# KY COUNCIL ON POSTSECONDARY EDUCATION
# FINANCE COMMITTEE

## MEETING AGENDA

December 6, 2019 - 10:00 AM
CPE Offices, Conf Rm A

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**I. Welcome & Roll Call**

**II. Approval of the Minutes**
- *Oct 16, 2019*

**III. Interim Capital Project Approval (Action Items)**

A. UK – Expand Gatton Student Center Dining Space
B. UofL – Upgrade Cardinal Stadium Wi-Fi and Cellular Services

**IV. Disposition of Real Property (Action Item)**

**V. Preliminary Tuition Setting Timeline**

A. Accelerated Process for 2020-21?
B. One-Year or Two-Year Parameters?

**VI. Current Tuition and Mandatory Fee Policy**

**VII. Distribution of Unmatched 2020-22 Asset Preservation Funds**

**VIII. KSU Management and Improvement Plan Update**

**IX. Other Business**

**X. Adjournment**

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**DRAFT MINUTES**
Council on Postsecondary Education

| | |
|---|---|
| Type: | Finance Committee Meeting |
| Date: | October 16, 2019 |
| Time: | 9:00 a.m. |
| Location: | Council on Postsecondary Education, Conference Room A |

## CALL TO ORDER

The Finance Committee met Wednesday, October 16, 2019, at 9:00 a.m., ET, at the CPE offices in Frankfort, Kentucky. Committee Chair Ben Brandstetter presided.

## ATTENDENCE

- Attendance in person: Ben Brandstetter, OJ Oleka, and Robert Staat.
- Attendance by teleconference: Kim Halbauer (joined at 9:30 a.m.), Grant Minix, Carol Wright, and Sherrill Zimmerman.
- Did not attend:  Brandon Wilson.
- Council members attended as guest: Richard Nelson.
- Heather Faesy, CPE's senior associate for Board Relations, served as recorder of the meeting minutes.

## APPROVAL OF THE MINUTES

The minutes of the following minutes were approved as distributed:  June 14, 2019, August 12, 2019, and September 10, 2019.

The minutes of the October 2, 2019 meeting were approved with the following amendment:

- Add "after listening to the audio recording" to the end of the statement, "Heather Faesy, CPE's senior associate for Board Relations, served as recorder of the meeting minutes."

## 2020-22 BUDGET RECOMMENDATION

Staff presented four potential components of the 2020-22 Biennial Budget Recommendation:

1) Institutional Operating Funds
2) Capital Investment

3) Trust Funds
4) CPE Agency Budget

Each component was discussed and voted upon separately.

## 1) INSTITUTIONAL OPERATING FUNDS

The primary way that Kentucky finances its public postsecondary system and supports the teaching, research, and public service missions of individual colleges and universities is by appropriating state General Fund for institutional operations. These funds, along with tuition and fee revenue, support education and general (E&G) expenditures on campus, including faculty and staff salaries, fringe benefits, student financial aid, utilities, building maintenance, libraries, student support services, and numerous other operating expenses. When available, these funds also finance strategic initiatives that support attainment of the state's student success goals and objectives of the Council's 2016-2021 Strategic Agenda for Postsecondary Education.

The request was detailed in the agenda materials and included the following funding request:

| Funding Category | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---|---|---|
| Beginning Base [1] (2019-20 total General Fund) | $862,900,800 | $862,900,800 |
| Base Adjustments: | | |
| Debt Service (UK only) | ($2,545,500) | ($2,545,500) |
| Campus Stop Loss Contributions | (14,997,800) | (14,997,800) |
| Performance Fund Transfers | 14,997,800 | 14,997,800 |
| Revised Net Base (net of debt service) | $860,355,300 | $860,355,300 |
| Additional Budget Requests: | | |
| Performance Funding | $52,492,400 | $74,989,100 |
| KSU Land Grant Match | 497,400 | 497,400 |
| Total Additional Requests | $52,989,800 | $75,486,500 |
| Total Operating Funds Request | $913,345,100 | $935,841,800 |

[1] Includes regular appropriation and Postsecondary Education Performance Fund distribution.

The request also includes the following recommendations and endorsements:

- Recommendation that the Governor and General Assembly line-item mandated program funding amounts in the 2020-2022 Budget of the Commonwealth to ensure proper functioning of the performance funding models.
- Recommendation that the Governor and General Assembly take action to maintain a stop loss provision in fiscal 2021-22, limiting the reduction in funding to any institution to two percent (2%) of that institution's formula base amount.
- Endorsement of the state student financial aid funding recommendation outlined in the budget request from the Kentucky Higher Education Assistance Authority (KHEAA). Special consideration should be given to ensuring financial aid supporting Kentucky's lower and moderate income students is the state's highest priority.

Committee members discussed the resolution from the Board of Student Body Presidents, which stated they support the Council's proposal to focus on funding performance-funding and stop-loss provision.

MOTION: Mr. Oleka moved the Committee recommend approval of the 2020-22 request for institutional operating funds as presented to the full Council at its October 31, 2019 meeting. Mr. Minix seconded the motion.

VOTE: The motion passed.

## 2) CAPITAL INVESTMENT

The capital investment request addresses asset preservation, new construction, and information technology needs of Kentucky's public postsecondary institutions for the 2020-22 biennium. It identifies the most pressing campus needs for asset preservation and renovation of existing facilities (to be funded through a combination of state General Fund supported bonds and institutional resources) and new and expanded space and information technology and equipment (to be funded with institutional resources).

The request was detailed in the agenda materials and included the following funding request:

| Funding Component | Fiscal 2020-21 | Fiscal 2021-22 | Biennial Total |
|---|---|---|---|
| Additional Budget Requests for: | | | |
| Capital Construction | | | |
| Asset Preservation Bond Funds | $200,000,000 | $200,000,000 | $400,000,000 |
| -- Debt Service | 8,239,000 | 24,717,000 | 32,956,000 |
| New Construction | $0 | $0 | $0 |
| Information Technology and Equipment | $0 | $0 | $0 |

The request includes the following recommendations and authorizations:

- Recommendation that any General Fund debt supported bond funds appropriated for postsecondary institution asset preservation projects in the 2020-22 biennium be matched fifty cents on the dollar with institutional funds

- Recommendation of authorizing the following intuitionally-funded capital projects:
  - New and expanded space: $699,810,000 in agency, federal, private, and other fund source authority
  - Information Technology - $296,114,000 in agency, federal, private, and other fund source authority
  - Agency Bonds - $1,129,979,500 in agency bonds to finance capital projects
  - Life safety, major maintenance, equipment acquisitions, infrastructure repair and upgrades, and new construction - $6,263,007,845 in agency, federal, private, and other fund source authority.
  - Energy Efficiency - Authorization for nine projects (one at each institution) to improve energy efficiency in campus buildings, including energy equipment acquisitions, infrastructure repair, and upgrades. These projects would be funded using third-party financing available through the Finance and Administration Cabinet, private contractors, or other non-state funds.

The request also includes the following endorsements:

- Inasmuch as the identification of specific projects in a variety of areas of postsecondary institution operations cannot be ascertained with absolute certainty at this time, amounts are appropriated and authorized for specific projects which are not individually identified in this act in the following areas:

EKU, KCTCS, KSU, MoSU, MuSU, NKU, UK, UofL, and WKU asset preservation, renovation, major maintenance, infrastructure, and HVAC and roofing systems.

– Any specific project exceeding $1,000,000 or any major item of equipment exceeding $200,000 that is initiated shall be reported by the institution to the Council on Postsecondary Education, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee no later than 30 days after the specific project or equipment item is initiated and funded. The report shall identify the need for, and provide a brief description of, each project or equipment item pursuant to KRS Chapter 45.

Dr. Payne stated that a statement was erroneously omitted regarding the procedure of the unmatched asset preservation funds and would be included when presented to the Council for approval at the October 31, 2019.

MOTION: Ms. Zimmerman moved the Committee recommend approval of the 2020-22 request for capital investment as presented to the full Council at its October 31, 2019 meeting. Ms. Wright seconded the motion.

VOTE: The motion passed.

**3) TRUST FUNDS**

Council staff did not present a recommendation for trust funds for the 2020-22 Biennial Budget Recommendation.

Committee members discussed a funding request for the endowment match program, Bucks 4 Brains. While some are supportive of submitting a request for funds, several members were more in favor of postponing that request for the next biennium and letting the universities sustain the programs without additional funding at this time. Proponents of the program stated the program accelerates the growth of the programs and allows for better and faster results and provides for a national presence as a state that supports research excellence. Mr. Minix reminded the Committee that the BSBP resolution did not endorse the request for Bucks 4 Brains.

MOTION: Ms. Halbauer moved the Committee not include a funding request for the endowment match program, Bucks 4 Brains. Ms. Wright seconded the motion.

VOTE: The motion passed 5-2 in a roll call vote. Those who voted in favor: Mr. Brandstetter, Ms. Halbauer, Mr. Minix, Mr. Oleka, and Ms. Wright. Those who voted against: Dr. Staat and Ms. Zimmerman.

Council members also discussed a funding request for KCTCS Nursing Program Expansion. While there was no doubt that an expansion of the nursing program is needed, several members of the Committee felt they did not have enough information to make a recommendation at this time. Additionally, there were concerns that the program wouldn't be sustainable without further investment. Proponents of the request stated that nursing programs at the universities are already at capacity and an expansion of the KCTCS program would address many workforce issues in high demand areas. Ms. Halbauer stated she would like to see the program as a statewide initiative that includes all public institutions and not just the two-year colleges.

MOTION: Dr. Staat moved the Committee include a funding request for the KCTCS Nursing Program Expansion. Ms. Zimmerman seconded the motion.

VOTE: The motion did not pass 2-5 in a roll call vote. Those who voted in favor: Dr. Staat and Ms. Zimmerman. Those who voted against: Mr. Brandstetter, Ms. Halbauer, Mr. Minix, Mr. Oleka, and Ms. Wright.

## 4) <u>CPE AGENCY BUDGET</u>

The 2020-22 General Fund agency budget request was detailed in the agenda materials and included the following funding request components:

- Increases in General Fund appropriations of $148,900 in 2020-21 and $241,200 in 2021-22 to fund the Council's defined calculations.

- Increases in General Fund appropriations of $273,200 in 2020-21 and $289,200 in 2021-22 to fund Contract Spaces cost increases, maintain 164 veterinary spaces and 44 optometry spaces, and to fund increases in Kentucky's SREB membership dues.

- Additional appropriations of $100,000 in fiscal 2020-21 to support two SREB doctoral scholar's students at the University of Kentucky and two at the University of Louisville in the first year of the upcoming biennium, and recommends $200,000 in fiscal year 2021-22 to support two additional doctoral scholar's students at each institution in the second year of the biennium.

- Tobacco Settlement Fund appropriations of $6,686,500 in 2020-21 and $6,686,500 in 2021-22 for cancer research at the University of Kentucky and the University of Louisville.

