

Issues, Ideas and Ideologies

Creating a More Efficient Campus

By: Lee T. Todd, Jr., President
January 2005

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The state of Kentucky had passed a higher education reform measure in 1997 that called for UK to become a Top-20 public research university. Given the state’s limited resources, I knew we would not be able to climb that ladder and achieve our dreams with only state funding.

In January 2001, I was one of three finalists for the Presidency of the University of Kentucky. I was considered the “out of the box” candidate given that I had been out of academics, working in business, for 18 years.

I was invited to campus for seven hours of interviews with various university constituents. When I met with the faculty, one of the questions I was asked, rather sarcastically, was, “What in the world in your business career is going to help you in this job?” I did not realize how prophetic my answer would be when I stated, “I have started two companies from scratch and I know how to watch cash!” I felt that in any organization with a \$1.5 billion budget there had to be savings. These savings would give us our “dreaming money.” The Commonwealth of Kentucky had passed a higher education reform measure in 1997 that called for UK to become a Top-20 public research university. Given the state’s limited resources, I knew we would not be able to climb that ladder and achieve our dreams with only state funding.

When I began this position on July 1, 2001, we initiated

an aggressive plan to create a more efficient campus and to accumulate our “dreaming” funds. Unfortunately, with the occurrences of 9/11, dot-com and Enron, state funds were greatly diminished and our cumulative state funding has been cut \$71.6 million. Therefore, our savings have been necessary to reduce the impact of the cuts rather than being applied to academic initiatives. However, without these aggressive efforts to become more efficient, the impact of the budget reductions would have been much more severe.

This white paper is written to describe our situation and to list the specific efforts we have made to drive

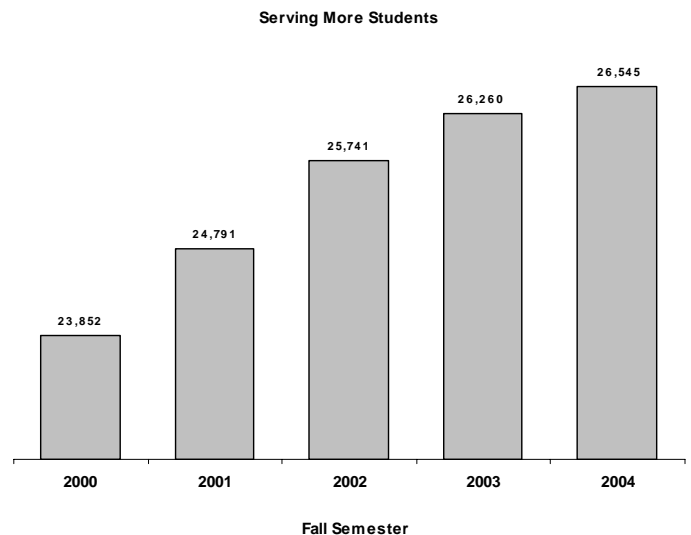
efficiency in the hope that our accomplishments will be beneficial to others.

Serving More Students

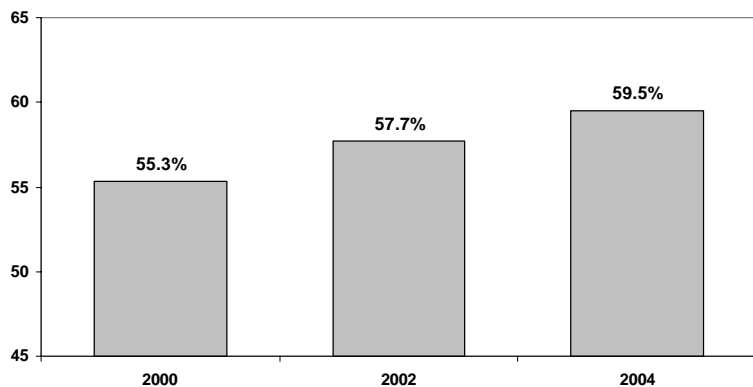
One of our goals was to increase enrollment while maintaining quality. Enrollment at UK has grown from 24,791 students in 2001 to over 26,500 students this fall. That is a 7 percent increase.

