

Operating Budget 2004-05



Ernest J. Yanarella, Chair, Senate Council

“The new operating budget, however trim and tight, still underlines the cardinal role of the faculty in advancing the University’s mission and goals in teaching, research, and service. Adversity is not an excuse for cynicism or fatalism. The faculty of this University must - and will - remain dedicated to providing UK students with the knowledge and skills needed to meet the challenges of the Twenty-First century.”

Sheila C. Brothers, Chair, Staff Senate

“The University of Kentucky's ability to move forward as we absorb recurring budget cuts is phenomenal. UK staff employees appreciate the efforts of President Lee Todd and his administration to find the funds necessary to offer a one percent salary increase and protect those faculty and staff who are enrolled in UK HMO from having to pay for the increased costs of our health insurance. We will continue to work together to overcome these hard times and see UK on to a brighter future.”



Operating Budget 2004-2005



Influential
RECOGNITION
COMPETITIVE
OUTREACH
20 BEST
CELLENCE
EFFECTIVE
EQUITY
SERVICE
DISCOVERY
COMPETITIVE
Prominence
PROGRESS
Influential
HOLARSHIP
COMPETITIVE
TEACH
LEARNING
KNOWLEDGE



EFFECTIVE
EQUITY
DISCOVERY
COMPETITIVE
Kentuckians
PROGRESS



Challenges

- Enrollment increase
- Declining state appropriations
- No state budget
- Transfer of LCC to KCTCS



Enrollment Increase: Fall 2004, expecting largest enrollment -
headcount: 26,700
first-time freshmen: 4,000

State appropriations:

- FY 2004-05 will be the 4th year of declining state appropriations
- Instability of state appropriations causes difficult management issues

No state budget – spending plan.

- UK's FY 2005 budgeted state appropriation amounts based on the most recent versions of the budget bills
- Uncertainty of capital projects

Transfer of LCC – House Joint Resolution 214, effective July 1, 2004:

- FY 2004 includes LCC budget information; only some items in FY 2005 including mandatory fees paid by LCC students, state and federally funded student financial aid, and an assessment for services provided by UK to LCC.
- The state funded debt service for the three facilities occupied by LCC on the Cooper Drive will remain with the University.

Accomplishments

- Increased endowments
- More endowed chairs and professorships
- Increased research grants and contracts
- Nine programs attained “Top 20” status
- Six additional “Top 20” achievements



Increased endowments: Goal - \$500 endowment

- As of March 31, market value = \$495, up from \$399 when the 2003-06 strategic plan was released

Endowed chairs and professorships:

- Since 1998, UK has created 58 endowed chairs and 148 endowed professorships through the EMP
- Total endowed chairs: 80
- Total endowed professorships: 193

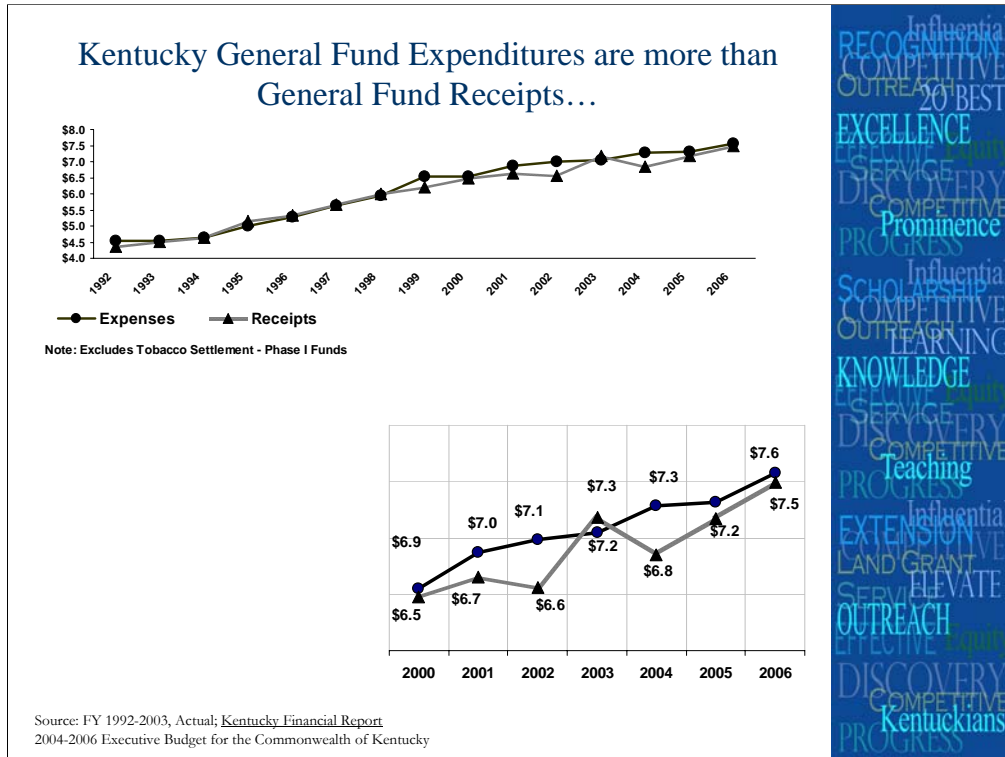
Research Grants & Contract:

- FY 2003 federal research grants (NSF) = \$120 mil, 20% inc in one yr
- Strategic plan goal: \$140 million by 2006

9 Top 20 programs:

Pharmacy, Geography, Hispanic Studies, Anatomy and Neurobiology, Surgery, Public Finance / Budget, Behavioral Science, Applied Communications (PhD), Real Estate Studies

6 Additional Top 20 achievements: 1) number of start-up companies per \$10 mil of research exp; 2) Average income per license for inventions; 3) Licensing income and patents; 4) Number of inventions per \$1 mil in research spending; 5) Center for Rural Health; 6) UK Libraries Book Endowment

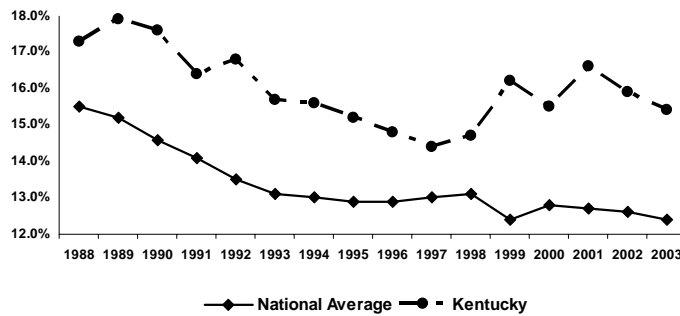


Commonwealth of Kentucky General Fund Receipts:

- Expenses often exceed tax receipts
- From 1992 to 2000, average annual growth was 4.7 percent; recent years annual growth has been volatile:

2001	2.7%
2002	1.4%
2003	9.5%
2004	-4.7% (original revenue forecast)
- FY 2002 was the first-time since 1954 that state tax receipts were less than the previous year – (\$6.56 billion, \$60 million less than FY 2001)

Kentucky Continues to Spend More of its General Funds on Higher Education



Source: National Association of State Budget Officers, 2002 State Expenditure Report, Summer 2003



Kentucky has traditionally exceeded the national average of the percentage of General Funds appropriated to higher education. – we are getting a good share of the pie.

KY allocates 59 percent of General Funds to education (K – 16)

Problem: the pie is not big enough, the allocation of the pie is right – emphasis on education

	KY	National
Higher Education	16%	12%
K-12	43%	36%
Medicaid	11%	16%
Corrections	4%	7%

Looming Problem: Medicaid continues to dominate growth in state spending; as it and corrections require a larger share of the pie, other areas are forced to decrease.

FY 2004-05 Budget Goals & Objectives

Goals: Enroll, retain and graduate more students and continue progress toward becoming one of America's "Top 20" public research universities.