- Restricted funds appropriations of $4,973,300 in fiscal year 2020-21 and $4,973,300 in fiscal year 2021-22.

- Annual, total appropriations of $4,000,000 in fiscal year 2020-21 and $4,000,000 in fiscal year 2021-22 to enable federal fund expenditures related to the GEAR UP program.

MOTION: Mr. Minix moved the Committee recommend approval of the 2020-22 agency budget request as presented to the full Council at its October 31, 2019 meeting. Mr. Oleka seconded the motion.

VOTE: The motion passed.

## KENTUCKY-WEST VIRGINIA RECIPROCITY AGREEMENT

Staff presented the tuition reciprocity agreement between Kentucky and West Virginia for the 2019-21 fiscal years. The West Virginia agreement has two-year term, and the proposed 2019-21 renewal has no substantive changes.

MOTION: Dr. Staat moved the Committee recommend approval of the 2019-21 Kentucky-West Virginia Reciprocity Agreement as presented to the full Council at its October 31, 2019 meeting. Ms. Wright seconded the motion.

VOTE: The motion passed.

## OTHER BUSINESS

Committee Chair Brandstetter asked staff to poll the members for the next meeting and for it to occur in November or early December.

## ADJOURNMENT

The Finance Committee adjourned at 10:55 a.m., ET.



**MINUTES REVIEWED AND APPROVED BY THE FINANCE COMMITTEE: ________________**

**ACTION ITEM**

**KY COUNCIL ON POSTSECONDARY EDUCATION** December 6, 2019

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**TITLE:** Interim Capital Project Request from the University of Kentucky

**RECOMMENDATION**: Pursuant to delegation by the full Council, staff recommends that the Finance Committee approve University of Kentucky's request for interim authorization of a capital project to expand dining space at the Gatton Student Center using $999,950 in agency restricted funds and $24,000,050 in private funds.

**PRESENTERS:** Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Director of Finance and Budget, CPE

**SUPPORTING INFORMATION**

University of Kentucky (UK) officials request authorization for an interim capital project to expand dining space at the Gatton Student Center to meet increased demand. The expansion will increase Champions Kitchen to accommodate 350 additional seats and will also include a second and third floor which will be used as needed and funds allow in the future. The total project scope is estimated at $25,000,000. Most of the funding ($24,000,050) will come from UK's foodservice provider, and the remaining funds ($999,950) will come from institutional resources. UK personnel will oversee the design and implementation of the project. This project was approved by UK's Board of Trustees on October 18, 2019.

House Bill 592 (2018) created a new provision in KRS 164A.575, which allows public postsecondary institutions to authorize capital projects not specifically listed in the state budget as long as the projects are funded with non-general fund appropriations, do not jeopardize funding for existing programs, and are reported by the institution to the Capital Projects and Bond Oversight Committee. The pertinent section of KRS 164A.575 is provided below:

(15) Notwithstanding KRS 45.760, the governing board may authorize a capital construction project or a major item of equipment even though it is not specifically listed in any branch budget bill, subject to the following conditions and procedures:

(a) The full cost shall be funded solely by non-general fund appropriations;

(b) Moneys specifically budgeted and appropriated by the General Assembly for another purpose shall not be allotted or re-allotted for expenditure on the project or major item of equipment. Moneys utilized shall not jeopardize any existing program and shall not require the use of any current general funds specifically dedicated to existing programs; and

(c) The institution's president, or designee, shall submit the project or major item of equipment to the Capital Projects and Bond Oversight Committee for review as provided by KRS 45.800.

The Gatton Student Center was originally constructed in 1938 and the Alumni Gym was built in 1924. Both were completely renovated, expanded, and combined in 2018. The facility is currently 378,000 square feet and includes space for student organizations, dining, bookstore, ballroom and entertainment venues, retail, student lounges, and administrative offices.

The approval process for a capital project that exceeds $1,000,000 is as follows:

- The project must be approved by an institution’s board of trustees or regents;
- The project must be submitted to the Council on Postsecondary Education for review and action;
- If approved by the Council, projects at KCTCS and KSU are submitted to the Secretary of the Finance and Administration Cabinet for review and action, and subsequently submitted by the Secretary to the Capital Projects and Bond Oversight Committee for review;
- If approved by the Council, projects at EKU, MoSU, MuSU, NKU, UK, UofL, and WKU are submitted by the requesting institution to the Capital Projects and Bond Oversight Committee for review, and a copy is provided to the Finance and Administration Cabinet as information; and
- Following review and action by the appropriate agencies, the project may be initiated by the requesting institution.

Because this project was not previously approved by the Council and it was not authorized in the enacted 2018-20 budget (HB 200), Council approval is now required to authorize this project. UK will not be debt financing any portion of this project; therefore, provisions of KRS 45.763 do not apply.

Following Council action, staff will notify the president of UK, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee of the Council’s recommendation concerning this project.

October 29, 2019

President Aaron Thompson
Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

RE: New Capital Project – Expand Student Center

Dear President Thompson:

Pursuant to KRS 164A.575(15), the University of Kentucky is reporting a new capital project, Expand Student Center, which was approved by the University's Board of Trustees on October 18, 2019. No general fund appropriations will be required for completion of this $25 million project which will be funded with funds from our dining partner, Aramark, and agency funds.

The University's student center was originally constructed in 1938 and Alumni Gym was constructed in 1924. Both were completely renovated, expanded and combined in 2018 to create the more than 378,000 square foot facility that is heavily used by the University and the wider community seven days a week. The Gatton Student Center provides multiple student dining venues, but the capacity of the primary dining venue, Champions Kitchen, is unable to meet current and projected demand due to growing student enrollment and higher than expected meal plan participation rates.

This project will add approximately 34,000 square feet, including up to 350 seats and a new serving line at Champions Kitchen for use by fall 2021. The project will include the construction of a second and third floor as it is most cost effective to do this concurrently and the additional space will allow the University to expand student support and other services in the future. It is anticipated that one or both additional floors will be shelled at this time.

Should you have any questions, please contact me.

Sincerely,

Mary S. Vosevich

Mary S. Vosevich
Vice President for Facilities Management
Chief Facilities Officer

c: Bill Payne

# PR 1

Office of the President
October 18, 2019

Members, Board of Trustees:

EXPAND STUDENT CENTER (DINING) PROJECT

Recommendation: that the Board of Trustees approve the “Expand Student Center (Dining)” Capital Project.

Background: The University's Gatton Student Center was originally constructed in 1938 and Alumni Gym was constructed in 1924. Both were completely renovated, expanded, and combined in 2018 to more than 378,000 square feet. The facility includes student organization spaces, student lounges, student support spaces, recreation, an atrium, residential and retail dining, a bookstore, ballroom facilities, entertainment venues, retail spaces, and administrative support offices. All are heavily used by the University and wider community seven days a week. The Gatton Student Center provides multiple student dining venues but is unable to meet increased demand due to high meal plan participation rates and projected continued student enrollment growth. A separate feasibility study was commissioned from Omni Architects to assess the possibility of expanding the current Champions Kitchen dining area toward the east in order to increase dining capacity by up to 350 seats. This study determined that it would be most cost effective to construct a second and third floor as part of this dining expansion to meet expanding and anticipated student support and other needs. It is expected that one or both of the additional floors will be shelled space at this time. The decision on fit-up will be based on available funding and determination of final design plans.

This recommendation requests approval for the design and construction of this greatly needed dining expansion. The full scope of the project is $25,000,000, including design costs. The project is to be initially funded with $999,950 of Agency Funds. Additional funding will be provided by the University’s dining partner, as an amendment to the current Aramark contract. Pursuant to Kentucky Revised Statute §164A.575(15), no general fund appropriations will be required for completion of this project and it will be submitted to the Council on Postsecondary Education for approval and the Capital Projects and Bond Oversight Committee for interim legislative authorization. The Executive Vice President for Finance and Administration will provide regular updates to the Finance Committee during the Project.

Pursuant to Administrative Regulation 8:2, any capital project with an estimated cost of $1,000,000 or more must be approved by the Board prior to initiation. The total cost of this project is not expected to exceed $25,000,000.

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Action taken: ☑ Approved ☐ Disapproved ☐ Other ____________


University of Kentucky

**PR 1 - EXPAND STUDENT CENTER (DINING) PROJECT**

**ACTION ITEM**
**KY COUNCIL ON POSTSECONDARY EDUCATION** December 6, 2019

**TITLE:** Interim Capital Project Request from the University of Louisville (previously approved by CPE for 2020-22)

**RECOMMENDATION**: Staff recommends that the Finance Committee approve University of Louisville's request for interim authorization of a capital project to upgrade Wi-Fi and cellular services at Cardinal Stadium. This project was approved by CPE for 2020-22 on October 31, 2019.

**PRESENTERS:** Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Director of Finance and Budget, CPE

## SUPPORTING INFORMATION

University of Louisville (UofL) officials request authorization for an interim capital project to upgrade and expand Wi-Fi and cellular services at Cardinal Stadium. The project was included in the university's 2020-26 six-year capital plan submitted to CPE and the Capital Planning Advisory Board. The UofL Board of Trustees approved the project on October 24, 2019, and the Council approved the project (for the 2020-22 biennium) on October 31, 2019. On November 25, campus officials formally requested CPE to approve the project as an interim project in order to have it complete before the first home game of the 2020-21 football season. Equipment will need to be ordered by February 1, 2020 to meet this timeline.

Facility Info: Cardinal Stadium seats 60,000 and was original built in 1998 with expansions in 2010 and 2019. The recent construction created an additional 25,000 square feet of space. Also included was a major upgrade to the Howard Schnellenberger Football Complex, which is attached to the stadium.

Funding and Oversight Info: A total project scope of $6,000,000 is requested. According to campus officials, funding for the project will come from athletics and private donations. UofL personnel will oversee the design and implementation of the project.

## APPROVAL PROCESS INFORMATION

House Bill 592 (2018) created a new provision in KRS 164A.575, which allows public postsecondary institutions to authorize capital projects not specifically listed in the state budget as long as the projects are funded with non-general fund appropriations, do not jeopardize funding for existing programs, and are reported by the institution to the Capital Projects and Bond Oversight Committee. The pertinent section of KRS 164A.575 is provided below:

(15) Notwithstanding KRS 45.760, the governing board may authorize a capital construction project or a major item of equipment even though it is not specifically listed in any branch budget bill, subject to the following conditions and procedures:

(a) The full cost shall be funded solely by non-general fund appropriations;

(b) Moneys specifically budgeted and appropriated by the General Assembly for another purpose shall not be allotted or re-allotted for expenditure on the project or major item of equipment. Moneys utilized shall not jeopardize any existing program and shall not require the use of any current general funds specifically dedicated to existing programs; and

(c) The institution's president, or designee, shall submit the project or major item of equipment to the Capital Projects and Bond Oversight Committee for review as provided by KRS 45.800.