In 2001, 3,037 first-year students enrolled at UK. In fall 2004, UK had 3,961 entering freshmen, a 30 percent increase.

Despite the increases, our overall student body is more academically accomplished than ever before. More than one-third of this year’s



Graduating More Students...



University of Kentucky - Six Year Graduation Rate

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freshman class had a high school GPA of 3.8 or higher. Our freshman class has 35 National Merit Scholars, 2 National Achievement Scholars, 275 Governor's Scholars, 28 Governor's Scholars for the Arts, and 157 valedictorians.

Even as we serve more and more students, our graduation rate keeps increasing. In 2000, the percentage of UK students graduating within six years was 55.3 percent. Today it is 59.5 percent, the highest of any public university in Kentucky.

Who Pays

Since 2001, UK's share of state funds has been cut \$71.6 million:

- Recurring cuts of \$6 million in 2001-02, \$8.6 million in 2002-03, and \$5.5 million in 2003-04.
- One-time cuts of \$2.5 million in 2001-02 and \$8.3 million in 2004-05.
- State support for UK students is down over \$1,758 since 2001-02, from \$14,131 per student to \$12,373. That's a 12.4

percent decrease. Semester in-state tuition rates for UK students have increased from \$1,635 in fall 2001 to \$2,301 in fall 2004.

- Only 19 percent of UK's budget is derived from state dollars.

The cost of operating our campus – from health insurance for our faculty and staff to the maintenance of buildings for our classes and our research – continues to rise faster than the rate of inflation.

UK's Response - Savings

Our faculty and staff are doing a lot more with a lot less. We have been making ends meet with a variety of aggressive initiatives that have reduced costs and increased efficiency. Our efficiency efforts include:

We saved \$14.5 million annually by restructuring our administrative organization, eliminating a college, merging several academic departments, and redirecting money from various other sources. The UK Athletics Association provides \$1 million annually for academic scholarships.

We saved \$3.9 million annually by shifting a substantial share of our fringe benefit burden to self-supporting programs.

We saved \$2.9 million annually by making some areas – like the Center for Advanced Manufacturing, Parking, Development (fundraising), and

Environmental Health and Safety – more reliant on external revenues so that their general fund appropriation is significantly reduced or totally eliminated.

We saved \$2 million annually by moving the university to the Provost Model, integrating the Medical Center Operations with the rest of campus, and subsequently eliminating a lot of duplicated effort – five offices were closed while 29 others were merged.

We saved \$1 million annually by developing a new management program for hospital and clinic pharmaceutical purchases.

We saved \$425,000 annually by outsourcing our office supply contract.

We saved \$400,000 annually by eliminating five middle-management positions in the Agricultural Cooperative Extension Service.

We saved \$370,000 annually by providing incentives to staff work less than 40 hours a week. Staff members, who are in regular positions of .75 (full-time equivalent) or greater, are eligible for full university benefits.

Some of our administrative changes resulted in university savings that will accumulate over time. These cumulative savings include:

We saved \$4.7 million by changing our accounting system to make our self-

supporting programs cover the cost of services like purchasing, payroll, and security.

We saved \$3.8 million by renegotiating the overhead rate on our grants from the federal government to receive more money to offset the costs to the university when our faculty and staff undertake federally-funded research.

We saved \$427,000 by increasing the use of procurement cards for university purchases.

We saved more money and established the foundation for future savings through other efforts:

We saved hundreds of thousands of dollars through improvements to campus operations such as re-engineering our work order process, project estimating, key issuance, and waste collection and disposal systems; eliminating supervision layers; implementing central energy management and preventive maintenance systems; purchasing labor and cost-saving equipment; and instituting productivity standards for maintenance crews.

We closed six academic programs that were producing few graduates while at the same time working with other Kentucky institutions to offer several joint degree programs and undertake research initiatives in other areas, including

Kentucky's Statewide Engineering Strategy, the Kentucky Cancer Experimental Therapeutics Program, and the Kentucky Biomedical Research Infrastructure Network.

