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Top 20 Business Plan Key Assumptions

1. Strategies for Growth: The Business Plan's enrollment targets are based on the recommendations of the Top 20 Task Force.

A. UNDERGRADUATE ENROLLMENT:

- Increase by approximately 1,900 by 2012
- Increase by 6,200 by 2020 [see NOTE].
- No increase in the number of first-time freshmen until Fall 2008.
- Decrease the percentage of first-year students who are Kentucky residents from 79 percent to 75 percent by 2012.

B. GRADUATE AND PROFESSIONAL ENROLLMENT AND POSTDOCTORAL APPOINTEES:

- Increase graduate and first professional enrollments by 750; approximately 390 to be added by 2012.
- Increase funding for doctoral students to provide full tuition and \$15,000 stipend.
- Increase postdoctoral appointments by 375 by 2020.

2. Full-time Faculty: The Business Plan's faculty targets are based on the number of instructional faculty needed to improve the undergraduate student-to-faculty ratio and the number of research and instructional faculty required to achieve research goals.

A. NUMBER OF FULL-TIME FACULTY

- Increase the number of full-time faculty in the undergraduate colleges by 500 by 2020.
- Increase will be front-loaded, i.e., the number of faculty will increase at a faster rate than student enrollments.
- Increase the number of full-time faculty in the graduate and first professional colleges by 125 by 2020.

B. COMPETITIVE FACULTY COMPENSATION -

Increase faculty salaries at a rate that will eliminate the gap between the average salary for UK faculty and the median faculty salary at UK's benchmark institutions by 2012.

3. Base Budget and Inflationary Increases: The Business Plan is based on the 2005-06 General Funds budget approved by the Board of Trustees and includes estimated inflationary increases in the projection of all costs.

4. Tuition and Financial Aid:

A. BASELINE PROJECTION

- Tuition and mandatory fees are assumed to increase at an annual rate of four percent for all categories of students—undergraduate and graduate, resident and non-resident.
- The undergraduate financial aid discount rate (unrestricted institutional aid as a percent of tuition) rises from 17% to 20% by 2012.

B. FUNDING THE GAP

- Present various combinations of increases in state appropriation and the corresponding increases in tuition and mandatory fees to close the funding gap.
- For nonresident students, tuition and mandatory fees rise by half the percentage amount as for resident students above 4 percent
- The formula to calculate the nonresident rate increase looks like this:

$$[4\% + (\% \text{ increase} - 4\%) / 2] = \text{Nonresident Rate Increase.}$$

For example, if the resident tuition rate increases by 10 percent, the rate for non-residents increases by 7 percent : $[4\% + (10\% - 4\%) / 2 = 7\%]$.

5. Facility Needs. The Business Plan determines facilities needs using the Council on Postsecondary Education's space model and the projected growth in students and faculty. The model defines standards for assignable square feet required by category of space (e.g., classroom, recreation, support, and research laboratories).

- CPE's recommended state-funded projects for UK, which total \$128 million, are included in the 2006-08 financing projections.
- Biological / Pharmaceutical Complex, Phase II - \$79.9 million
- Gatton Building Complex, Phase I - \$40.5 million
- Bio-Medical Research Building, Design - \$7.6 million

NOTE: CPE is projecting enrollment goals for all institutions based on the Commonwealth's achieving the national average of educational attainment by 2020. CPE's draft model indicates that UK should be expected to enroll more than an additional 10,000 undergraduate students by 2020.

Appendix G-2
FINANCIAL PLAN SUMMARY
Cumulative Funding Required
(\$ Millions)