The approval process for a capital project that exceeds $1,000,000 is as follows:

- The project must be approved by an institution’s board of trustees or regents;
- The project must be submitted to the Council on Postsecondary Education for review and action;
- If approved by the Council, projects at KCTCS and KSU are submitted to the Secretary of the Finance and Administration Cabinet for review and action, and subsequently submitted by the Secretary to the Capital Projects and Bond Oversight Committee for review;
- If approved by the Council, projects at EKU, MoSU, MuSU, NKU, UK, UofL, and WKU are submitted by the requesting institution to the Capital Projects and Bond Oversight Committee for review, and a copy is provided to the Finance and Administration Cabinet as information; and
- Following review and action by the appropriate agencies, the project may be initiated by the requesting institution.

Because this project was not authorized in the enacted 2018-20 budget (HB 200), Council approval is now required to authorize this project. UofL will not be debt financing any portion of this project; therefore, provisions of KRS 45.763 do not apply.

**NEXT STEPS**

Following Council action, staff will notify the president of UofL, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee of the Council’s recommendation concerning this project.

UNIVERSITY OF
LOUISVILLE.

**Mark J. Watkins, M.S.M**
Senior Associate Vice President
Operations

November 25, 2019

Bill Payne, VP Finance and Administration
Council on Post-Secondary Education
1024 Capital Center Drive
Frankfort, KY 40601

RE: Interim Authorization Request - WiFi and Cellular Services at Cardinal Stadium

Dear Mr. Payne,

In accordance with provisions of KRS 45.760 (7), I am writing to request interim-authorization for the purchase and upgrade of WiFi and Cellular service at Cardinal Football Stadium. In-house staff developed the project cost estimate based on the current market. The budget expectation was $6,000,000 in the 2020-2026 Six-Year Capital Plan.

This project will upgrade and expand the WiFi and cellular services at Cardinal Stadium with the intent of improving and extending the signal for fans. The equipment order is required by February 1, 2020 to ensure project completion by the beginning of the first home football game.

The University of Louisville Board of Trustees approved the project on October 24, 2019. This project was submitted as part of the University of Louisville Six-Year Capital Plan 2020-2026. A portion of the funds is currently available. Equipment for the project will be a lease/purchase, and will not use any current general funds or any funds appropriated for another purpose.

We appreciate your support, and if you have any questions, please contact Kim Noltemeyer at 852-5699.

Sincerely,

Mark Watkins
Senior Associate Vice President of Operations
University of Louisville

cc: President Neeli Bendapudi
Dan Durbin, CFO
Vincent Tyra, VP, AD
Shaun McKiernan

**ACTION ITEM**

**KY COUNCIL ON POSTSECONDARY EDUCATION** December 6, 2019

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**TITLE:** Review and Approval of CPE Staff's Report on Disposition of Real Property

**RECOMMENDATION**: Staff recommends that the Finance Committee approve staff's report to the General Assembly on the Disposition of Real Property

**PRESENTERS:** Travis Powell, Vice President and General Council, CPE
Shaun McKiernan, Director for Finance and Budget, CPE

## SUPPORTING INFORMATION

House Bill (HB) 268, adopted in the 2019 Regular Session, amended the 2018-2020 Executive Branch Budget Bill and directed the Council on Postsecondary Education to provide a recommendation to establish a process for the sale or disposal of all personal property, real property, or major items of equipment owned by postsecondary institutions to the Interim Joint Committee on Appropriations and Revenue by December 1, 2019. CPE staff submitted the attached report as required on November 27, 2019, with the understanding that the report would be adjusted if needed following the December 6 Finance Committee meeting.

CPE staff gathered the policies and procedures that each institution currently has in place regarding the disposition of real property and has come to the following conclusion:

Current statutory directives (KRS 164.410 and KRS 164.575), along with the corresponding policies adopted by the postsecondary institution governing boards, provide a sufficient framework for managing the sale or disposal of all personal property, real property, or major items of equipment owned by the institution. If additional monitoring is desired, the General Assembly could direct institutions to report to the Council the sale or disposal of real property or major items equipment previously approved by the Council.

With regard to the proceeds from these sales, the Council recommends that the language in HB 268 requiring that the proceeds from the sale of major items of equipment or real property shall be designed to the funding sources used for the acquisition of the property, on a proportionate basis be codified in KRS 45.777(2) as an exception to the rule that all proceeds be returned to the General Fund. Appropriate references should be made in KRS 164.410 in order to harmonize the statutes.

# Sale or Disposal of Property Owned by Postsecondary Institutions

*A report to the Interim Joint Committee on Appropriations and Revenue from the Council on Postsecondary Education*

**Directive**

House Bill (HB) 268, adopted in the 2019 Regular Session, amended the 2018-2020 Executive Branch Budget Bill and directed the Council on Postsecondary Education ("Council") to provide a recommendation to establish a process for the sale or disposal of all personal property, real property, or major items of equipment owned by postsecondary institutions to the Interim Joint Committee on Appropriations and Revenue by December 1, 2019.

**Background**

KRS 45.777(1) states that proceeds from the sale of major items of equipment or real property, purchased in whole or in part with capital construction funds, shall be deposited into the General Fund unless federal funding restraints require otherwise. In addition to the directive stated above, HB 268 also provided that, notwithstanding KRS 45.777, a postsecondary institution's governing board may elect to sell or dispose of real property or major items of equipment and proceeds from the sale shall be designated to the funding sources, on a proportionate basis, used for acquisition of the equipment or property to be sold. Over the years, similar provisions have been adopted in budget language to direct the use of proceeds either for a specific capital project, or for general use by the institution.

In addition to KRS 45.777, there are other statutory provisions that impact the sale of real property or major items of equipment by institutions. These provisions, reprinted below, set forth a process for the sale, but also provide directives for the proceeds that are incongruent with KRS 45.777.

KRS 164.410(2) provides that the governing board of each institution shall periodically review the assets of the institution and shall sell and convey under KRS 164A.575 those assets not necessary for implementing the institutional mission. Proceeds from the disposition shall be deposited in the unexpended plant fund account or in the fund for excellence authorized by KRS 164A.620.

KRS 164A.560 provides the institutional governing boards with the opportunity to elect to perform certain fiscal and real property management functions by regulation. All institutional boards have made the election to perform surplus property functions via regulation.

Kentucky State University – 745 KAR 1:035
Morehead State University – 755 KAR 1:040
University of Louisville - 740 KAR 1:040; and 740 KAR 1:030
Northern Kentucky University – 760 KAR 1:030
University of Kentucky – 765 KAR 1:040
Western Kentucky University – 770 KAR 1:040
Murray State University – 772 KAR 1:040
Eastern Kentucky University – 775 KAR 1:040
Kentucky Community and Technical College System – 739 KAR 1:040

KRS 164A.575(5) states that an institutional governing board shall have power to salvage, to exchange, and to condemn supplies, equipment, and real property.

KRS 164A.575(8) provides that an institutional governing board shall sell or otherwise dispose of all real or personal property of the institution which is not needed or has become unsuitable for public use, or would be more suitable consistent with the public interest for some other use, as determined by the board. The determination of the board shall be set forth in an order, and shall be reached only after review of a written request by the institution desiring to dispose of the property. Such request shall describe the property and state the reasons why the institution believes disposal should be effected. All instruments required by law to be recorded which convey any interest in any such real property so disposed of shall be executed and signed by the appropriate officer of the board. Unless the board deems it in the best interest of the institution to proceed otherwise, all such real or personal property shall be sold either by invitation of sealed bids or by public auction; provided, however, that the selling price of any interest in real property shall not be less than the fair market value thereof as determined by the Finance and Administration Cabinet or the Transportation Cabinet for such requirements of that department.

**Recommendation**

KRS 164A.575(8) provides each institutional board with the discretion to make determinations regarding the suitability of its assets for use by the institution in accordance with its mission. Given the fiduciary nature of the relationship a board has with the institution it governs, this is an appropriate delegation of authority by the General Assembly. Furthermore, the statute provides a process by which the institutions shall make such determinations, which includes required justification as to why disposal should be effected. Furthermore, KRS 164A.575(8) also outlines the process for sale, requiring that it be by sealed bid or public auction unless deemed in the best interest to do otherwise. As an additional check and balance, the sale of any interest in real property shall not be less than fair market value as determined by an independent body, the Finance and Administration Cabinet, the Executive Branch agency that manages the real property interests of Commonwealth.

Having all elected to manage their own surplus property programs as provided in KRS 164A.560, each institution's board follows the statutory process outlined above and, in addition, have adopted their own internal policies to further manage these interests (see attached). Council staff have reviewed these policies and find them to be both thoughtful and comprehensive, particularly when read in conjunction with the statutory directive. In particular for sales of real property, which often generate the most potential interest and concern, the Finance and Administration Cabinet is necessarily involved in the process to assess the property value to independently ensure the Commonwealth is receiving fair value in the sale. As such, the framework currently exists for good stewardship of publicly owned assets that may have exceeded their useful life or no longer serve the mission of the institution.

While the sufficient processes are in place, if the General Assembly seeks additional oversight as to what property is being sold in accordance with the statute and corresponding policies, institutions could report to the Council the items sold as surplus previously approved by the Council as capital projects or real property acquisitions as defined in KRS 45.750(1)(f) per KRS 164.020(11). If for some reason issues or concerns arise upon review of the reported items, the Council could further recommend to the General Assembly a process to address them.

While the processes for the sale of surplus property held by postsecondary institutions appear to be sufficient, the Council recommends that the General Assembly clarify how the proceeds from the sales of real property and major items of equipment are to be distributed in permanent law.

As mentioned above, KRS 45.777(1) requires that proceeds from the sale of major items of equipment or real property, purchased in whole or in part with capital construction funds, shall be deposited into the

General Fund unless federal funding restraints require otherwise. However, KRS 164.410(2) states that proceeds from the disposition of such items shall be deposited in the unexpended plant fund account or in the fund for excellence authorized by KRS 164A.620. Requiring that proceeds from the sale of real property or major items of equipment be designated to the funding sources, on a proportionate basis, used for acquisition of the equipment or property to be sold, as directed in HB 268, is a logical and reasonable standard that we recommend be codified in permanent law. KRS 45.777(2) currently lists three (3) situations where Subsection 1 does not apply and the following could be added as a fourth:

> The sale of real property or major items of equipment by a postsecondary institution, where the proceeds shall be designated to the funding sources, on a proportionate basis, used for acquisition of the equipment or property to be sold.

In addition, KRS 164.410 should be amended to reference the new KRS 45.777(2) exception and clarify that proceeds from the sale of any other property either be deposited in the fund for excellence authorized by KRS 164A.620 or used as funds for general operations at the institution.

