the budget is biennial but this year they had to do a one-year budget because of COVID rescheduling. That work has wrapped up. The governor can line-item veto things, but they can override those vetoes. The really good news of this budget, especially since we have entered into COVID-world, and we had no idea what was going to happen with our budget, and we built a very conservative budget based on a 10% reduction which thankfully didn't come to pass. The good news is that our appropriation is flat with a slight increase in performance funding, which is much better than what we feared would happen 9 months ago. The one real concern was KERS. Our rate will increase to a little more than 75%, but they are providing a subsidy, so they will give us 100% for the first year and then diminish over time, so gradually we will have to account for that. But what was thoughtful of the legislators, and nobody likes it, but our state is one of the worst in terms of pension problems. But we were happy they built in that subsidy. That's good news for fiscal year 2022. Our base appropriation is nearly 68 million, The Gatton Academy and Mesonet will remain flat and with those our total appropriation is just over 73 million. Without that KERS subsidy, we would have had to come up with an additional 3.6 million for next year's budget, so the big picture is that this is very good news for us.

So I will run through these slides very quickly and then we can have questions at the end. Moving into our budget development process, one of the key aspects of a de-centralized budget model like RAMP are the transparency aspects of it [see slide in video for RAMP process org chart]. The BEC is working through all the recommendations and then the BEC's recommendations will go to campus leadership, and then the budget will go to the Board of Regents for final approval in June.

For an RCM model to work, Deans needs numbers as soon as possible so they can plan their budgets. We are not as early as we should be, but we are much better than we have been in the past. Without an RCM model, the work is done between enrollment management and the budget office, and they come up with an enrollment target in February. With RCM, that happens back in September, and you get it to the Deans in October. So we worked on that, and then the Primary Budget units, the colleges, began work with the Provost on that. Provost Stevens has already worked with her college units and has made recommendations to the BEC. That all happened in February with both the primary units and the OAC (support units). In March the BEC started meeting and that continues now. Tuition setting is holding us up because the CPE hasn't made a ruling on that yet. That puts us further behind—they will meet again on April 13<sup>th</sup> and April 15<sup>th</sup>. What they have done up until last year is that they gave institutions a level

and a limit year-over-year. But last year they were determined that they weren't going to allow any tuition raises, but they in fact gave institutions a lot more liberty than that, but we still decided for ourselves to keep tuition flat. In April and early May we will have small workshops with Board of Regents members and then we will present our final budget into the Board of Regents in June.

Fall 2021 enrollment projections are positive. I think at the end it is all going to work out fine, even though we are nervous because we didn't have an opportunity for in-person recruitment like we have in previous years. I'm not an enrollment management expert, but by gut tells me what is happening is that we will get fewer applications but with a higher yield.

The status of the distance learning fee is still up in the air. That is a 4.5 million dollar hit, but we have not decided whether or not to reinstate it. We are currently modelling a 2% increase in tuition and a 0% increase in tuition and seeing where we land.

At this time last year we were looking at a 27 million dollar deficit. That included temporary reductions that we were able to restore, travelling freezes, and centralized and unit reductions. Altogether, the good news is that we projected a decline in revenue because of a smaller class size moving through the pipeline and we projected a 5% decline in enrollment because of COVID. Those projections did not come to pass, so we overshot our budget last year by 4.3 million. And from all indications, we are now up 4.8 million dollars. All told we are over budget in tuition revenue by 9 million dollars, which goes a long way toward that 27-million-dollar target. Expenditure savings through February are about 10 million, personnel savings are about 7 million, and because we had no state budget reductions that we had planned on, which was another 7 million, we are not over our target by about 4 million. So, great news for campus, I knew we could do it and pull together as a campus and get this done. No one likes this current situation, but we kept the wheels on and came through it.

The good news that I just told you about re: enrollment, savings, and our financial position has led to an improvement in our credit rating as well. S&P was extremely impressed with our financial position and what we have done to improve it. Our outlook has improved from negative to stable, and they told us that this hasn't happened for many higher ed institutions this year. So those are the items I had, so do you have any questions?

Kevin Schmaltz:

So the KERS hit was 3.5 million dollars without the subsidy?

Susan Howarth:

Yes, it is 100% and then goes down.