Objectives:

- Fund a modest cost of living salary increase for faculty and staff
- Minimize health care insurance cost increases to our employees
- Provide more scholarships for students
- Fund program improvements that invest in our future



The Dream and the Challenge FY 2004-05 Budget Highlights

- I. *Reach for National Prominence*
 - Undergraduate teaching resources
 - Integrated Resource Information System (IRIS)
 - Program enhancements
- II. *Attract and Graduate Outstanding Students*
 - Scholarships
 - Faculty to teach more students
 - Classroom improvements
- III. *Attract, Develop and Retain a Distinguished Faculty*
 - Faculty / Staff – salary increase, health insurance
 - Faculty Retention Pool
- IV. *Discover, Share and Apply New Knowledge*
 - Biological / Biomedical Sciences Research Building (BBSRB)
 - Morgan County Regional Technology Center
- V. *Nurture Diversity of Thought, Culture, Gender and Ethnicity*
 - Minority recruitment pool
 - Commission on Women and Commission on Diversity
- VI. *Elevate the Quality of Life for Kentuckians*
 - Center for Rural Health



Undergraduate teaching resources:

- enhancing University Honors Program
- Discovery Seminar Program
- Four-year Graduation Agreement
- increasing the # of courses taught by full-time faculty.

Program Enhancements:

- Return tuition differential (\$1.8 million) for faculty recruitment and retention efforts, scholarships, and teaching and program activities
- Continue Evening & Weekend College and Distance-Learning programs (\$1.9 million)
- Library inflationary increases (\$150,000)

Scholarships:

- \$8.2 million increase; over a 25 percent increase of the General Fund scholarship base
- (was \$32.5 million) - Governor's Scholars: 250 students
- \$3.8 million for tuition rate increase; \$2.5 million for Governor's scholars; \$1 million need-based aid

Faculty to teach more students:

- \$592,000 for general enrollment growth;
- \$167,000 to fund a planned expansion of the College of Medicine entering class from 95 students to 103 students

Faculty & Staff: \$9 million (1% salary increase, 12.6% increase in health insurance, inc. misc. benefits.

BBSRB – M&O - \$1.2 million

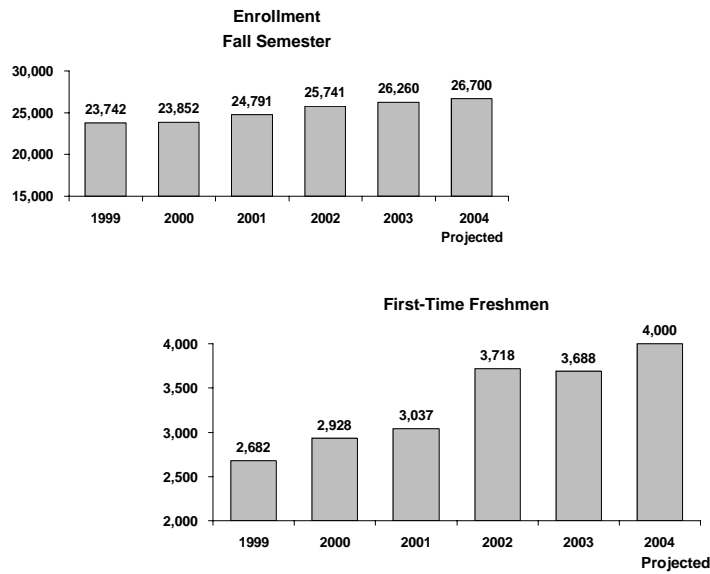
Morgan County Regional Technology Center

Minority recruitment pool - \$400,000

Commissions - \$130,000 each

Center for Rural Health - \$381,000 M&O

Serving more students but...