**Conclusion**

The statutory directives in KRS 164.410 and KRS 164.575, along with the corresponding policies adopted by the postsecondary institution governing boards, provide a sufficient framework for managing the sale or disposal of all personal property, real property, or major items of equipment owned by the institution. If additional monitoring is desired, the General Assembly could direct institutions to report to the Council the sale or disposal of real property or major items equipment previously approved by the Council.

With regard to the proceeds from such sales, the Council recommends that the language in HB 268 requiring that the proceeds from the sale of major items of equipment or real property shall be designed to the funding sources used for the acquisition of the property, on a proportionate basis, be codified in KRS 45.777(2) as an exception to the rule that all proceeds be returned to the General Fund. Appropriate references should be made in KRS 164.410 in order to harmonize the statutes.

Draft – For Discussion Purposes
December 6, 2019

# Council on Postsecondary Education
# Preliminary 2020-21 Tuition Setting Timeline

| | |
|---|---|
| Oct 31, 2019 | CPE Meeting – Council approves Finance Committee endorsed 2020-22 biennial budget recommendation for postsecondary education, featuring two main components: performance funding and asset preservation. |
| Nov 6, 2019 | Presidents' Meeting – Council staff shares preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy with postsecondary institution presidents for review and discussion. |
| Nov – Dec | Council staff works with campus chief budget officers (CBOs) to develop any proposed changes to the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy and to identify key issues that might impact the 2020-21 tuition setting cycle. |
| Dec 4, 2019 | Presidents' Meeting – Council staff updates the presidents regarding any potential changes to the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy. Key issues for 2020-21 are discussed. |
| ➡ Dec 6, 2019 | Finance Committee Meeting – Council staff shares the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy with Finance Committee members for review and discussion. Key issues for 2020-21 are discussed. |
| Dec – Jan | Council staff continues to work with campus CBOs to finalize proposed Tuition Setting Timeline and Tuition and Mandatory Fee Policy documents and begins collecting and updating policy relevant data in the areas of funding adequacy, shared benefits and responsibility, affordability and access, attracting and importing talent, and productivity.<br><br>Postsecondary institutions begin collecting data related to fixed cost increases, tuition and fee revenue estimates, potential impact of tuition increases, anticipated uses of additional tuition and fee revenue, and budgeted student financial aid expenditures. |
| Jan 8, 2020 | Presidents' Meeting – Council staff shares proposed Tuition Setting Timeline and Tuition and Mandatory Fee Policy documents with postsecondary institution presidents for review and discussion. Key issues that might impact the 2020-21 tuition setting cycle are discussed. |
| Jan – Feb | Council and institutional staffs continue respective data collection efforts. |

| | |
|---|---|
| (Date TBD) | Finance Committee Meeting – Revised Tuition Setting Timeline, proposed Tuition and Mandatory Fee Policy, and updated policy relevant data are presented for review, discussion, and endorsement. |
| Jan 24, 2020 | CPE Meeting – Finance Committee presents final Tuition Setting Timeline for Council information and proposed Tuition and Mandatory Fee Policy for Council action and provides update on 2020-21 tuition setting process. |
| Feb 5, 2020 | Presidents' Meeting – Council staff shares updated policy relevant data for review and discussion. Components of the Governor's proposed budget [1] and implications for the upcoming tuition cycle are discussed. |
| Feb – Mar | Council and institutional staffs exchange information from respective data collection efforts and begin finalizing for distribution to Council members. |
| Mar 4, 2020 | Presidents' Meeting – Council staff shares updated policy relevant data and initiates discussion of tuition and mandatory fee ceilings. |
| (Date TBD) | Finance Committee Meeting – Staff presents finalized policy relevant data and updates committee members regarding discussions to date. |
| Apr 1, 2020 | Presidents' Meeting – Council staff shares draft tuition and fee ceilings with campus presidents for review and discussion. |
| (Date TBD) | Conference call with campus presidents and chief budget officers to discuss components of the enacted 2020-22 budget [2] and implications for the 2020-21 tuition and fee recommendation. |
| (Date TBD) | Finance Committee Meeting – Staff presents proposed tuition and mandatory fee ceilings for review, discussion, and endorsement. |
| Apr 24, 2020 | CPE Meeting – Finance Committee presents proposed tuition and fee ceilings for Council action. |
| May – Jun | Postsecondary institutions submit proposed tuition and mandatory fee rates to Council staff. The Council president updates Council members regarding rate proposals. |
| Jun 19, 2020 | CPE Meeting – The Council takes action on each institution's proposed tuition and mandatory fee rates. |

[1] The deadline for introduction of the 2020-22 Executive Budget is January 28, 2020.

[2] Assumes Budget of the Commonwealth is enacted during the 2020 regular session, by the 60th legislative day (i.e., April 15, 2020).

# Council on Postsecondary Education
# Tuition & Mandatory Fee Policy

The Council on Postsecondary Education is vested with authority under KRS 164.020 to determine tuition at public postsecondary education institutions in the Commonwealth of Kentucky. Kentucky's goals of increasing educational attainment, promoting research, assuring academic quality, and engaging in regional stewardship must be balanced with current needs, effective use of resources, and prevailing economic conditions. For the purposes of this policy, mandatory fees are included in the definition of tuition. During periods of relative austerity, the proper alignment of the state's limited financial resources requires increased attention to the goals of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1) and the Strategic Agenda for Kentucky Postsecondary and Adult Education.

## Fundamental Objectives

- Funding Adequacy

HB 1 states that Kentucky shall have a seamless, integrated system of postsecondary education, strategically planned and adequately funded to enhance economic development and quality of life. In discharging its responsibility to determine tuition, the Council, in collaboration with the institutions, seeks to balance the affordability of postsecondary education for Kentucky's citizens with the institutional funding necessary to accomplish the goals of HB 1 and the Strategic Agenda.

- Shared Benefits and Responsibility

Postsecondary education attainment benefits the public at large in the form of a strong economy and an informed citizenry, and it benefits individuals through elevated quality of life, broadened career opportunities, and increased lifetime earnings. The Council and the institutions believe that funding postsecondary education is a shared responsibility of state and federal governments, students and families, and postsecondary education institutions.

- Affordability and Access

Since broad educational attainment is essential to a vibrant state economy and to intellectual, cultural, and political vitality, the Commonwealth of Kentucky seeks to ensure that postsecondary education is broadly accessible to its citizens. The Council and the institutions are committed to ensuring that college is affordable and accessible to all academically qualified Kentuckians with particular emphasis on adult learners, part-time students, minority students, and students from low- and moderate-income backgrounds.

The Council believes that no citizen of the Commonwealth who has the drive and ability to succeed should be denied access to postsecondary education in Kentucky because of inability to pay. Access should be provided through a reasonable combination of savings, family contributions, work, and financial aid, including grants and loans.

In developing a tuition and mandatory fees recommendation, the Council and the institutions shall work collaboratively and pay careful attention to balancing the cost of attendance— including tuition and mandatory fees, room and board, books, and other direct and indirect costs—with students' ability to pay by taking into account (1) students' family and individual income; (2) federal, state, and institutional scholarships and grants; (3) students' and parents' reliance on loans; (4) access to all postsecondary education alternatives; and (5) the need to enroll and graduate more students.

- Effective Use of Resources

Kentucky's postsecondary education system is committed to using the financial resources invested in it as effectively and productively as possible to advance the goals of HB 1 and the Strategic Agenda, including undergraduate and graduate education, engagement and outreach, research, and economic development initiatives. The colleges and universities seek to ensure that every dollar available to them is invested in areas that maximize results and outcomes most beneficial to the Commonwealth and its regions. It is anticipated that enactment of Senate Bill 153, the *Postsecondary Education Performance Funding Bill,* during the 2017 legislative session will provide ongoing incentives for increased efficiency and productivity within Kentucky's public postsecondary system. The Council's Strategic Agenda and funding model metrics will be used to monitor progress toward attainment of both statewide and institutional HB 1 and Strategic Agenda goals.

- Attracting and Importing Talent to Kentucky

It is unlikely that Kentucky can reach its 2030 postsecondary education attainment goal by focusing on Kentucky residents alone. The Council and the institutions are committed to making Kentucky institutions financially attractive to nonresident students, while recognizing that nonresident undergraduate students should pay a significantly larger proportion of the cost of their education than do resident students. Tuition reciprocity agreements, which provide low-cost access to out-of-state institutions for Kentucky students that live near the borders of other states, also serve to attract students from surrounding states to Kentucky's colleges and universities.

A copy of the Council's nonresident student tuition and mandatory fee policy is contained in the paragraphs below. Going forward, Council staff will periodically review and evaluate the policy to determine its impact on attracting and retaining students that enhance diversity and the state's competitiveness.

## Nonresident Student Tuition and Fees

The Council and the institutions believe that nonresident students should pay a larger share of their educational costs than do resident students. As such, published tuition and fee levels adopted for nonresident students shall be higher than the prices for resident students enrolled in comparable programs of study.

In addition, every institution shall manage its tuition and fee rate structures, price discounting, and scholarship aid for out-of-state students, such that in any given year, the average net tuition and fee revenue generated per nonresident undergraduate student equals or exceeds130% of the annual full-time tuition and fee charge assessed to resident undergraduate students (i.e., the published in-state sticker price). As part of the tuition and fee setting process, staff shall monitor and report annually to the Council regarding compliance with this requirement.

The Council acknowledges that in some instances increasing nonresident student enrollment benefits both the Commonwealth and the institution. For this reason, exceptions to the 130% threshold may be requested through a Memorandum of Understanding (MOU) process and will be evaluated on a case by case basis by the Council. The main objective of the MOU process is to clearly delineate goals and strategies embedded in enrollment management plans that advance the unique missions of requesting institutions.

## Special Use Fee Exception Policy

During the 2010-11 tuition setting process, campus officials requested that the Council consider excluding student-endorsed fees from its mandatory fee definition, thus omitting consideration of such fees when assessing institutional compliance with Council approved tuition and fee rate ceilings. Based on feedback received from institutional Chief Budget Officers (CBOs) at their December 2010 meeting, it was determined that there was general interest in treating student-endorsed fees differently from other mandatory fees.

In January and February 2011, Council staff collaborated with institutional presidents, CBOs, and their staffs in developing the following Special Use Fee Exception Policy:

- To the extent that students attending a Kentucky public college or university have deliberated, voted on, and requested that their institution's governing board implement a special use fee for the purposes of constructing and operating and maintaining a new facility, or renovating an existing facility, that supports student activities and services;
- And recognizing that absent any exemption, such student-endorsed fees, when implemented in the same year that the Council adopts tuition and fee rate ceilings, would reduce the amount of additional unrestricted tuition and fee revenue available for an institution to support its E&G operation;
- The Council may elect to award an exemption to its tuition and fee rate ceiling equivalent to all or a portion of the percentage increase resulting from imposition of the student-endorsed fee, provided said fee meets certain eligibility requirements.

