



# WEST VIRGINIA STATE UNIVERSITY

Office of the President  
P.O. Box 399  
Institute, West Virginia 25112  
(304) 766-3111  
Fax (304) 768-9842  
E-mail: carterhw@wvstateu.edu



## Memorandum

To: **West Virginia State University Board of Governors**  
Mr. Larry L. Rowe, Chair  
Mrs. Millie Booker                      Mr. Kris Casdorff  
Dr. Tom Guetzloff                      Mr. William Lipscomb  
Mr. Larry Salyers                      Dr. Ann Brothers Smith  
Dr. Thomas Susman                      Mr. Gary L. Swingle  
Dr. John Thralls                      Mr. L. Vincent Williams

From: Hazo W. Carter, Jr., President *HWC*

Subject: Background Information Concerning WVSU's Financial Performance/Picture

Date: September 19, 2011

Since many of you were appointed to the Board of Governors after June 30, 2009, I have enclosed information that will help to bring some clarity to the University's historical financial issues and that will be relevant for you when assessing options for the University's financial condition moving forward.

The enclosed documents provide an overview of the impact to the University's financial health resulting from multiple years of subsidizing the KVCTC's operations, correspondence to higher education officials and legislators regarding the same along with their feedback, a Board Approved Three Year Action Plan focused on a balanced budget and deficit account reductions, and finally the significant reduction in the FY 2010-2011 Services Agreement by the KVCTC together with the approval of this reduction by both Chancellors.

Additionally, you will find information which reference legislative action taken to offset the impact of Community and Technical College separation from their former administratively-linked University. A couple of institutions have received special appropriations over four years to lessen this impact. To date, even though I have corresponded with a number of legislative officials, this funding has not been afforded WVSU although we meet the same criteria as the other two institutions. The Interim

Vice President for Finance will provide an overview of this information during his report to the Finance Committee on Thursday.

If you have any questions prior to the meeting, please contact me or Mr. Jones.  
Thank you.

HWC/cw

Enclosures

c: Mr. Melvin Jones



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June 28, 2005

Mr. James L. Skidmore, Chancellor  
West Virginia Council for Community  
and Technical College Education  
1018 Kanawha Boulevard, East  
Charleston, West Virginia 25301

Dear Chancellor Skidmore:

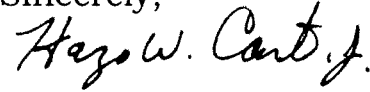
In early May, I wrote to you regarding the \$211,916 reduction in the University's current year budget that was transferred to the West Virginia State Community and Technical College (WVSCTC). The rationale for the action, as I understand it, was to provide funding to the WVCTC even though it is a free standing accredited institution located on our campus.

As previously indicated, the adjustment is unprecedented and the amount should be restored to the base budget of West Virginia State University (WVSU). The U.S. Department of Education (USDE) indicated that the CTC is a separately accredited institution with its own president, and has determined that it is not an HBCU and nor were they eligible to participate in Title III-B formula funding. As a result of this action, WVSU is being penalized by having its funding cut by \$800,000 or more due to the exclusion of CTC students from the Title III-B formula. To my knowledge, no legislation has been passed stating that universities with administratively-linked CTCs on their campuses will be responsible for the financial viability of those institutions.

My May 5th letter also provided details on employees who were previously paid from Title III-B funding who were transferred to the CTC budget. Consequently, WVSU's funding from Title III-B will be cut by \$800,000. The reductions further supports our position that we should not be a replacement funding source for the WVSCTC. This issue is a source of great concern to our Board of Governors and to those who work and

study at this University. I would appreciate your responding ASAP to the points raised in this correspondence and in my letter to you dated May 5, 2005.