Sources: UK Office of Planning, Budget & Policy Analysis; UK Fact Booklet



Continue to break enrollment records –

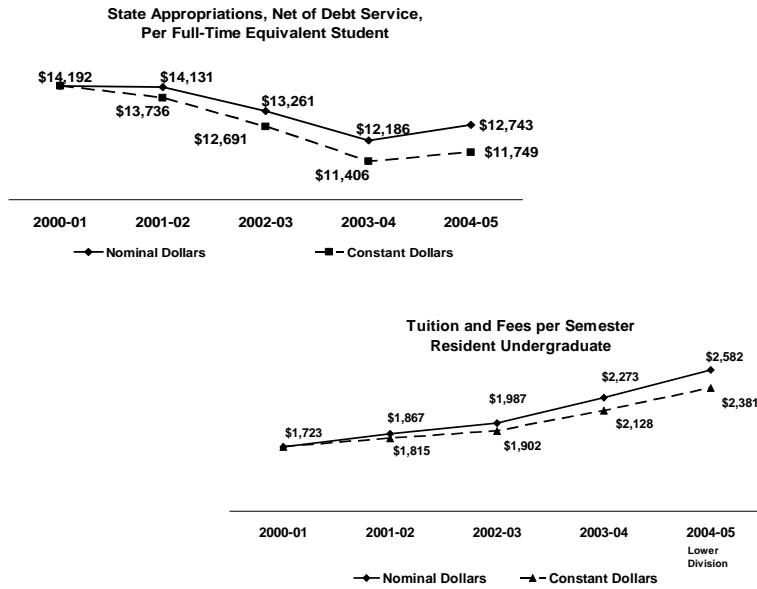
- Fall 2003: enrolled 26,260 students - over 12% increase in five years

Projecting a 1.6% total enrollment increase this fall.

Fall 2004: expecting 4,000 first-time freshmen - almost a 50% increase in five years.

Based on the approved tuition rates and projected enrollments of 26,700 at the University, the recommended budget includes \$185.6 million of tuition and fee revenue.

Who pays?



Sources: US Bureau of Labor Statistics - CPI-U; UK Office of Planning, Budget & Policy Analysis; UK Fact Booklet



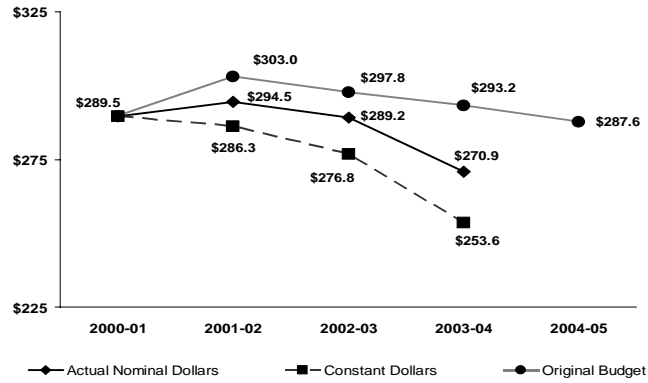
In 1997, with HB 1, a ‘deal’ was struck between the state and the universities – the universities were to enroll more students so as the state would reach the national average of educational attainment. However, the cost of doing this was not considered and is not being funded by the state.

The decline in state appropriations is compounded by increasing enrollments.

After adjusting for inflation, state appropriations per full-time equivalent student will have decreased over 17 percent since FY 2001 (\$14,192 to \$11,749).

Based on this data, UK received \$17,638 per student in FY 2001 (state appropriations and tuition income); after adjusting for inflation, UK will receive \$16,511 in FY 2005, an effective decrease of 6.3%.

Declining State Appropriations Net of Debt Service in Millions



Note: Excludes the 2001-02 Intergovernmental Transfer

Sources: US Bureau of Labor Statistics - CPI-U; UK Office of Planning, Budget & Policy Analysis

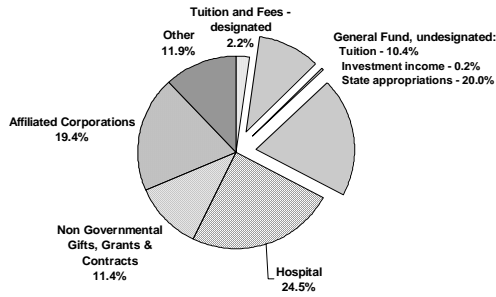


FY 2005 is the fourth straight year of budgeted decline in state appropriations.

One of the major problems we face is the volatile nature of state appropriations. State appropriations are not a steady source of revenue.

Revenue Summary FY 05

General Fund, undesignated	\$451,525,100
General Fund, designated	207,998,900
Restricted funds	113,228,000
Auxiliary funds	56,974,800
Affiliated corporations	286,848,000
Hospital	362,905,200
TOTAL	\$1,479,480,000



Even though the University's budget will total \$1.479 billion in FY 2005, most university-wide budget decisions are based on a small portion of the budget, the undesignated General Funds, which will total \$451.5 million.

This represents only 30 percent of the total budget.

Undesignated funds = state funds for operations, tuition, investment income.