## Definitions

A student-endorsed fee is a mandatory flat-rate fee that has been broadly discussed, voted on, and requested by students and adopted by an institution's governing board, the revenue from which may be used to pay debt service and operations and maintenance expenses on new facilities, or capital renewal and replacement costs on existing facilities and equipment that support student activities and services, such as student unions, fitness centers, recreation complexes, health clinics, and/or tutoring centers.

Maintenance and Operations (M&O) expenses are costs incurred for the administration, supervision, operation, maintenance, preservation, and protection of a facility. Examples of M&O expenses include janitorial services, utilities, care of grounds, security, environmental safety, routine repair, maintenance, replacement of furniture and equipment, and property and facility planning and management.

## Eligibility Criteria

A student-endorsed fee will continue to be a mandatory fee within the context of the Council's current mandatory fee definition and may qualify for an exemption from Council approved tuition and fee rate ceilings. Campus officials and students requesting an exemption under this policy must be able to demonstrate that:

- All enrolled students have been afforded ample opportunity to be informed, voice their opinions, and participate in the decision to endorse a proposed fee. Specifically, it must be shown that fee details have been widely disseminated, broadly discussed, voted on while school is in session, and requested by students.
- For purposes of this policy, voted on means attaining:
  a) a simple majority vote via campus-wide referendum, with a minimum of one-quarter of currently enrolled students casting ballots;
  b) a three-quarters vote of elected student government representatives; or
  c) a simple majority vote via campus-wide referendum, conducted in conjunction and coinciding with the general election of a student government president or student representative to a campus board of regents or board of trustees.
- The proposed fee and intended exemption request have been presented to, and adopted by, the requesting institution's governing board. It is anticipated that elected student government representatives will actively participate in board presentations.
- Revenue from such fees will be used to pay debt service and M&O expenses on new facilities, or capital renewal and replacement costs on existing facilities and equipment that support student activities and services, such as student unions, fitness centers, recreation complexes, health clinics, and/or tutoring centers. The Council expects these uses to be fully explained to students prior to any votes endorsing a fee.

- In any given year, the impact of a student-endorsed fee on the overall increase in tuition and mandatory fees for students and their families will be reasonable. It may be appropriate to phase in the exemption over multiple years to maintain affordability and access.
- Requests for student-endorsed exemptions are infrequent events. The Council does not expect requests for exemptions under this policy to occur with undue frequency from any single institution and reserves the right to deny requests that by their sheer number are deemed excessive.
- A plan is in place for the eventual reduction or elimination of the fee upon debt retirement, and details of that plan have been shared with students. The Council does not expect a fee that qualifies for an exemption under this policy to be assessed at full rate in perpetuity. Such fees should either terminate upon completion of the debt or, in the case of new facilities, may continue at a reduced rate to defray ongoing M&O costs. In either case, to qualify for an exemption, students should be fully aware of the extent of their obligation prior to any votes endorsing a fee.

### Exemption Process

Requests for an exemption under this policy will be evaluated on a case-by-case basis. To initiate the process:

- The requesting institution will notify Council staff of any pending discussions, open forums, referendums, or student government actions pertaining to a proposed special use fee and discuss fee details with Council staff as needed.
- After a fee has been endorsed by student referendum or through student government action and approved by the institution's governing board, campus officials and students will submit a written exemption request to the Council for its consideration.
- Council staff will review the request, assess whether or not the proposed fee qualifies for an exemption, and make a recommendation to the Council.

To facilitate the exemption request process, requesting institutions and students are required to provide the Council with the following information:

- Documents certifying that the specific project and proposed fee details have been widely disseminated, broadly discussed, voted on, and requested by students, as well as adopted by the institution's governing board.
- Documents specifying the fee amount, revenue estimates, uses of revenue, impact on tuition and fees during the year imposed (i.e., percentage points above the ceiling), and number of years the fee will be in place.

- Documents identifying the project's scope, time frame for completion, debt payment schedule, and plan for the eventual reduction or elimination of the fee upon debt retirement.

## Asset Preservation Fee Exception Policy

During the 2017-18 tuition setting process, campus officials asked if the Council would consider allowing institutions to assess a new student fee, dedicated to supporting expenditures for asset preservation and renovation projects, that would be treated as being outside the tuition and fee caps set annually by the Council. Staff responded that it was too late in the process to allow for a full vetting of a proposed change to the Council's Tuition and Mandatory Fee Policy prior to the Council adopting tuition ceilings at the March 31, 2017 meeting. In addition, staff wanted to explore the possibility of adopting a system-wide asset preservation fee that would benefit and address asset preservation needs at every public postsecondary institution.

In August 2017, staff determined that there was general interest among campus officials to pursue a change in tuition policy that would allow each institution the option to implement a student fee for asset preservation, if its administrators and governing board chose to do so, that would be exempted from Council approved tuition and fee ceilings. In September and October, Council staff worked with campus presidents, chief budget officers, and Budget Development Work Group members to develop the Asset Preservation Fee Exception Policy described below.

- Given that in 2007, Council and postsecondary institution staffs contracted with Vanderweil Facilities Advisors, Inc. (VFA) and Paulien and Associates to conduct a comprehensive assessment of Kentucky's public postsecondary education facilities to determine both system and individual campus needs for new and expanded space, asset preservation and renovation, and fit-for-use capital projects;
- Given that in 2013, VFA adjusted the data from its 2007 study to account for continuing aging of postsecondary facilities and rising construction costs, and projected that the cumulative need for asset preservation and fit-for-use expenditure would grow to $7.3 billion within the 2017 to 2021 timeframe;
- Given that over the past five biennia, 2008-10 through 2016-18, the Commonwealth of Kentucky has appropriated a total of $262.0 million for its public colleges and universities to address asset preservation and renovation and fit-for-use projects, representing about 3.6% of the total cumulative need identified by VFA;
- Given that in late summer 2017, the Council and postsecondary institutions concluded that one reasonable course of action to begin to address the overwhelming asset preservation and renovation and fit-for-use needs was through sizable and sustained investment in existing postsecondary facilities, which could be accomplished through a

cost sharing arrangement involving the state, postsecondary institutions, and students and families;

- Given that the best way to ensure the ongoing commitment and participation of students and families in a cost-sharing partnership to address asset preservation and renovation needs is through the implementation of an optional dedicated student fee;
- Given that such an asset preservation fee, when implemented in the same year that the Council adopts a tuition and fee rate ceiling, would reduce the amount of additional unrestricted tuition and fee revenue available for an institution to support its E&G operation;
- The Council may elect to award an exemption to its tuition and fee rate ceiling of up to \$10.00 per credit hour at the public universities, capped at 15 credit hours per semester for undergraduate students, for a dedicated student fee that supports asset preservation and renovation projects related to the instructional mission of the institution;
- The Council may elect to award an exemption to its tuition and fee rate ceiling of up to \$5.00 per credit hour at KCTCS institutions, capped at 15 credit hours per semester, for a dedicated student fee that supports asset preservation and renovation projects related to the instructional mission of the institution.

## Definition

An asset preservation fee is a mandatory, flat-rate fee that has been approved by an institution's governing board, the revenue from which shall either be expended upon collection on asset preservation and renovation and fit-for-use capital projects, or used to pay debt service on agency bonds issued to finance such projects, that support the instructional mission of the institution.  Thus, by definition, fee revenue and bond proceeds derived from such fees shall be restricted funds for the purposes of financing asset preservation and renovation projects.  As a mandatory fee, an asset preservation fee may be assessed to students regardless of degree level or program or full-time or part-time status.

## Eligibility Criteria

An asset preservation fee may qualify for an exemption from Council approved tuition and fee rate ceilings, provided the following criteria are met:

- The proposed asset preservation project(s) and related fee shall be approved by the requesting institution's governing board.
- The cost of a given asset preservation and renovation or fit-for-use project shall equal or exceed \$1.0 million; however, several smaller asset preservation projects may be bundled to meet the threshold requirement.

- Revenue from the fee may either be expended upon collection on asset preservation and renovation or fit-for-use projects, or used to pay debt service on agency bonds issued to finance such projects.
- Both the direct expenditure of fee revenue and the expenditure of agency bond funds generated by the fee may be used to meet matching requirements on state bond funds issued for asset preservation projects. In previous biennia, state leaders have required a dollar-for-dollar institutional match on state-funded asset preservation pools.
- In any given academic year, the impact of implementing an asset preservation fee, when combined with a tuition and fee increase supporting campus operations, will be reasonable for Kentucky students and families. For the purposes of this policy exemption, the Council shall determine whether a proposed asset preservation fee, in combination with a tuition and fee increase allowed under a Council-approved tuition ceiling, is reasonable. This assessment will be made within the context of state economic and budgetary conditions, institutional resource needs, and affordability concerns at the time.
- Depending on the outcome of the aforementioned assessment, it may be appropriate to phase in a requested fee over multiple years to maintain affordability and access.
- The Council does <u>not</u> expect a fee that qualifies for an exemption under this policy to remain in effect in perpetuity. To be eligible for an exemption, the requesting institution must have a plan in place for the eventual elimination of a proposed asset preservation fee within 25 years of its initial implementation date.

## Exemption Process

The Council will evaluate requests for a fee exemption under this policy on a case-by-case basis. To initiate the process:

- An institution's governing board must approve the proposed asset preservation project(s) and related student fee.
- Campus officials must submit to the Council a copy of that board approval, along with a written request to exempt the asset preservation fee from Council tuition and fee ceilings.
- Council staff will review the request, assess whether or not the proposed project(s) and related fee qualify for an exemption, and make a recommendation to the Council.

To facilitate the exemption-request review process, a requesting institution shall provide the Council with the following information:

- Documents certifying that the specific asset preservation project(s) financed and proposed fee details have been approved by the institution's governing board.

- Documents specifying the fee amount, anticipated implementation date, revenue projections, uses of revenue, number of years the fee will be in place, and impact on tuition and fees in the year imposed (i.e., percentage points above the ceiling).
- Documents identifying the project's scope, its timeframe for completion, debt payment schedule, and plan for the eventual elimination of the fee upon debt retirement.

## Periodic Reporting

- Upon request by the Council, the postsecondary institutions will provide documentation certifying the date an asset preservation fee was implemented, annual amounts of fee revenue generated to date, uses of fee revenue, the amount of fee revenue or agency bond funds used to meet state matching requirements on asset preservation project appropriations, and the number of years the fee will remain in place.

Draft – For Discussion Purposes
December 6, 2019

# Distribution of Unmatched 2020-22 Asset Preservation Funds

**Proposed Budget Bill Language**:

If an institution cannot match its assigned allocation of state General Funds for asset preservation by January 1, 2022, the unmatched General Funds may be re-allocated by CPE, to another institution(s) to match and complete asset preservation projects.