We saved money and/or eliminated positions when we reorganized our Teaching and Learning Center, merged the offices of Admissions and Registrar, and outsourced a substantial portion of our printing needs.

We created a travel management services program, which allowed the university to become more efficient and flexible in procuring university-related airline tickets. The program helped UK purchase the lowest available airfare 96 percent of the time.

We slowed the increasing cost of health insurance with a combination of administrative and health literacy initiatives. Over the last three years, the cost of the university's health benefits increased an average of 7.96 percent per year. The national average was 11.27 percent. If we had not taken such steps, we would have paid an additional \$6.4 million in health care costs over the past three years. A thorough analysis of those savings is available in another white paper I recently published, *Creating Ways to Contain Health Care Costs*.

We cut costs using technology. For example, we rely almost exclusively on a web-based system for

equipment and space inventory and our research units use the internet for over 90 percent of their internal communications and document processing.

All told, UK redirected more than \$35.4 million to offset state reductions in appropriations.

Efficient Managing
Not all of our changes translate into financial savings. Some of the programs we implemented help us run the campus in a more efficient manner.

With more students on campus than ever before, the ability to have greater control of classroom space was crucial. We transferred the management of classroom space to the Registrar's Office. All spaces had been managed by the deans in charge of each respective building. The move has given UK tremendous scheduling flexibility and much more efficient use of space.

We opened the 18th floor of our office tower for classrooms, and inserted a

Redirection of Funds - UK's Efficiency Efforts

UK redirected \$35.4 million to offset state reductions in appropriations. The funds were used to teach more students, cover health insurance cost increases and other fixed costs, fund strategic initiatives, and provide modest salary increases for faculty and staff.

FY 2002-2003	11.79
FY 2003-2004	14.00
FY 2004-2005	9.65
Total Dollars (in millions)	35.44



Even as we serve more and more students, our graduation rate keeps increasing. In 2000, the percentage of UK students graduating within six years was 55.3 percent. Today it is 59.5 percent, the highest of any public university in Kentucky.

Even though we have taken some bold and innovative steps to reduce costs and increase efficiency at the University of Kentucky, we are still without our “dreaming money.” But our dream is still alive.

pair of state-of-the-art classrooms into our newly-designed administration building. The changes freed up additional space for 38 class sections.

We also invested in our professional programs through a differential tuition plan that provides additional flexibility for deans to run their own colleges. Any additional tuition increase – above and beyond the rate paid by our undergraduate students – was returned to the colleges so they could pursue needed projects.

UK eliminated 307 regular positions, combining and streamlining many departments and duties.

UK’s Response – Earnings

We are encouraging our faculty and staff to be even more aggressive in applying for and earning external research and development dollars. Their success reflects the university’s vision, their individual talents, and the importance of their research. In 2001, our faculty and staff earned \$86 million in federal research expenditures. Today, that figure is \$120 million.

We are using federal funds to develop and maintain 11 research facilities containing more than 300 highly specialized instruments that are available to researchers all across Kentucky. Since 2002, we have obtained almost \$22 million for construction and renovation of our research facilities and

an additional \$2.45 million for equipment.

Our researchers brought in a record \$238.3 million in external grants and contracts. We also have been supported by our strong legislative delegation in Washington, D.C. We increased our federal earmarks from \$5.4 million to \$27 million in that short span.

The university’s endowment has grown substantially since 1998, when the state started contributing funds as part of the Bucks for Brains program. At that time, our endowment was valued at \$219 million. Today it is over \$535 million. The matching funds program has also allowed UK to add 64 endowed chairs and 159 endowed professorships.

The Future

The past few years have forced this university to make tough decisions and streamline our daily activities. Our faculty and staff have given their all to make sure our shrinking funding pool did not stifle our Top-20 aspirations.

UK can be a mighty catalyst for building better lives all across Kentucky. We must have the resources necessary to enroll, retain, and graduate thousands more Kentuckians; conduct research that fights disease and creates new products and businesses; and deliver knowledge that can help communities all across Kentucky. Working together, we can eliminate the

problems that hamper and harm our people, our businesses, and our communities. UK has been – and will continue to be – a faithful and efficient steward of the funds provided to us.

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