Sincerely,



Hazo W. Carter, Jr.  
President

WVSU Board of Governors  
WVSU President's Cabinet  
Walt Helmick, Chair-Senate Finance Committee  
Robert H. Plymale, Chair-Senate Finance Committee  
Harold Michael, Chair-House Finance Committee  
Tom Campbell, Chair-House Education Committee  
J. Michael Mullen, Chancellor-WV Higher Education Policy Commission  
Mary Clair Eros, Esquire and Chair of the WV Higher Education  
Nelson Robinson, Jr., Chair-WV Council on Community & Technical College Education  
Ervin V. Griffin., Sr., President-WV State Community and Technical College  
Albert L. Walker, President-Bluefield State University  
Daniel J. Bradley, President-Fairmont State University  
Michael Farrell, Interim President-Marshall University  
David Dunlop, President-Shepherd University  
David Hardesty, President-West Virginia University  
Charles Bayless, President-West Virginia University Institute of Technology

## MEMORANDUM

**TO:** Dr. Hazo Carter, President  
West Virginia State University

Dr. Ervin Griffin, President  
West Virginia State Community and Technical College

**FROM:** Dennis Taylor, Vice Chancellor for Administration  
Patricia Hunt, Director of Finance and Facilities  
West Virginia Higher Education Policy Commission  
West Virginia Council for Community and Technical College Education

**DATE:** November 30, 2005

**RE:** Proposed Chargeback Agreement

*Dennis C. Taylor*  
*Patricia W. Hunt*

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Staff for the Higher Education Policy Commission and Council for Community and Technical College Education recommends a chargeback agreement attached as Table 1. The proposed chargeback agreement shows an overall deficit of \$410,695 for Fiscal Year (FY 2006). Staff proposes that this deficit be carried by West Virginia State University because the University has sufficient net assets to absorb the deficit, while West Virginia State Community and Technical College does not.

From a purely financial perspective, the Community and Technical College has been unable to cover charges from the University over the last several years. While the precise amount may be open to debate, this reality is not. According to University and Community and Technical College calculations, the Community and Technical College was unable to pay \$933,000 in chargeback costs in FY 2004 and \$557,000 in FY 2005. Arguably some of the services being provided could have been discounted further to better reflect Community and Technical College utilization, but such discounts probably would not have changed the overall numbers significantly.

In reaching this conclusion, we reviewed not only financial data, but also enrollment and other types of data to ensure that we understand the underlying causes of the situation in which the University and Community and Technical College find themselves. Furthermore, we retained an external auditor, who confirmed the veracity of the financial data upon which we base our conclusion.

## Underlying Causes

From our perspective, four factors have coalesced to create the situation in which West Virginia State University, West Virginia State Community and Technical College, and we find ourselves. We will attempt to outline them below:

- The Community and Technical College remains significantly under-funded in relation to its peer institutions.
  - According to our most recently peer equity calculations, the Community and Technical College operates on 59% of the funds of its peer institutions. Were the Community and Technical College to receive 70% of the funding of its peer institutions, it would have an additional \$944,000 (80% - \$1,799,000; 90% - \$2,654,000).
  - The Community and Technical College receives less state funding per full-time equivalent (FTE) student than any other West Virginia community and technical college. Were the Community and Technical College funded at the state FTE average, it would receive an additional \$763,284 in state funding.
  
- The Community and Technical College has done two things of which state policymakers have been very supportive, but has not been rewarded financially (in any significant way) for these actions.
  - The Community and Technical College has increased its enrollment significantly. This fall's preliminary enrollment numbers show the Community and Technical College having 1,155 FTE students compared to 995 FTE students in fall 2002.
  - The Community and Technical College has consistently kept its tuition rates down in comparison to its sister administratively-linked institutions. At present, the Community and Technical College's tuition rate is \$230 less than the average annual tuition rate at administratively-linked institutions. Over the last ten years, the Community and Technical College's tuition rate has increased less (2.89% on average) than any other administratively-linked institution and all but two institutions.
  
- The Community and Technical College has lost the benefit of Title III funding, and the University will lose significant Title III funding next year.
  - The FY 2006 budget bill transferred \$211,000 from the University's budget to the Community and Technical College's budget to offset direct Title III benefits to the Community and Technical College. The Community and Technical College has lost indirect benefits, as well, and these benefits have not been offset.
  - In federal fiscal year (FFY) 2007, the University will lose approximately \$677,000 in Title III funding as a result of not being able to count Community and Technical College students. This will exacerbate the operating deficit that appears in the chargeback agreement.

- The University has seen decreases in state appropriations over the last five years. In FY 2002, the University received \$11,253,723 in state appropriations; in FY 2006, the University's state appropriation was \$9,158,633.