Kevin Schmaltz:

How rapidly does the subsidy decline?

Susan Howarth:

It goes down gradually. I can get you the details later re: the specific year-over-year decline.

Kevin Schmaltz:

Under what retirement plan are we hiring future employees?

Susan Howarth:

We would like to be able as an institution to force future employees into the Optional Retirement Plan, but the KERS rules don't allow us to do that. We can only nudge employees towards ORP at this time.

Jim Lindsay:

I have a suggestion and then a question. With our portion of the \$1.7 Trillion coming down to our state, can they use that to help fix the pension problem? Also, with VSIP, how does that look across the university?

Susan Howarth:

We are not in the process of finalizing VSIP. We had 130 on the list, and now a few have dropped out. During the first year of VSIP, we need to pay those salaries, so we will use one-time money for that. The second year is when we decide what goes back where. So one time money will cover those first year expenses. So if you have a department with 4 or 5 people take VSIP, you need bridge funding to get us through that during the first year. It's still a point of discussion how we will manage that distribution out through the following years and the new Provost will start that process when he arrives in July. So there isn't anything set in stone except that all that money will be centralized and administered by the Provost and through the support units by myself and the President. [See the recent campus-wide email from Susan Howarth on VSIP re: precise numbers and the breakdown between faculty and staff]. There are some units on campus that are lean to begin with and will get even leaner, and some of those are my units. But I look at all of these types of things in institutional life as an opportunity to reimagine your organization form the administration side of the shop. Just as an example, and this is a real life example, I had a director of purchasing and an assistant director purchasing leave, and this was before VSIP, and everybody said "Susan, you have to fill those positions," and I said "No, no we don't, we will make it work," and sure there was not much purchasing this past year, but we got by. Maybe we think about whether we really need a director as well as an assistant director. And I'm sure Dr. Fisher will be thinking about some of those things as well on the academic side of the shop. As far as dollar numbers, these positions cost about 9 or 10 million dollars.

Guy Jordan:

One of the things faculty have to worry about is that if a department loses two or three full-time people, those classes still need to be taught. Does that mean that these departments will have funds to go out and get somebody or will faculty have to absorb that load? Also, if we lose say 50 faculty, and only 40 of those lines come back, isn't that in effect a centralization of money that was in academic divisions and it's now being used for something else? Will we ever know where that money that was in academics winds up?

Susan Howarth:

No, absolutely, those decisions will be part of the budget process. Collectively, as a campus, if we decide to use say 5 million of those savings for a salary adjustment, that will be part of the budget process. I can't really speak on that and I'm not dodging the question, but faculty workloads are more a question for the provost. We have to pay the payout for VSIP. That's a one-time cost. And there is a KTRS penalty and a health care cost. When you leave a pension system, they ding the institution, and you get a penalty. We built these one-time costs into the budget model, and that includes critical needs. The Provost has already sent a note out to the Deans to get her critical instructional needs to her for next year.

Margaret Crowder:

When we recapture VSIP money and potentially centralize it, I don't think faculty have a large enough voice in that. If we had that voice we might have solved athletics budgeting issues a long time ago, so I'm concerned about that centralization and what it means for academics. Last time we had departures, there were people who took up the slack and they didn't get anything extra. Their jobs expanded and they didn't get raises to compensate them for that. There are people doing 50% more than they did 5 years ago and they aren't making any more money. And of course with COVID people have had to do even more extra things re: home office, internet, etc., all the things we need to do to make it all work. What are the plans to bring back some money to address these previous issues, let alone the ones that are ongoing and about to be exacerbated by faculty and staff losses from VSIP?

Susan Howarth:

Again, I just don't have all the answers at this point because we are just in the beginning stages of talking about what we will do after year one. Those discussions will start during the summer months. Our attention is focused on getting through the first year with our critical needs. We are in the midst of building the FY 2022 budget and there are a lot of moving parts that we need to attend to in order to make sure it all works. And a reminder that Julie Shadoan is a member of the BEC so faculty have a seat at the table. There is one commonality with VSIPs across institutions, and that is (and I'm not joking) is that they are all different. At my previous institution, they put the positions back where they came from but at a reduced salary. That didn't turn out so well, and they learned that they couldn't get new faculty at that level of compensation.