**Proposed Implementation Guidelines:**

1. What is the Asset Preservation Pool? The asset preservation pool provides $400 million in state funds which requires a $0.50 per state dollar match from the institutions for individual projects to upgrade and replace building systems and infrastructure supporting Education and General facilities.
2. What have funding levels been in the past? A $13.9 million pool was authorized for 2008-10, with a variable match, a $30 million pool was authorized in 2000-02 with a $1 for $1 match, and a $20.6 million pool was authorized with a $1 for $1 match in 1998-00.
3. State bond authority and debt service authorized in Physical Facility Trust Fund.
   - Authorization of bond authority in the Physical Facility Trust Fund, rather than to each institution, allows re-allocation of the bond authority to another institution by CPE.
   - The Council determines the fund allocation and reports that allocation to the Secretary of the Finance and Administration Cabinet and the General Assembly's Capital Projects and Bond Oversight Committee.
   - Fund availability. Funds ordinarily are available the last quarter of the first year of the biennium or the second year of the biennium. However, if the Finance and Administration Cabinet identifies funds to allow the debt to be issued earlier, the Council would encourage that action and possibly institutions can have access to funds earlier. Access to funds after the bond sale is through a "sublease" between the Finance & Administration Cabinet and CPE/Institutions.
   - If two pools are authorized (one for each fiscal year), an institution must participate in both pools.
4. If multiple institutions desire a share of unmatched bond authority, CPE can re-allocate funds using the 2013-revised VFA determination of need.
   - Receiving institution(s) should have matching funds "in-hand" at the time of reallocation.
5. If authorized, what type of funds can be used as match?
   - Any non-General Fund source may be used, for example:
     - Agency Bonds or asset preservation fee revenue
     - Restricted Funds, to include institutional funds
     - Private/Other Funds
     - Fund Balance (non-General Fund)
     - Federal Funds
     - Third Party Projects and/or P3 projects

- A non-General Fund asset preservation project initiated after July 1, 2020 may qualify as a match

6. Project identification. For each bond indenture, individual projects are submitted first by the institutions to the Council and subsequently by the Council to the Secretary of the Finance and Administration Cabinet. The capital project would address the significant backlog of system replacement, upgrades, and modifications (building components, infrastructure, utility distribution systems, security systems, and other components in danger of failure) required to support Education and General facilities
   - CPE and the Office of State Budget Director will confirm the project match. The match first must be certified by the institution to the CPE before release of funds to an institution (cash, sale and deposit of agency bonds, energy project, P-3, etc.)
   - Because of the timing of the availability of pool funds, institutions are encouraged to exercise early identification and implementation of asset preservation projects. Early identification and completion of projects certified through the CPE process can be reimbursed from the pool when funds become available.
7. What is the timeline to complete the match of original pool funds?
   - For each pool of $200 million, the deadline to match is January 1, 2022.
8. Notes:
   - Flexibility is provided to allow an institution to identify a project that has risen to the position of critical since the appropriation bill was passed.
   - A capital project must be a complete project (can be used in a stand-alone fashion when complete). <u>A study does not constitute a capital project for the asset preservation pool</u>.
   - The Council must determine whether the asset preservation funds can be used in combination with other allocations to implement a project and, if so, how the required match applies to the funds.
   - The Finance and Administration Cabinet's Office of Financial Management (OFM) submits proposed debt issues, including debt issued by postsecondary institutions to the Capital Projects & Bond Oversight Committee for review and action. The actions of OFM regarding debt issuance are directed by the State Property and Buildings Commission.

OFFICE OF THE PRESIDENT

November 27, 2019

The Honorable Christian McDaniel, Co-Chairman
Interim Joint Committee on Appropriations and Revenue
702 Capital Avenue
Annex Room 204
Frankfort, KY 40601

The Honorable Steven Rudy, Co-Chairman
Interim Joint Committee on Appropriations and Revenue
702 Capital Avenue
Annex Room 304
Frankfort, KY 40601

Dear Senator McDaniel and Representative Rudy:

House Bill 303, enacted by the 2016 Regular Session of the Kentucky General Assembly, required Kentucky State University to develop, in consultation with the Kentucky Council on Postsecondary Education, a management and improvement plan. Per the legislation, Kentucky State University is to submit an annual update to the Interim Joint Committee on Appropriations and Revenue on December 1st of each year. This year's submission date occurs on a Sunday, necessitating an early submission on Wednesday, November 27, 2019.

The attached Management and Improvement Plan is Kentucky State University's annual report denoting the progress in addressing key metrics identified. It is a comprehensive overview that illustrates our continued focus on institutional effectiveness and growth, student success, and financial stability. A yearly progress update on each of these components is required.

Our enrollment management strategy deployed in 2018 is steadily increasing the overall headcount and intently focused on improving student retention and new evidence of general student success. Additionally, you will note increased fiscal stability even in the face of continued reductions in state appropriations.

Kentucky State University is a culturally diverse institution responsibly stewarding the resources appropriated by the General Assembly to deliver high-quality results. With data-driven decision making, "Frankfort's University on the Hill" stands ready to improve and support state-wide education programs in partnership with the Commonwealth. We are hopeful that the progress demonstrated in the attached provides additional evidence of the return on investment.

president@kysu.edu • 502.597.6260 • Hume Hall, Suite 201
400 E. Main Street • Frankfort, KY 40601 • kysu.edu

Kentucky State University is pleased to report that the campus remains on target to satisfy each of the goals in the approved Management and Improvement Plan for Fiscal Year 2021, however, any future reductions in state operating support has the potential to upend the significant progress achieved through sound fiscal management during my tenure, a requirement for optimal financial health and long-term growth.

Senior university staff and I are available to respond to any questions or requests for clarification.

Sincerely,

M. Christopher Brown II, Ph.D.
Eighteenth President

ENCLOSURE

cc: Aaron Thompson, *President, Council on Postsecondary Education*
Jay Hartz, *Director, Kentucky Legislative Research Commission*
John Chilton, *Director, Office of the State Budget Director*
Members, *Interim Joint Committee on Appropriations and Revenue*
Scott Brinkman, *Secretary, Executive Cabinet*
William M. Landrum III, *Secretary, Finance and Administration Cabinet*

# KENTUCKY STATE UNIVERSITY

**HOUSE BILL 303 (2016)**

**MANAGEMENT AND IMPROVEMENT PLAN UPDATE**

NOVEMBER 27, 2019

M. CHRISTOPHER BROWN II, Ph.D.
President

KENTUCKY STATE UNIVERSITY

1886

ONWARD — UPWARD

# ABOUT KENTUCKY STATE

From its modest beginnings as a small normal school for the training of African-American teachers, Kentucky State University has grown into a land-grant and liberal arts institution that prepares a diverse student population to compete in a multifaceted, ever-changing global society.

Kentucky State University began as an idea on October 15, 1885. The Commonwealth needed more normal schools to train African-American teachers for employment in its black elementary schools. On May 18, 1886, legislators authorized the school's creation, and the university was chartered as the State Normal School for Colored Persons, the second state-supported institution of higher learning in Kentucky.

During the euphoria of Frankfort's 1886 centennial celebration, when vivid recollections of the Civil War remained, the city's 4,000 residents were keenly interested in having the new institution located in Frankfort. Toward that end, the city donated $1,500, a considerable amount in 1886 dollars, and a site on a scenic bluff overlooking the town. This united display of community enthusiasm and commitment secured the new college's place in Frankfort despite competition from several other cities.

Recitation Hall—now Jackson Hall—the college's first building, was erected in 1887. The new school opened on October 11, 1887, with three teachers, 55 students and John Henry Jackson as its first president.

Kentucky State became a land-grant college in 1890, and the departments of home economics, agriculture and mechanics were added to the school's curriculum. The school produced its first graduating class of five students in the spring of that year.

As the school began to grow and change, so too did its moniker. In 1902, the name was changed to Kentucky Normal and Industrial Institute for Colored Persons. The name was changed again in 1926 to Kentucky State Industrial College for Colored Persons.

By 1929, most students had access to high school, leading then-President Rufus B. Atwood to discontinue the college's high school, which had been in operation since 1893.

Even so, Atwood's 33-year tenure was marked by dramatic institutional growth including the first modern yearbook, the first student newspaper, and most notably, by gaining accreditation for the institution. His administrative acuity and political acumen were necessary to position the university for growth during a period of marked social change, while avoiding fallout in the political town of Frankfort.

In 1938, the school was named Kentucky State College for Negroes and began focusing again on offering more traditional liberal arts education. The college notably gained full accreditation from the Southern Association of Colleges and Schools the following year.

The term "for Negroes" was dropped in 1952 when the school's name became merely Kentucky State College. In 1972, it became Kentucky State University and enrolled its first graduate students in the School of Public Affairs in 1973.

In the 45 years since then, more than 43 new structures or major building expansions have enhanced Kentucky State University's 914-acre campus, which includes a 311-acre agricultural research farm and a 306-acre environmental education center.

Kentucky State University, "The College on the Hill," is led by its 18th president, Dr. M. Christopher Brown II. It is a public institution with an enrollment of approximately 2,000 students and 120 full-time faculty members. The university's diverse mix of faculty, staff, and students has made Kentucky State the most diverse public institution in the Commonwealth, and among the most diverse nationwide.

# UNIVERSITY LEADERSHIP

## BOARD OF REGENTS

Dr. Elaine Farris, Chair

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Student Engagement and Campus Life

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Vice President for
Institutional Advancement

Ms. Lisa K. Lang
General Counsel and Records Custodian

## MISSION STATEMENT

Kentucky State University is a public, comprehensive, historically black land-grant university committed to advancing the Commonwealth of Kentucky, enhancing society, and impacting individuals by providing quality teaching with a foundation in liberal studies, scholarly research, and public service to enable productive lives within the diverse global economy.

| KENTUCKY STATE UNIVERSITY REPORT CARD | FALL 2015 | FALL 2016 | FALL 2017 | FALL 2018 | FALL 2019 |
|---|---|---|---|---|---|
| FALL ENROLLMENT | D | B | A | A | A |
| FALL TO FALL RETENTION | B | C | B | C | B |
| COHORT STUDENTS RETURNING FOR THE THIRD YEAR | F | D | D | C | C |
| GROSS TUITION AND FEES REVENUE | F | D | C | B | B |
| YEAR END UNRESTRICTED NET ASSETS EXCLUDING PLANT NET OF COMP ABSENCES AND PENSIONS | * | * | * | * | * |
| PRIMARY RESERVE RATIO | D | C | C | A | B |
| VIABILITY RATIO | F | D | C | B | A |
| RETURN ON NET ASSETS RATIO | F | F | B | A | B |
| NET OPERATING REVENUES RATIO | F | F | C | A | A |
| COMPOSITE FINANCIAL INDEX | F | D | C | B | B |

# OVERVIEW

Kentucky State University takes seriously its charge to fulfill the aims and ambitions of the Commonwealth to provide continued evidence and outcomes commensurate with being the high performing small liberal arts institution envisioned in the original statutory charter. HB 303 enacted by the 2016 General Assembly, contained a provision that requires Kentucky State University to report its progress in attaining a defined set of goals and metrics related to student enrollment, academic persistence, and fiscal stability.