General Expense Budget

	2006	2012	2020	Variance	
				'06-'12	'06-'20
Faculty, including Librarians <i>(see Appendix G-3)</i>					
Base <i>(salaries increase 3.0% annually plus benefits)</i>	\$248	\$311	\$395	\$64	\$147
Achieve Benchmark Median Compensation <i>(faculty salaries increase additional 2.5% thru FY12)</i>	--	\$48	\$61	\$48	\$61
Add 625 Faculty <i>(\$90k '06 salary, add 213 faculty by FY12)</i>	--	\$30	\$110	\$30	\$110
Portion of Faculty Costs to be Grant Funded <i>(5% of new positions)</i>	--	(\$1)	(\$6)	(\$1)	(\$6)
Sub-Total	\$248	\$388	\$560	\$140	\$313
Academic Support					
Base: Staff Compensation <i>(salaries increase 3.0% annually plus benefits)</i>	\$170	\$215	\$273	\$45	\$102
Staff Enhancements <i>(FY07 = \$5m, increases annually at 3.0%)</i>	--	\$6	\$7	\$6	\$7
Base: Non-Compensation <i>(operating expenses increase 2.5% annually)</i>	\$110	\$122	\$145	\$12	\$35
New Faculty Start-Ups <i>(\$150k/faculty, increases 3.0% annually)</i>	--	\$6	\$8	\$6	\$8
Support for New Graduate Students <i>(see Appendix G-4)</i>	--	\$1	\$2	\$1	\$2
Library: Books and Periodicals <i>(increase annually at 5.0%)</i>	\$8	\$11	\$16	\$3	\$8
Library: Support for New Faculty <i>(\$9.8k/new faculty, 2005-06 Operating Budget pg 80 / 1,890)</i>	--	\$2	\$11	\$2	\$11
Sub-Total	\$288	\$363	\$462	\$74	\$174
Undergraduate Education <i>(2005-06 Operating Budget, pages 81, 83, 86, 89)</i>					
Base: Staff Compensation <i>(salaries increase 3.0% annually plus benefits)</i>	\$30	\$37	\$47	\$8	\$18
Base: Non-Compensation <i>(operating expenses increase 2.5% annually)</i>	\$6	\$7	\$8	\$1	\$2
Support for New Undergraduate Students <i>(see Appendix G-4)</i>	--	\$4	\$16	\$4	\$16
Sub-Total	\$35	\$48	\$71	\$12	\$36
Student Aid <i>(2005-06 Operating Budget, page 88 - see also Appendix G-5)</i>					
Graduate					
Base <i>(increase at rate of tuition)</i>	\$25	\$32	\$43	\$7	\$19
Increase Stipends to Benchmark Median	--	\$5	\$7	\$5	\$7
Support for 750 New Students	--	\$8	\$20	\$8	\$20
Undergraduate					
Base <i>(increase at rate of tuition)</i>	\$20	\$26	\$35	\$5	\$15
Increase Discount Rate <i>(from 16.8% to 20.0% by 2012)</i>	--	\$6	\$9	\$6	\$9
Support for 6,200 New Students	--	\$4	\$15	\$4	\$15
Sub-Total	\$45	\$80	\$130	\$35	\$85
Support Services <i>(2005-06 Operating Budget, pages 5 and 7)</i>					
Base: Staff Compensation <i>(salaries increase 3.0% annually plus benefits)</i>	\$59	\$75	\$95	\$15	\$35
Base: Non-Compensation <i>(increase 5.0% annually (2.5% cpi, 2.5% util./IRIS))</i>	\$33	\$45	\$66	\$11	\$33
Support for New Faculty <i>(see Appendix G-6)</i>	--	\$13	\$47	\$13	\$47
Sub-Total	\$93	\$132	\$208	\$41	\$114
New Facilities <i>(see Appendix G-7)</i>					
Operating	--	\$8	\$16	\$8	\$16
Capital Renewal and Deferred Maintenance	--	\$13	\$28	\$13	\$28
Debt Service	--	\$49	\$88	\$49	\$88
Sub-Total	\$0	\$70	\$132	\$70	\$132
Hospital <i>(revenue increases at rate of expenses)</i>					
	\$467	\$576	\$710	\$109	\$243
Total General Fund Budget*	\$1,176	\$1,657	\$2,273	\$483	\$1,096

*may not total due to rounding

Appendix G-2 [cont.]
FINANCIAL PLAN SUMMARY
Cumulative Funding Provided
(\$ Millions)