Additionally, several challenges common to all administratively-linked institutions ultimately may come into play here. First, sponsoring institutions provide (and need to provide) a higher level of services to students than community and technical colleges need to provide in some areas. A four-year institution, for instance, needs a larger library than does a community and technical college. Theoretically, the cost of the four-year institution's necessarily-higher-end services should be offset by efficiencies gained from joint operations. Second, and closely related, some services disproportionately benefit four-year students or offer no benefit to two-year students, and this should be recognized in the chargeback negotiation process. While not yet completely relevant, these issues are likely to arise over time as the Community and Technical College is better able to pay for the University's services.

### Our Approach

In the past, West Virginia State University has entered into agreements with West Virginia State Community and Technical College that the Community and Technical College has been unable to pay, which effectively created liabilities for the two-year institution that the four-year institution had to write off. We are proposing a different approach for FY 2006 that takes into consideration the Community and Technical College's ability to pay for the services that the University is providing.

Were the University and Community and Technical College to follow the approaches taken for other administratively-linked institutions, most shared costs would be allocated based on the relative percentages of FTE students attending the University (69%) and the Community and Technical College (31%). Our calculations, however, suggest that the Community and Technical College will be able to pay only 20% of the cost for most services, and this is our recommendation for Fiscal Year 2006. It must be recognized, however, that this level of reimbursement cannot continue indefinitely. Two things must be done: (1) A significant portion of any new Community and Technical College funds must be used to offset chargeback costs; and (2) the University and Community and Technical College must continue to review costs to ensure a fair allocation of charges for services rendered and look for ways to operate more efficiently and effectively.

The precise chargeback percentages were derived after making several adjustments to the budgets submitted by the University and Community and Technical College:

- The Community and Technical College's expenditures budget was reduced by \$400,000 (academic support). This reduction was made because these expenditures were originally added to the budget to cover costs associated with

nursing program expansion. Ultimately, a federal grant (not budgeted as revenue) will offset these costs.

- The revenues were adjusted so that they were more in line with information from FY 2005 financial statements and fall 2005 enrollment.

Although not perfect, this agreement, we believe, is a reasonable one in light of the financial constraints facing both institutions.



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February 7, 2006

The Honorable Robert H. Plymale, Chair  
Senate Education Committee  
State Capitol Complex  
Building 1, Room 415-M  
Charleston, West Virginia 25305

Dear Senator Plymale:

West Virginia State University (WVSU) requests an appropriation to redress the loss in funding as a result of the unintended consequences of the West Virginia Legislature's budgetary actions. The University has also incurred a reduction in legislative appropriations during the past four years. The amount requested is \$1,775,800, which is equal to the total funds lost. As a result of legislative actions, lost revenues have occurred in federal funding and base and operational budgets due to the following.

**Unintended Legislative Consequences**

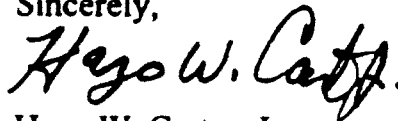
Loss of federal Title III Part B grant fund revenue .....	\$676,792
West Virginia State Community & Technical College (WVSCTC) separation from WVSU caused the U.S. Department of Education funding formula calculation to be reduced beginning October 1,2006.	
WVSCTC base budget funds were transferred from WVSU base budget funds Effective July 1, 2005 .....	\$211,916
WVSCTC charge-back shortfall to WVSU .....	\$624,312
The under-funding by the Legislature of WVSCTC in the amount of \$624,312 has resulted in the University subsidizing the sponsored community and technical college.	
Under-funded WVSU salary increases .....	\$262,780
(Mandated salary increases as of November 2005)	
<b>Total .....</b>	<b>\$1,775,800</b>



Senator Plymale  
February 7, 2006  
Page 2

We are confident that you will address this important request and respond positively. If you have any questions, please feel free to contact me.