After a half-decade of stark enrollment declines and unpaid accounts receivables, Kentucky State University has emerged as a valuable "public, comprehensive, historically black land-grant university committed to advancing the Commonwealth of Kentucky, enhancing society, and impacting individuals by providing quality teaching with a foundation in liberal studies, scholarly research, and public service to enable productive lives within the diverse global economy". Recent outcomes data on all indices confirm a mission-focused, fiscally conservative state institution rapidly transforming into a beacon of efficiency and effectiveness.

A focused and intentional shift in the operational culture is resulting in improved admission yields, academically ready undergraduate cohorts, increased retention, better than predicted persistence, higher tuition collections, reduced receivables, and fiscal ratios appropriate for credit-worthiness. The stabilization of student enrollment is punctuated by marked stability in the University's gross billable tuition and overall revenue receipts.

Kentucky State University has attained the student headcount and full-time equivalent enrollment to remain a viable and autonomous state-supported postsecondary institution. The enrollment and retention increases are noteworthy given the intentional attrition of prior cohort students who lacked the academic proficiency to be successful without a significant investment in unfunded academic and remedial supports. The campus community is transitioning to a community of scholars and practitioners preparing for the extant workforce.

The near flat operational expenditures coupled with increased fiscal revenues have enabled the campus to withstand a multi-year succession of reductions in the Commonwealth of Kentucky's appropriations. The loss in total public funding revenue has placed considerable stress on the campus' operating budget. Even more, the threat of a fiscal cliff pursuant to the proposed equilibrium of the postsecondary performance funding model threatens to upend the last three years of progress and drive the campus into draconian operations.

Kentucky State University has continued to implement cost containment strategies including staff reductions, elimination of vacant positions, reorganization of administrative and academic functions, and the elimination or renegotiation of contracts in an effort to provide evidence that the University merits continued economic investment by the Commonwealth. These actions, while difficult, have positioned Kentucky State University to function within its current revenue stream. Although enrollment has stabilized, the institution still requires additional state funding to guarantee academic success.

— **M. Christopher Brown II, Ph.D.**
Eighteenth President

# INSTITUTIONAL GROWTH OUTCOMES DATA

## FALL UNDERGRADUATE ADMISSION

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| First-Time Freshman Applied | 4,768 | 4,622 | 3,505 | 4,889 | 4,072 |
| First-Time Freshman Admitted | 1,808 | 1,657 | 1,549 | 2,068 | 1,743 |
| First-Time Freshman Enrolled | 210 | 204 | 317 | 276 | 510 |
| Average ACT Comp (All) | 19 | 19 | 18 | 18 | 18 |
| Average HS GPA (All) | 3.0 | 3.0 | 2.9 | 2.8 | 2.8 |
| Regular Admit: Average ACT | - | 21 | 20 | 19 | 20 |
| Average HS GPA | - | 3.3 | 3.0 | 3.0 | 3.0 |

## FALL ENROLLMENT

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Total Headcount | 1,586 | 1,736 | 1,926 | 1,781 | 2,171 |
| Undergraduate | 1,433 | 1,568 | 1,757 | 1,667 | 2,029 |
| Graduate | 153 | 168 | 169 | 114 | 142 |
| Full-Time | 1,192 | 1,143 | 1,219 | 1,130 | 1,227 |
| Part-Time | 394 | 593 | 707 | 651 | 944 |
| FTE (Full-Time + 1/3 Part-Time) | 1,323 | 1,341 | 1,455 | 1,347 | 1,542 |
| Female | 922 | 1,048 | 1,136 | 1,048 | 1,227 |
| Male | 664 | 688 | 790 | 719 | 935 |
| Black, Non Hispanic | 812 | 804 | 918 | 819 | 1,108 |
| White, Non Hispanic | 505 | 432 | 374 | 264 | 235 |
| Nonresident Alien | 17 | 22 | 34 | 16 | 22 |
| Other Races | 252 | 478 | 600 | 682 | 806 |
| In-State | 1,087 | 1,258 | 1,374 | 1,280 | 1,440 |
| Out-of-State | 499 | 478 | 552 | 501 | 731 |
| Age 24 or younger | 71% | 71% | 75% | 76% | 86% |
| Age 25 or older | 29% | 29% | 25% | 24% | 14% |

## FIVE LARGEST FALL ENROLLMENT BY STATE

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Kentucky | 1,005 | 1,243 | 1,242 | 1,205 | 1,338 |
| Ohio | 120 | 111 | 149 | 139 | 164 |
| Michigan | 91 | 78 | 119 | 109 | 155 |
| Illinois | 103 | 89 | 102 | 89 | 118 |
| Indiana | 70 | 64 | 80 | 74 | 107 |

## FALL ENROLLMENT BY SERVICE COUNTIES

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Anderson | 56 | 51 | 53 | 41 | 34 |
| Franklin | 246 | 455 | 356 | 298 | 318 |
| Henry | 54 | 93 | 67 | 31 | 33 |
| Owen | 13 | 9 | 104 | 97 | 72 |
| Scott | 28 | 32 | 27 | 15 | 10 |
| Shelby | 36 | 75 | 27 | 30 | 17 |

## DEGREES AWARDED

| | 2014-15 | 2015-16 | 2016-17 | 2018 | 2019 |
|---|---|---|---|---|---|
| Certificates | | | 3 | 7 | 5 |
| Associate Degrees | 62 | 43 | 43 | 52 | 32 |
| Bachelor Degrees | 270 | 276 | 315 | 222 | 212 |
| Master's Degrees | 52 | 45 | 40 | 57 | 49 |
| Doctoral Degrees | | | | 6 | 2 |
| Total Degrees Awarded | 384 | 364 | 401 | 344 | 300 |

## TOP TEN ENROLLMENT COUNTIES IN KY

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Anderson | 56 | 51 | 53 | 41 | 34 |
| Fayette | 157 | 196 | 164 | 176 | 259 |
| Franklin | 246 | 455 | 356 | 298 | 318 |
| Henry | 54 | 93 | 67 | 31 | 33 |
| Jefferson | 160 | 124 | 183 | 195 | 230 |
| Jessamine | 50 | 17 | 32 | 151 | 127 |
| Knott | 17 | 24 | 21 | 29 | 17 |
| Owen | 13 | 9 | 104 | 97 | 72 |
| Scott | 28 | 32 | 27 | 15 | 10 |
| Shelby | 36 | 75 | 27 | 30 | 17 |

# 2019 MANAGEMENT AND IMPROVEMENT DATA

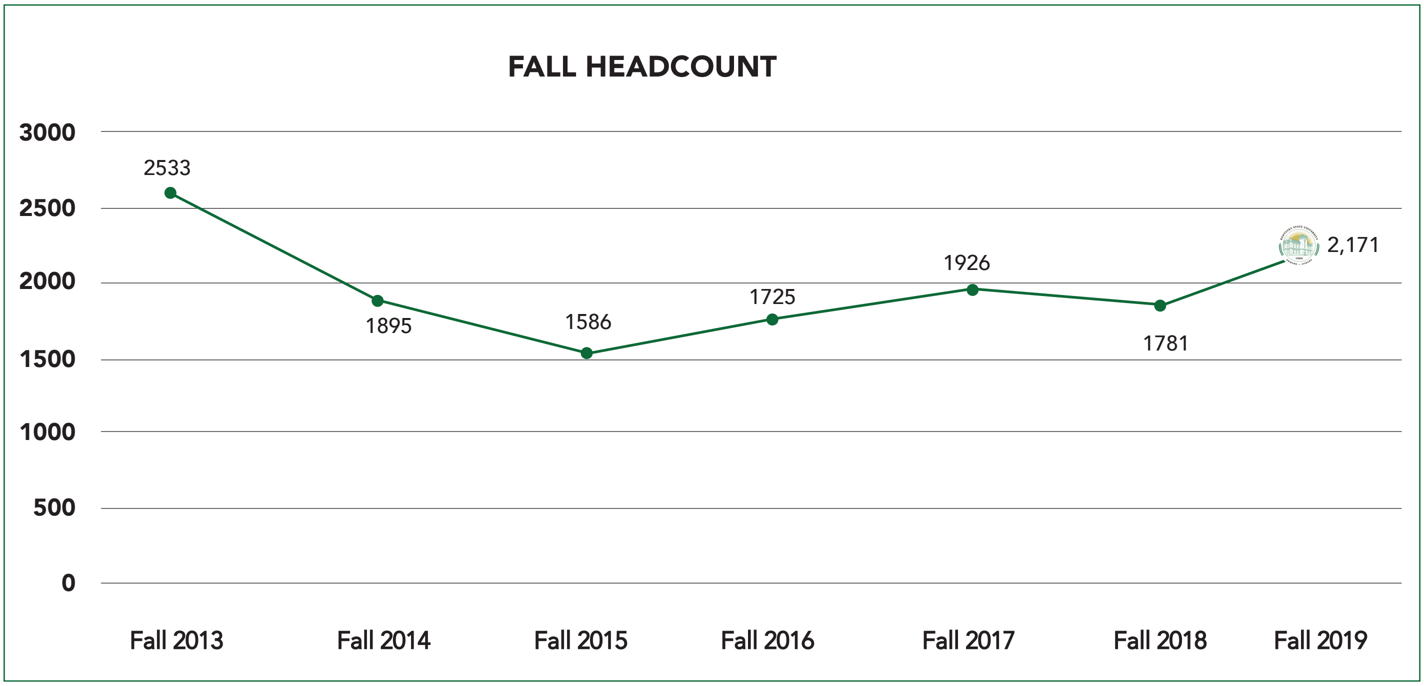
## HEADCOUNT & ENROLLMENT

According to the Kentucky State University management and improvement plan approved by the Council on Postsecondary Education, "a headcount enrollment of 2,100 students will provide sufficient resources for the University to reach long-term financial stability". It is important to note that the Fall of 2019 is the first time the institutional headcount has exceeded 2000 students since Fall 2013.

Kentucky State University attained the prescribed headcount enrollment metric in alignment with a concomitant Strategic Enrollment Plan. The Fall 2017 enrollment include a sizeable freshmen cohort. However, a careful review revealed a proclivity for academic unreadiness throughout the class brought on by a conditional admission category. After a year of retrenchment, the campus employed an external big data admissions service to assist in recruiting and enrolling a college-ready freshmen cohort. Corrections began in 2018 and continued this fall.