General Revenue Budget

	2006	2012	2020	Variance	
				'06-'12	'06-'20
State Appropriation <i>(assumes no increase)</i>					
Mandated	\$77	\$77	\$77	\$0	\$0
Non-Mandated	\$229	\$229	\$229	\$0	\$0
Debt Service	\$8	\$8	\$8	\$0	\$0
Sub-Total	\$314	\$314	\$314	\$0	\$0
Tuition and Fees Revenue					
Tuition Rate Increases 4.0% Annually	\$170	\$215	\$294	\$45	\$124
Enrollment Growth (undergraduate and graduate)		\$19	\$82	\$19	\$82
Nonresident 1st-Year Undergraduates Increases to 25% by FY12		\$8	\$15	\$8	\$15
Fees <i>(mandatory registration increases 4.0% annually, others 3.0%)</i>	\$24	\$30	\$41	\$6	\$17
Sub-Total	\$194	\$271	\$432	\$78	\$238
Investment Return					
Base <i>(increases annually at 3.0%)</i>	\$8	\$9	\$11	\$1	\$4
Additional Endowment Return Available for Business Plan		\$3	\$11	\$3	\$11
Sub-Total	\$8	\$12	\$22	\$5	\$15
County Appropriations <i>(increases annually at 3.0%)</i>					
	\$12	\$14	\$18	\$2	\$6
Philanthropy					
Base	\$1	\$3	\$4	\$2	\$3
Restricted <i>(50% of future incremental gifts to available for business plan)</i>	--	\$5	\$16	\$5	\$16
Sub-Total	\$1	\$8	\$21	\$7	\$19
Contracts with KMSF, Inc.					
<i>(increases at same rate as salaries and operating exp., about 3.2% annually)</i>	\$90	\$113	\$141	\$22	\$50
Research Recovery					
F&A Reimbursement <i>(grows with direct research)</i>	\$17	\$23	\$39	\$6	\$22
Increase in F&A Attributable to Faculty Growth and Increased Productivity	--	\$9	\$32	\$9	\$32
Sub-Total	\$17	\$32	\$71	\$15	\$54
Internal Reallocation <i>(10% of all base Support Services expenses)</i>		\$12	\$16	\$12	\$16
Sales and Services <i>(increases annually at 3.0%)</i>	\$21	\$25	\$32	\$4	\$11
Budgeted Carryforwards <i>(increases with operating expenses at 2.5%)</i>	\$27	\$31	\$38	\$4	\$11
Other <i>(increases annually at 3.0%)</i>	\$26	\$31	\$39	\$5	\$13
Hospital <i>(revenue increases at rate of expenses)</i>	\$466	\$575	\$708	\$109	\$242
Total General Fund Budget*	\$1,176	\$1,439	\$1,852	\$263	\$676

*may not total due to rounding

■ BUSINESS PLAN UNFUNDED

<input type="checkbox"/> Annual Funding Required	\$ 482	\$ 1,097
<input type="checkbox"/> Annual Funding Provided	\$ 263	\$ 676
<input type="checkbox"/> Total Unfunded or "Funding Gap"	\$218	\$421

Appendix G-3

PROJECTED FACULTY EXPENSES (\$ Millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Variance	
																2012	2020
Base Salaries																	
Salary Growth Rate	--	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		
Salary	\$196	\$202	\$208	\$214	\$220	\$227	\$234	\$241	\$248	\$255	\$263	\$271	\$279	\$287	\$296		
Benefits Rate	26.5%	27.8%	30.7%	32.0%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%		
Benefits	\$52	\$56	\$64	\$68	\$73	\$75	\$78	\$80	\$82	\$85	\$87	\$90	\$93	\$96	\$98		
Sub-Total	\$248	\$258	\$271	\$282	\$294	\$302	\$311	\$321	\$330	\$340	\$351	\$361	\$372	\$383	\$395	\$64	\$147
Benchmark Median																	
Additional Salary Growth	--	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	--	--	--	--	--	--	--	--		
Salary	--	\$5	\$10	\$16	\$22	\$29	\$36	\$37	\$38	\$40	\$41	\$42	\$43	\$44	\$46		
Benefits	--	\$1	\$3	\$5	\$7	\$10	\$12	\$12	\$13	\$13	\$14	\$14	\$14	\$15	\$15		
Sub-Total	--	\$6	\$13	\$21	\$30	\$39	\$48	\$50	\$51	\$53	\$54	\$56	\$58	\$59	\$61	\$48	\$61
Add 625 Faculty																	
Add New Faculty	--	27	54	82	123	168	213	260	307	358	414	468	522	576	625		
Salary Growth Rate	--	--	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		
Average Salary (\$'000s)	--	\$90	\$93	\$95	\$98	\$101	\$104	\$107	\$111	\$114	\$117	\$121	\$125	\$128	\$132		
Benefits (\$'000s)	--	\$25	\$28	\$31	\$33	\$34	\$35	\$36	\$37	\$38	\$39	\$40	\$41	\$43	\$44		
Sub-Total	--	\$3	\$7	\$10	\$16	\$23	\$30	\$37	\$45	\$54	\$65	\$75	\$87	\$98	\$110	\$30	\$110
5% Grant Funding	--	(\$0)	(\$0)	(\$1)	(\$1)	(\$1)	(\$1)	(\$2)	(\$2)	(\$3)	(\$3)	(\$4)	(\$4)	(\$5)	(\$6)	(\$1)	(\$6)
Total	\$248	\$267	\$291	\$313	\$338	\$362	\$388	\$406	\$425	\$445	\$466	\$489	\$512	\$536	\$560	\$140	\$313
Student Faculty Ratio (as reported to US News)																	
Students																	
Undergraduate	16,595	16,830	17,003	17,266	17,630	18,035	18,477	18,956	19,465	19,995	20,541	21,097	21,660	22,226	22,795	1,882	6,200
Graduate	2,580	2,580	2,638	2,696	2,754	2,780	2,806	2,832	2,858	2,885	2,911	2,937	2,963	2,989	3,015	226	435
Part-Time	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	1,276	0	0
Total	20,451	20,686	20,917	21,238	21,660	22,091	22,560	23,065	23,599	24,156	24,728	25,309	25,899	26,491	27,086	2,109	6,635
Instructional Faculty	1,151	1,171	1,191	1,212	1,246	1,280	1,314	1,350	1,386	1,426	1,472	1,518	1,564	1,610	1,651	163	500
Ratio	17.8	17.7	17.6	17.5	17.4	17.3	17.2	17.1	17.0	16.9	16.8	16.7	16.6	16.5	16.4		