Margaret Crowder:

Julie (Shadoan) is just one voice at the table, and it would be better if faculty had more representation than just that one seat.

Uta Ziegler:

You have us the number of the split between faculty and staff, but what is the split between salaries? What percentage of the salary and fringe is above and beyond the allotment for the VSIP?

Susan Howarth:

I do not have those numbers in front of me, but I can get those to you. As far as health insurance goes, we are giving them money up to a maximum of \$11,500 as a supplement until they reach Medicare eligibility.

Guy Jordan:

I have a couple of questions that are not VSIP related. One thing that has been bothering people a lot this past year are the purchasing paperwork requirements that were put in about the same time as the travel freeze, maybe a little before that. Every time you have to buy ink for the printer or anything else, it requires a time-consuming process with additional paperwork and approvals. Now that our financial situation has improved, can we lift those requirements in order to make things more efficient for departments and units?

Susan Howarth:

I am a very conservative financial person, and until we know what our freshman class looks like in the fall, I don't want to make that decision just yet. We will meet more about that. The budget deficit we are facing next year will not be anything close to what we dealt with this past year. This past year was off the charts. But there will be something we have to deal with. So does it make more sense to let Deans and VPs manage those targets or should be do that centrally? Maybe we let them make those decisions about travel/spending. I would prefer for that to happen rather than us saying "This is how it will be." We are getting into the final quarter of the FY, and we will know more soon. Procurement shuts down in May because you have to get ready for year's end. Maybe we restart next year, we're still thinking it over.

Guy Jordan:

What I have been hearing from colleagues, department heads especially, is not that they are planning to be any less thrifty. They just want less paperwork. They want procurement and purchasing to take less time. That process is cumbersome. The other question I had: How is the RAMP model dealing with grants? Has anything changed with the way grant disbursements are handled under the RAMP model? This may be more of an Ogden issue or an issue for colleges with lots of grants, but as I understand it, those monies are apportioned between the principal investigator, the college, and other places, so has that changed at all?

Susan Howarth:

Yes, it has changed slightly, but I have to see how the F&A distribution happened before we went into RAMP. I know it was adjusted. Some of it came off the top to fund the Office of Research, but I am not sure how that changed since we went into RAMP.

Guy Jordan:

Those grants fund FUSE Grants too, so it's a campus-wide concern.

Jim Lindsay:

What about issues re: pay compression and VSIP? There are cases where people come in new and make more than faculty who have been here for 15 years. Will we really see much savings? Is there something else behind this? It sounds more like a way to change how those monies are allocated centrally vs. divisionally.

Susan Howarth:

There isn't any hidden agenda here, there are typically with VSIPs a desire to address budget problems, and you have to carve out some savings. Faculty will certainly have input into what those budget savings are used for. What you typically see with folks is that they often respond to incentives to depart. Some of these questions about faculty lines and workloads are best asked of the Provost. From the administrative side, it is an opportunity to re-imagine and modernize our processes and our workforce. It gives us opportunities to rethink how things are organized.

Jim Lindsay:

Well, it still looks like we are going to be asked to do more for the same amount of money, and if that's the case, it can be disheartening.

Susan Howarth:

Budgets are about priorities, and if we want a salary adjustment based on the salary study of a performance-based increased, we need to start having those conversations, and the BEC is the place for those to occur. Julie is a Faculty Senate rep, but there are other faculty members like Kirk Atkinson and Holly Drummond. There are several Deans and also the Provost. I can share those concerns with them on Monday.

Margaret Crowder:

When will the compensation studies for staff and faculty be released?

Susan Howarth:

We paused all that when COVID hit. The compensation studies are easier to do for faculty than staff, and staff is not done yet because it is a market-based study between public and private-sector positions. We hope to restart all that this fall.

Margaret Crowder:

Will the faculty study be done/released this fall?

Susan Howarth:

I think so.

