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Budget Update

Fellow Faculty and Staff:

As this week comes to an end, we finally have some clarity with regard to our state appropriations this year and next year. After exhausting negotiations over the last several weeks with the Governor and with Senate and House leadership, we have reached a compromise agreement on the cuts to higher education. This is significant because we now know the exact measure of our challenge going forward, and we have removed higher education as a bargaining variable standing in the way of achieving a state budget for the next two years. It became clear yesterday that not accepting the reduced cuts to higher education would likely have resulted in a failure to achieve a budget agreement and, as a result, a shutdown of state government on July 1.

So here are the terms of the agreement as outlined in the attached letter sent yesterday from the Presidents to the Governor, the President of the Senate, and the Speaker of the House of Representatives.

CURRENT YEAR

The withdrawal of funds from our current year budget has been reduced from 5 percent to 2 percent. Our current year nonrecurring cut has, therefore, been reduced from \$3,359,200 to \$1,493,000.

This 2 percent draw down of currently appropriated money is the subject of a law suit between the Attorney General and the Governor. The suit disputes the Governor's authority to take legislatively appropriated funds from a state agency in the absence of a decline in state revenues. State revenues are up this year, but the pension fund deficit is serious—and that is the crux of the dispute. If the Attorney General wins the suit, then the \$1,493,000 will be returned to our budget.

The second attachment outlines our approach to addressing this current year challenge. This is a draft of the action I will request at the April 22 Board of Regents' meeting. It is a longstanding financial practice at WKU to hold a Reserve Fund which the Board has mandated to be at least \$2,000,000. The current balance is \$3,488,660, including \$1,000,000 in DELO money. This Reserve is unrelated to the Health Insurance reserve which serves as a back stop for our self-funded health insurance program. The WKU Reserve exists to cover one time emergencies and to acquire property when unexpected opportunities surface. Use of the Reserve requires Board action. We will replenish the Reserve with draws from divisional fund balance money after July 1, assuming the draw down by the Governor is legally permissible.

NEXT YEAR

The second action resulting from yesterday's negotiation is a reduction in our cut for next year from 9 percent to 4 ½ percent—or from \$6,718,400 million to \$3,359,200 million. This helps but is still a serious cut to our state appropriation.

PERFORMANCE FUNDING

The third dynamic which occurred this week is an agreement with the Senate and the Governor that the Presidents will play a role in defining the emerging Performance Funding outcomes-based approach to appropriating state money to our public colleges and universities. I will be directly involved in the process leading up to a legislative proposal for the 2017 General Assembly.

THE STATE BUDGET

All of the above is contingent on the Senate and the House coming together to pass a state budget this week. The Presidents hope that by accepting a compromise deal on the cuts, we have settled the most contentious issue separating the two Chambers. The House wanted no cuts. The Senate wanted a 9 percent cut. Perhaps now they can find common ground on the remaining issues in the budget, including an Equity appropriation to WKU which is huge for us, but still uncertain.

OUR BUDGET REDUCTION PROCESS

As soon as a state budget is final, we will need to move promptly to reduce our recurring spending by a significant amount of money. We must deal with the state cut--\$3,359,200; plus fluctuation in enrollment-driven revenue and fixed cost increases for next year including a large increase in our KERS retirement contributions. Our only new revenue will be a tuition increase and the possibility of the Equity money. I will be back in touch as soon as a state budget is passed with a detailed approach to balancing our budget for next year.

Thank you.
Gary A. Ransdell