Designated funds = mandatory fees, KMSF transfers, county appropriations for agriculture extension.

Restricted funds = gifts from donors, federal grants – Pell Grants, federal funds for ag cooperative extension service;

Auxiliary – housing and dining

Affiliated Corporations: UKRF, UKAA

FY 2005 Undesignated Funds Additional Needs

Salary and benefits	\$9,004,400
Scholarships	8,380,500
IRIS project	4,000,000
Program investments	3,804,400
Utilities and fixed costs	2,409,000
Tuition differential program	1,862,800
TOTAL	\$29,461,100



We identified \$29.5 million of additional, recurring needs for FY 2005.

- Faculty & Staff: \$9 million (1% salary increase, 12.6% increase in health insurance, inc. misc. benefits.
- Scholarships - \$8.2 million increase; over a 25 percent increase of the General Fund scholarship base (was \$32.5 million). Governor's Scholars: 250 students;
- Program investments:
 - enhancing University Honors Program, Discovery Seminar Program, Four-year Graduation Agreement; increasing the # of courses taught by full-time faculty. (\$500,000)
 - Recurring funds for Evening & Weekend College and Distance-Learning programs (\$1.9 million)
 - Library inflationary increases (\$150,000)
 - Faculty to teach more students (\$742,000):
 - \$592,000 for general enrollment growth;
 - \$167,000 to fund a planned expansion of the College of Medicine entering class from 95 students to 103 students

FY 2005 Undesignated Funds Changes in Resources

Recurring:	
State appropriations reduction	(\$5,533,500)
Investment income decrease	(1,000,000)
Service assessments decrease	(336,000)
Tuition revenue increase	24,046,400
Subtotal	17,176,900
Internal reallocations (recurring)	6,000,000
Reserves (non-recurring)	6,284,200
TOTAL	\$29,461,100



We identified \$17 million of net recurring, additional revenues

To cover our needs, we had to reallocate \$6 million recurringly (in addition to the \$9 million reallocation FY 2004)

- The FY 2004 reallocation = 1 percent reduction for Colleges and 2 percent for all other units.

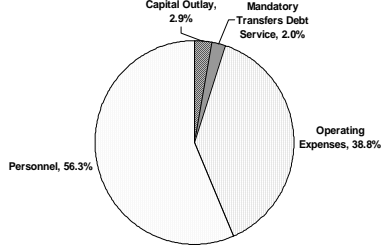
Reserves – to keep the recurring reallocation down, we are going to use \$6.2 million of ‘one-time’ reserve funds to cover the recurring needs.

FY 2005 Expenses

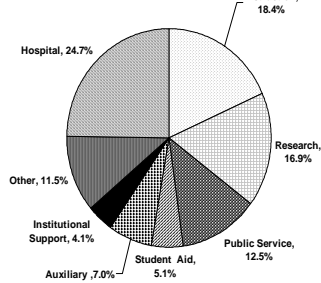
By Object:	
Personnel	\$832,263,000
Operating expenses	574,526,300
Capital outlay	42,746,000
Mandatory transfers – debt service	29,944,700
TOTAL	\$1,479,480,000

By Function:	
Instruction	\$271,916,300
Research	250,387,600
Public Service	184,594,700
Student financial aid	74,924,600
Auxiliary enterprises	102,835,700
Institutional support	59,971,100
Other	169,751,100
Hospital	365,098,900
TOTAL	\$1,479,480,000

By Object:



By Function:



The transfer of LCC impacts the expense percentages by object and function.

- LCC had more personnel and instruction complements, thus, these two categories are less than FY 2004
 - Instruction decreased from 19.7% to 18.4%
 - Personnel decreased from 57.1% to 56.3%

Hospital's budget is increasing from \$322 million to \$365 million resulting in an increase of the hospital functional percentage from 22.9% to 24.7%

“This fall, children across Kentucky will enroll in kindergarten and begin their journey to college. Thousands of them will become UK’s class of 2020. The work we do today and tomorrow will determine whether we will be one of America’s outstanding universities when that moment comes.

We will not stand still. The stakes are too high and the responsibility too great to be discouraged from pursuing our dream. We are moving forward.”

Lee T. Todd, Jr.
President



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