Margaret Crowder:

Great. As a follow-up to that, re: the President's recent salary increase, you were quoted in the Herald saying "The President's new board-approved contract is budget neutral. Required funds will come from an existing previously-budgeted university-wide reserve." So my question is that if we have a university-wide reserve already in place, aren't there perhaps other uses for this reserve, especially as we are expecting budgetary shortfalls into next year and we are facing future KERS increases due to the declining subsidy in the coming years, if we have a reserve fund in place that we can put toward recurring salary and compensation year-over-year, why not direct that to future pension shortfalls or to faculty and staff salaries?

Susan Howarth:

Every university has some limited reserve funds. We have small reserve but not a lot. How do we prioritize use of those funds? It's prudent to have funds set aside for catastrophic emergencies. A 1% increase in salaries for the entire campus is north of 2 million dollars.

Margaret Crowder:

Well, can we at least start to address those equity issues? As I understand it, President Caboni's salary is now at 100% of benchmark, so I just don't know why would use those funds for something like that instead of something else?

Susan Howarth:

The funds had to come from someplace, and we saw that as the best place to take those funds from for his salary adjustment. I understand your concerns.

Guy Jordan:

So how much money is in our university-wide reserve fund?

Susan Howarth:

Probably around 2 million, but that's very little. Most boards want to see universities increase its reserves every year.

Guy Jordan:

But isn't this fund supposed to be for catastrophes? I remember years ago when FAC had a generator or a chiller or something like that catch on fire. Is that the same fund we use to cover the expenses if something big like that breaks down?

Susan Howarth:

Yes. Either that or you can use carry-forward one-time money. It's easier to fund one-time money than permanent expenses.

Kevin Schmaltz:

You had said that the Deans are identifying critical teaching positions to be replaced, so should we (department heads, faculty) be expected to be learn soon which of these positions will be covered?

Susan Howarth:

Yes.

Kevin Schmaltz:

With purchasing, you are obviously aware that the added level of scrutiny has been problematic. But there has been no value for us—no one ever tells us for instance, that we can buy this other thing for a better price—none of that has saved us money so much as cost us time. That is just my observation on that.

Susan Howarth:

I prefer those decisions to be local, I do, but the past year called for drastic measures. I appreciate the problems/bottlenecks it has caused, but we just need to make it through the rest of the year. Next year is not going to be painless, but there will be much less pain. There is no one more than me who would like to get on an airplane and go somewhere than me. I would love to go to a conference and talk about something other than COVID.

Guy Jordan:

I just want to say this now, looking over the past year, and since the Senate agenda is loaded I want to make sure I have an opportunity to say this since this is being recorded. We went through a lot this past year with the salary reductions, and there has been a lot said online and in other places about how Senate handled that. There has been talk about Senate's role in pushing for those temporary reductions and how horrible that was, and how there isn't any sort of cooperation between faculty and the administration and the relationship there is bad. That was anything but the case. What we were looking at with that \$27 million cut re: the temporary salary reductions was the threat of an additional \$2 million reduction handed out to academic divisions and units. If that \$2 million, which we absorbed in temporary salary reductions, had instead been passed on to colleges and support units, there are 20 to 30 people right now who wouldn't have jobs or careers anymore at WKU. Thankfully, our financial situation was not as dire as we feared, and those temporary salary reductions were restored. But if we hadn't implemented those temporary reductions and instead went down the road of laying off another 20 or 30 faculty and staff, those cuts would not have been temporary. Those job losses would have been irreversible. We can restore temporary salary reductions. We cannot restore someone's job and career if budget cuts entail layoffs. So anyone who is unhappy with the way that went down, please give us a list of the 20 or 30 people currently part of our WKU community that you would not like to see employed anymore. Go public and own it. The work we did in Senate, the work that Regent Brinkley did, that then Regent Ernst did, that Mike Loftis and Staff Senate did, that the WKU Senate Chair and Senate leadership did, the work that you did, Susan, saved jobs and prevented a lot of permanent pain and loss. I have no regrets about that work at all. That's just something I wanted to state for the record because I know the Senate agenda the next few months could be really long. Thank you.

Susan Howarth:

If there is any time you want ask Julie, I like the idea of having these conversations in this committee rather than going directly to full Senate.

Guy Jordan:

I think it is helpful to give presentations to full Senate. There are a lot of nooks and crannies on campus and diverse issues/viewpoints/questions that are best raised at full Senate.

[Meeting Adjourned]