Appendix G-4

**PROJECTED ACADEMIC AND SUPPORT SERVICES FOR "NEW STUDENTS"
(\$ Millions)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Variance 2012	2020
Student Service Budget (2005-06 Operating Budget, pages 81, 83, 86, 89)																	
Salaries	\$24.8																
Benefits	\$6.5																
Operating Exp (net recharges)	\$5.9																
Total Budget	\$37.3																
Undergraduates	17,107																
Graduates	5,195																
Total	22,302																
Cost / Student (\$000s)																	
<i>Salary Growth Rate</i>	–	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%		
Salaries	\$1.1	\$1.1	\$1.2	\$1.2	\$1.3	\$1.3	\$1.3	\$1.4	\$1.4	\$1.4	\$1.5	\$1.5	\$1.6	\$1.6	\$1.7		
<i>Benefit Rate</i>	26.4%	27.7%	30.6%	31.8%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%	33.1%		
Benefits	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.6		
<i>Operating Exp Growth Rate</i>	–	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
Non-Compensation	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4	\$0.4	\$0.4		
Total	\$1.7	\$1.7	\$1.8	\$1.9	\$2.0	\$2.0	\$2.1	\$2.1	\$2.2	\$2.3	\$2.3	\$2.4	\$2.5	\$2.5	\$2.6		
New Graduates (cumulative)		0	100	200	300	345	390	435	480	525	570	615	660	705	750		
Additional Funding Required																	
Salaries	\$0.0	\$0.0	\$0.1	\$0.2	\$0.4	\$0.4	\$0.5	\$0.6	\$0.7	\$0.8	\$0.9	\$0.9	\$1.0	\$1.2	\$1.3		
Benefits	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4	\$0.4		
Non-Compensation	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3	\$0.3		
Total	\$0.0	\$0.0	\$0.2	\$0.4	\$0.6	\$0.7	\$0.8	\$0.9	\$1.1	\$1.2	\$1.3	\$1.5	\$1.6	\$1.8	\$2.0		
New Undergraduates (cumulative)		235	408	671	1,035	1,440	1,882	2,361	2,870	3,400	3,946	4,502	5,065	5,631	6,200		
Additional Funding Required																	
Salaries	\$0.3	\$0.3	\$0.5	\$0.8	\$1.3	\$1.9	\$2.5	\$3.2	\$4.0	\$4.9	\$5.9	\$6.9	\$8.0	\$9.2	\$10.4		
Benefits	\$0.1	\$0.1	\$0.1	\$0.3	\$0.4	\$0.6	\$0.8	\$1.1	\$1.3	\$1.6	\$2.0	\$2.3	\$2.7	\$3.0	\$3.5		
Non-Compensation	\$0.1	\$0.1	\$0.1	\$0.2	\$0.3	\$0.4	\$0.6	\$0.7	\$0.9	\$1.1	\$1.3	\$1.6	\$1.8	\$2.1	\$2.3		
Total	\$0.4	\$0.4	\$0.7	\$1.3	\$2.0	\$2.9	\$3.9	\$5.0	\$6.3	\$7.7	\$9.2	\$10.8	\$12.5	\$14.3	\$16.2		
																\$4	\$16