Sincerely,



Hazo W. Carter, Jr.  
President

c: Governor Joe Manchin III  
Senator Earl Ray Tomblin, Senate President  
Delegate Robert S. Kiss, Speaker of the House  
Senate Finance Committee Members  
House Finance Committee Members  
West Virginia State University Board of Governors  
Dr. Bruce Flack, Interim Chancellor, WV Higher Education Policy Commission  
Mr. Dennis Taylor, Vice Chancellor for Adm., WV Higher Education Policy Commission

This letter was also sent to:

**The Honorable Thomas W. Campbell**

**The Honorable Walt Helmick**

**The Honorable Harold Michael**

**2/7/06**



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February 11, 2008

Dr. Brian E. Noland, Chancellor  
WV Higher Education Policy Commission  
1018 Kanawha Boulevard, East  
Charleston, WV 25301

Mr. James Skidmore, Chancellor  
Council for Community and Technical College Education  
1018 Kanawha Boulevard, East  
Charleston, WV 25301

Dear Chancellors:

The purpose of this letter is to respond to the presentation by Deloitte & Touche, LLP of the Fiscal Year 2007 Consolidated Audit before the West Virginia Higher Education Policy Commission on January 25, 2008, and the comments regarding the negative balance of \$318,672 in unrestricted net assets for West Virginia State University and its other components which include West Virginia State Community and Technical College. We are seeking your assistance to address this issue which has now become critical to the financial health and viability of West Virginia State University.

Further analysis reveals that the balance in the unrestricted net assets of West Virginia State University are a negative \$1,235,729, whereas the unrestricted net assets for the West Virginia State Community and

Technical College are at a positive \$917,057. West Virginia State University's financial reserves have been substantially diminished over the last five (5) fiscal years due to the continuing required subsidies to West Virginia State Community and Technical College. Further, West Virginia State Community and Technical College has been allowed to accumulate unrestricted net assets of \$917,057 over this same time period while not fully reimbursing West Virginia State University for services rendered. This arrangement can not continue.

This is a direct consequence of the brokered compromise charge-back agreement between West Virginia State University and West Virginia State Community and Technical College for the 2005 fiscal year of the staff of the WV Council for Community and Technical College Education which called for West Virginia State Community and Technical College to reimburse West Virginia State University at a level of only 20% of the shared administrative and faculty costs rather than at the level set forth in the charge-back model of 30%. The compromise agreement called for the deficit associated with the charge-back agreement to: **“be carried by West Virginia State University because the University has sufficient net assets to absorb the deficit, while the West Virginia State Community and Technical College does not.”**

This is clearly not the case any longer. Attached for your information is a history of the charge-back agreements, payments and the accumulated subsidy provided by West Virginia State University from 2004 to 2008. That accumulated deficit now totals \$2,913,355.

During 2005, the charge-back agreement negotiations between West

Virginia State Community and Technical College and West Virginia State University were very difficult and an agreement could not be reached due to the inadequate funding of the West Virginia State Community and Technical College by the State of West Virginia. Staff of the WV Higher Education Policy Commission and the WV Council for Community and Technical College Education offered their assistance to help resolve the impasse. An external auditor was retained by the WV Council for Community and Technical College Education to review the financial information prepared by West Virginia State University. The auditors confirmed the veracity of the West Virginia State University financial data.

The staff of the WV Higher Education Policy Commission and the Council for Community and Technical College Education concluded in their November 30, 2005 letter that:

**“It must be recognized, however, that this level of reimbursement cannot continue indefinitely. Two things must be done: (1) A significant portion of any new Community and Technical College funds must be used to offset charge-back costs; and (2) the University and Community and Technical College must continue to review costs to ensure a fair allocation of charges for services rendered and look for ways to operate more efficiently and effectively.”**

During April 2004, Senate Bill 448 became law which under West

Virginia Code §18B-3C defined the relationship between administratively linked community and technical colleges and sponsoring institutions and set forth the authority and duty of the Council for Community and Technical College Education with respect to approval of charge-back agreements. In October 2004, West Virginia State Community and Technical College received approval from the Higher Learning Commission of the North Central Association to receive the maximum five-year initial accreditation. This initial accreditation was the final step in the creation of West Virginia State Community and Technical College as a new institution which would be academically and administratively linked to West Virginia State University.

The implementation of this legislation was intended by the West Virginia Legislature to be "**revenue neutral.**" However, there have been several unintended consequences of this legislation which have negatively impacted the finances of West Virginia State University.

West Virginia State Community and Technical College is significantly underfunded per student by full-time equivalent (FTE) by the State of West Virginia as compared with other public community and technical colleges in West Virginia. This underfunding has produced significant budgetary challenges for both West Virginia State Community and Technical College and West Virginia State University in having adequate financial resources to meet their respective missions.

Based upon its annualized FTE enrollment, West Virginia State Community and Technical College should be reimbursing West Virginia

State University at a rate of 30%. However, due to lack of budgetary funds made available to West Virginia State Community and Technical College by the State of West Virginia, West Virginia State University is only being reimbursed for services provided to West Virginia State Community and Technical College at the rate of 20% during FY 2007 and FY 2008.

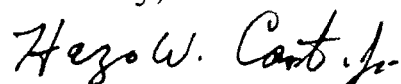
Extensive analysis by the fiscal staff at West Virginia State Community and Technical College and West Virginia State University, external auditors, and Higher Education Policy Commission and Council for Community and Technical College Education staff indicates that West Virginia State Community and Technical College did not have the necessary funds to pay all chargeback expenditures due to West Virginia State University in FY 2004, FY 2005, FY 2006 and, FY 2007. The FY 2008 charge-back agreement also projects that West Virginia State Community and Technical College will not have adequate funds to fully compensate West Virginia State University for services provided. The FY 2008 charge-back agreement, signed by both the West Virginia State University and West Virginia State Community and Technical College presidents, also contains a provision that states, in essence, "West Virginia State University subsidized these funds."

Each year the Council for Community and Technical College Education approves a charge-back agreement, budget, and methodology for determining charges of services between West Virginia State Community and Technical College and West Virginia State University. This year members of the Council for Community and Technical College Education expressed concern about the charge-back agreement only calling for reimbursement at a 20% level rather at the 30% level.



The financial health and viability of West Virginia State University has been placed at-risk due to the imposed and continuing subsidy to West Virginia State Community and Technical College. We appeal for your assistance in resolving this unintended consequence of previous legislative action.

Sincerely,



Hazo W. Carter, Jr.

President

Enclosure

c: Members - West Virginia State University Board of Governors  
Members - West Virginia Higher Education Policy Commission  
Members - Council for Community and Technical College Education  
Deloitte & Touche, LLP

**History of Charge back  
Payments and Subsidy from  
2004 - 2008**

	Actual 2004	Actual 2005	Actual 2006	Estimate 2007	Proposed 2008	Total
Qualified University Expenses	\$ 3,446,840.00	\$ 3,082,895.00	\$3,139,670.00	\$ 2,996,856.00	\$ 3,050,708.00	\$ 15,716,969.00
CTC FTE Rate	30%	30%	30%	30%	30%	
Rate per Charge back Agreement			22%	22%	22%	
Fall Faculty Charge back	\$ 400,576.00	\$ 376,865.00	\$ 321,255.00	\$ 350,000.00	\$ 330,000.00	\$1,778,696.00
Spring Faculty Charge back	\$ 465,172.00	\$ 387,512.00	\$ 382,221.00	\$ 350,000.00	\$ 330,000.00	\$ 1,914,905.00
Total CTC Charge back	\$3,446,840.00	\$ 3,082,895.00	\$3,139,670.00	\$ 2,996,856.00	\$ 3,050,708.00	\$ 15,716,969.00
Less CTC Charge back Payments	\$2,510,000.00	\$ 2,648,502.00	\$2,231,955.00	\$ 2,432,000.00	\$ 2,406,000.00	\$ 12,228,457.00
Subsidy Prior to Additional CTC						
Payments	\$ 936,840.00	\$ 434,393.00	\$ 907,715.00	\$ 564,856.00	\$ 644,708.00	\$ 3,488,512.00
Less Additional Payments by CTC	\$ 224,036.00		\$ 241,121.00	\$ 110,000.00		\$ 575,157.00
Total Payments Received by						
University	\$2,734,036.00	\$ 2,648,502.00	\$2,473,076.00	\$ 2,542,000.00	\$ 2,406,000.00	\$ 12,803,614.00
Accumulated Subsidy to CTC	\$ 712,804.00	\$ 434,393.00	\$ 666,594.00	\$ 454,856.00	\$ 644,708.00	\$ 2,913,355.00