Appendix G-7

FACILITY NEEDS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Cumulative		
																2012	2020	
Residence Hall																		
New Undergraduates		0	0	671	364	405	443	479	509	530	546	555	564	566	568		1,882	6,200
New Beds for 30% Students		0	0	201	109	121	133	144	153	159	164	167	169	170	171		565	1,860
Cost per Bed (\$000's)	\$72	\$74	\$76	\$79	\$81	\$83	\$86	\$89	\$91	\$94	\$97	\$100	\$103	\$106	\$109			
Cost (\$Ms)	\$0	\$0	\$0	\$16	\$9	\$10	\$11	\$13	\$14	\$15	\$16	\$17	\$17	\$18	\$19		\$46	\$174
Renovation		\$7		\$59		\$18	\$46		\$49		\$23	\$24		\$26	\$26		\$130	\$278
Total Cost (\$Ms)	0	\$7	\$0	\$75	\$9	\$28	\$58	\$13	\$63	\$15	\$39	\$41	\$17	\$43	\$45		\$176	\$452
Financial Need (\$Ms)																		
New Construction																		
Cost	\$0	\$135	\$0	\$489	\$52	\$73	\$107	\$66	\$121	\$76	\$104	\$109	\$90	\$119	\$124		\$856	\$1,666
Less Residence Hall	\$0	(\$7)	\$0	(\$75)	(\$9)	(\$28)	(\$58)	(\$13)	(\$63)	(\$15)	(\$39)	(\$41)	(\$17)	(\$43)	(\$45)		(\$176)	(\$452)
Less Facilities Gifts	\$0	(\$2)	(\$9)	(\$1)	(\$1)	(\$1)	(\$2)	(\$3)	(\$3)	(\$3)	(\$3)	(\$3)	(\$2)	(\$3)	(\$3)		(\$17)	(\$39)
Debt Issued	\$0	\$126	(\$9)	\$413	\$42	\$44	\$47	\$51	\$55	\$58	\$62	\$65	\$70	\$73	\$77		\$663	\$1,174
Debt Service (5%, 20yr)	\$0	\$0	\$10	\$9	\$43	\$46	\$49	\$53	\$57	\$62	\$66	\$71	\$77	\$82	\$88		\$49	\$88
Operating Expenses																		
Research ASF	0	127	0	473	36	37	38	40	42	43	44	46	47	48	50			
Cost per ASF	\$7	\$7	\$7	\$8	\$8	\$8	\$8	\$9	\$9	\$9	\$9	\$10	\$10	\$10	\$11			
Other ASF (x Residence)	0	77	0	181	35	35	37	40	42	44	46	46	46	46	46			
Cost per ASF	\$4	\$4	\$4	\$4	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$6	\$6	\$6	\$6			
Sub-Total (cumulative)	\$0	\$0	\$1	\$1	\$6	\$6	\$7	\$8	\$8	\$9	\$10	\$11	\$12	\$13	\$14			
Faculty Leases																		
Number of Faculty	0	27	54	82	123	168	213	260	307	358	414	468	522	576	625			
ASF per Faculty	195	195	195	195	195	195	195	195	195	195	195	195	195	195	195			
Lease per ASF	\$17	\$18	\$18	\$19	\$19	\$20	\$20	\$21	\$22	\$22	\$23	\$24	\$24	\$25	\$26			
Total (cumulative)	\$0	\$0	\$0	\$0	\$0	\$1	\$1	\$8	\$9	\$10	\$11	\$12	\$13	\$14	\$16		\$8	\$16
Restoration (2%, x Residence)	\$0	\$0	\$3	\$3	\$11	\$12	\$13	\$15	\$16	\$18	\$20	\$22	\$24	\$26	\$28		\$13	\$28
Total	\$0	\$0	\$14	\$14	\$60	\$65	\$70	\$76	\$83	\$90	\$97	\$105	\$113	\$122	\$132		\$70	\$132

Appendix G-8

PROJECTED RESEARCH EXPENDITURES REPORTED TO NSF (\$ Millions)

	Actual				Projection				Annual Growth Rates '04-'12			Annual Growth Rates '12-'20		
	2002	2003	2004	...	2012	...	2020	Base	New	Total	Base	New	Total	
Federal	100	120	130	...	254	...	437	6.8%	1.9%	8.7%	4.5%	2.5%	7.0%	
<i>CPE Goals</i>	--	100	114	...	--	...	414							
Gov't / Industry	48	49	52	...	76	...	131			5.0%			7.0%	
Other	14	18	22	...	35	...	60			6.0%			7.0%	
Sub-Total	162	187	203	...	365	...	627			7.6%			7.0%	
<i>CPE Goals</i>	--	174	190	...	--	...	600							
Institutional	74	85	94	...	111	...	141			2.0%			3.0%	
Total	236	272	298	...	476	...	768	4.7%	1.3%	6.0%	4.1%	2.1%	6.2%	
<i>New Faculty (cumulative)</i>														
<i>Instructional</i>													163	500
<i>Medicine and Professional Schools</i>													50	125

[1] Assumes new faculty split research 70% federal and 30% non-federal.