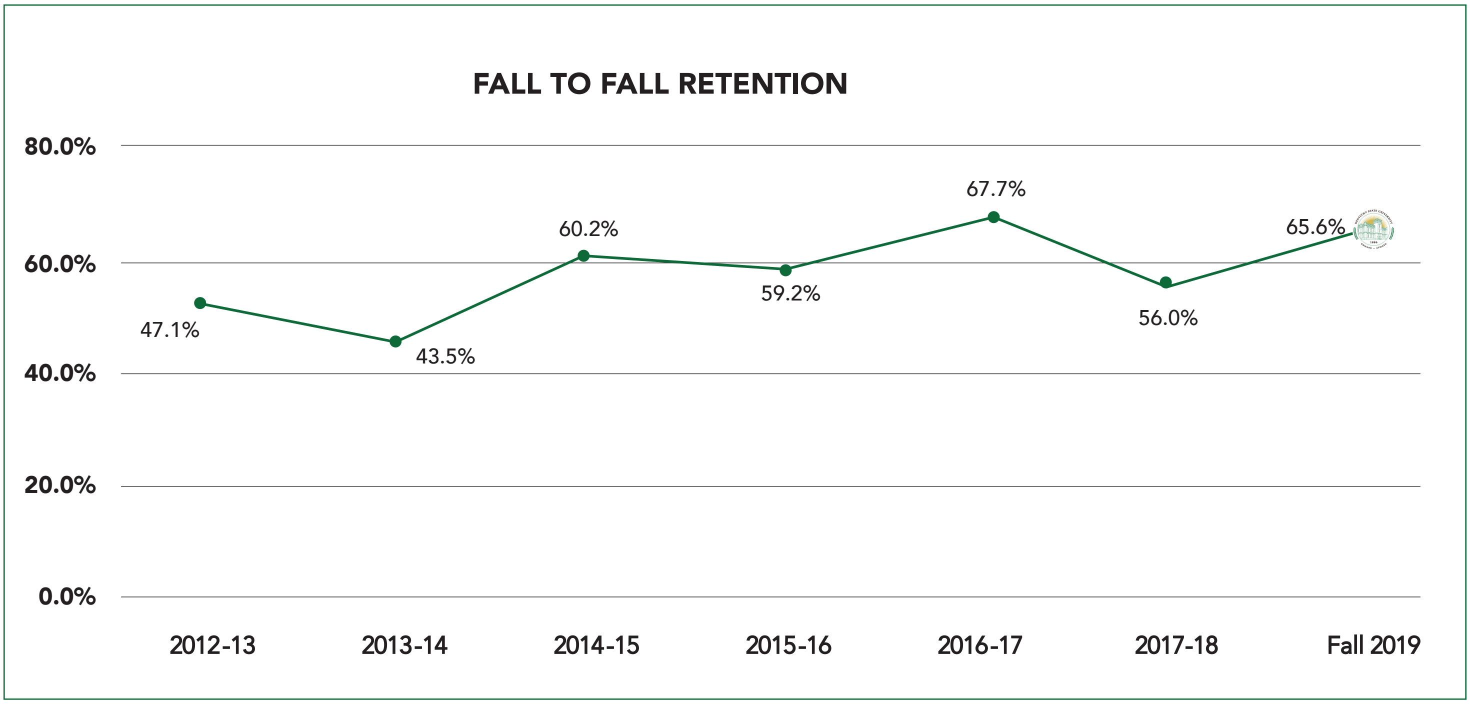
Disaggregated data include two significant information points: (1) the scholastic quality of first-time full-time students have improved and (2) the number of students from the Commonwealth (including non-service counties) increased significantly.

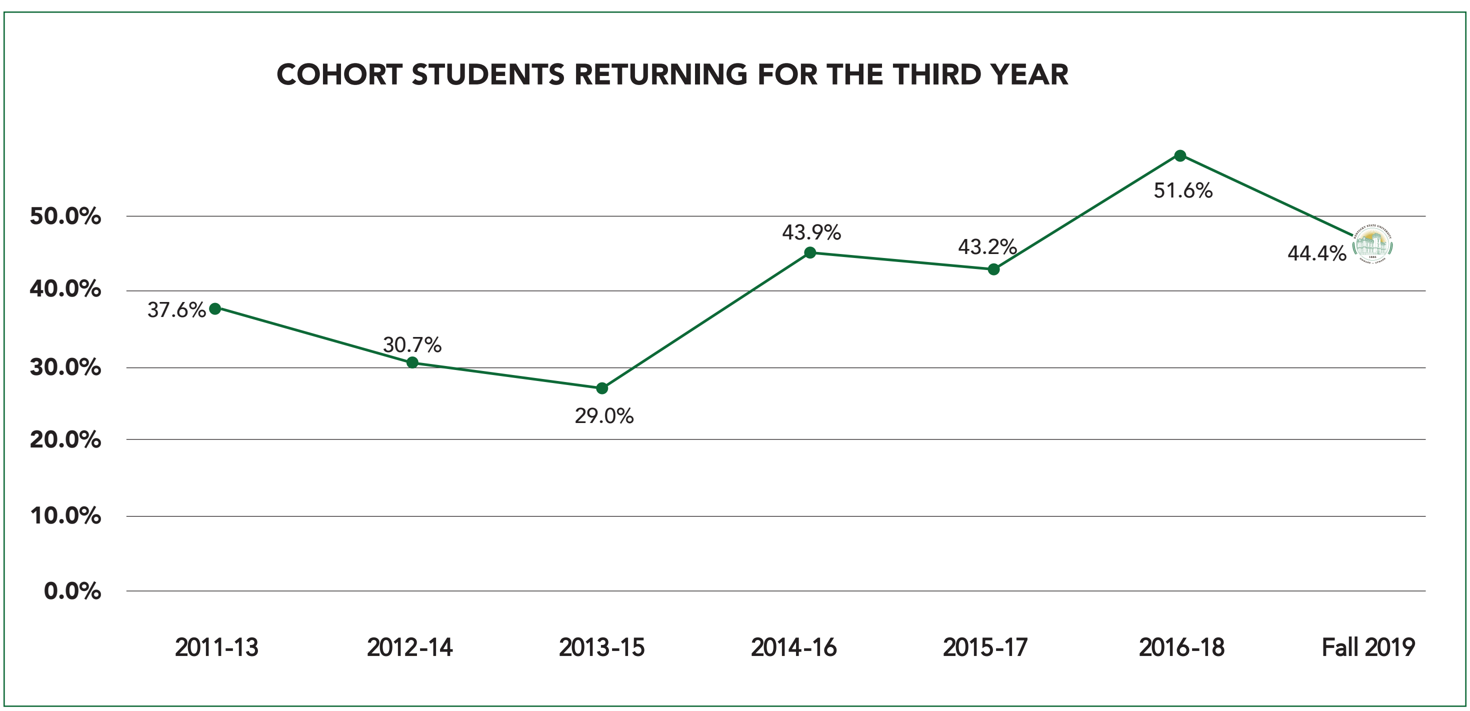
In sum, Kentucky State University has developed a data-based profile of which students are best suited academically and most likely to be interested in the institution. One-untapped area for further enrollment expansion remains – transfer fluency with Kentucky Community and Technical College System member campuses. It is likely that the reduced out-of-state tuition being piloted is also a contributor to the yield.



## RETENTION & PROGRESSION

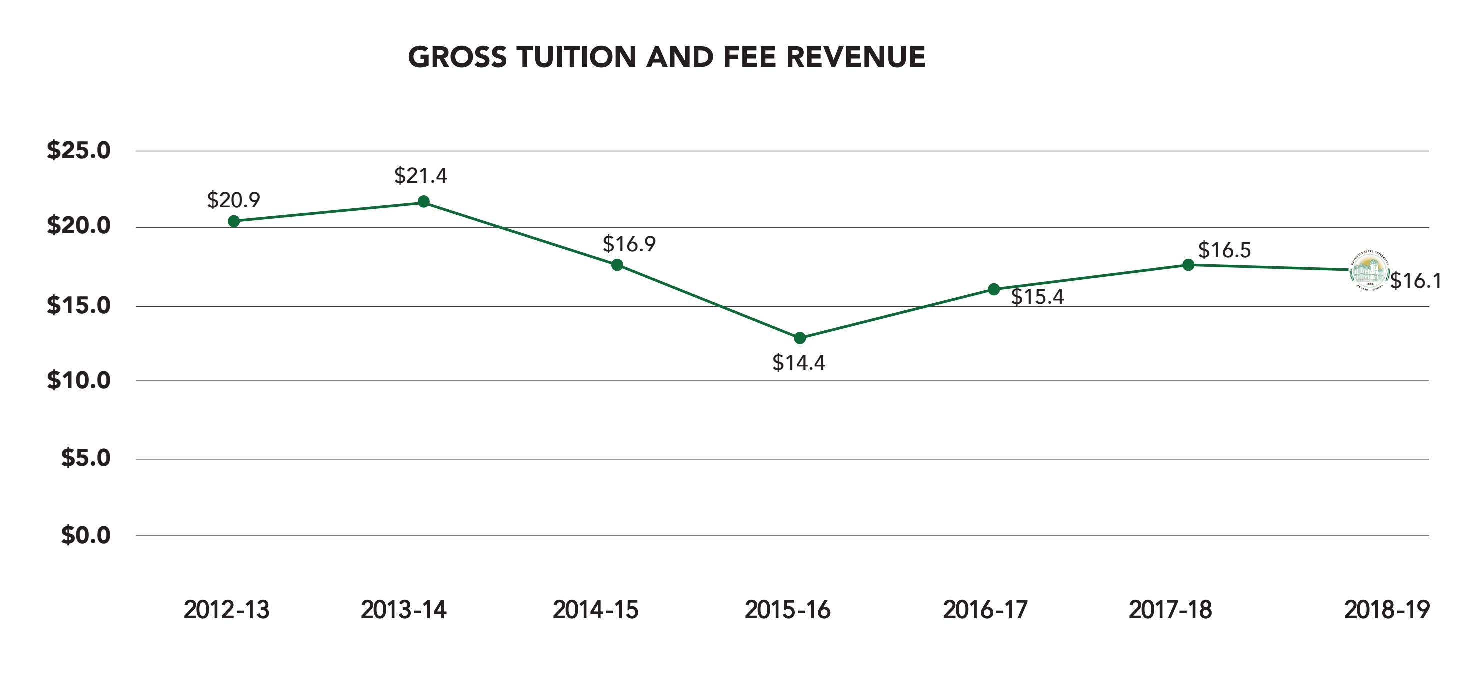
For at least a decade or more, Kentucky State University demonstrated an over-reliance in recruiting on significantly underprepared students. Many of these students lacked a realistic financial path to complete a college degree. This recipe yielded an annual retention rate below 50% (often in the low 40s). The university self-funded three initiatives that elevated the retention rate to 65.6% (nearly 7 out of 10 freshmen return for the second year). Despite the success of the campus' co-requisite initiative (eliminating all remediation courses), university college (which revamped advising), and the pre-college summer enrollment cohort, Kentucky State University does not have a financial plan to institutionalize these initiatives.

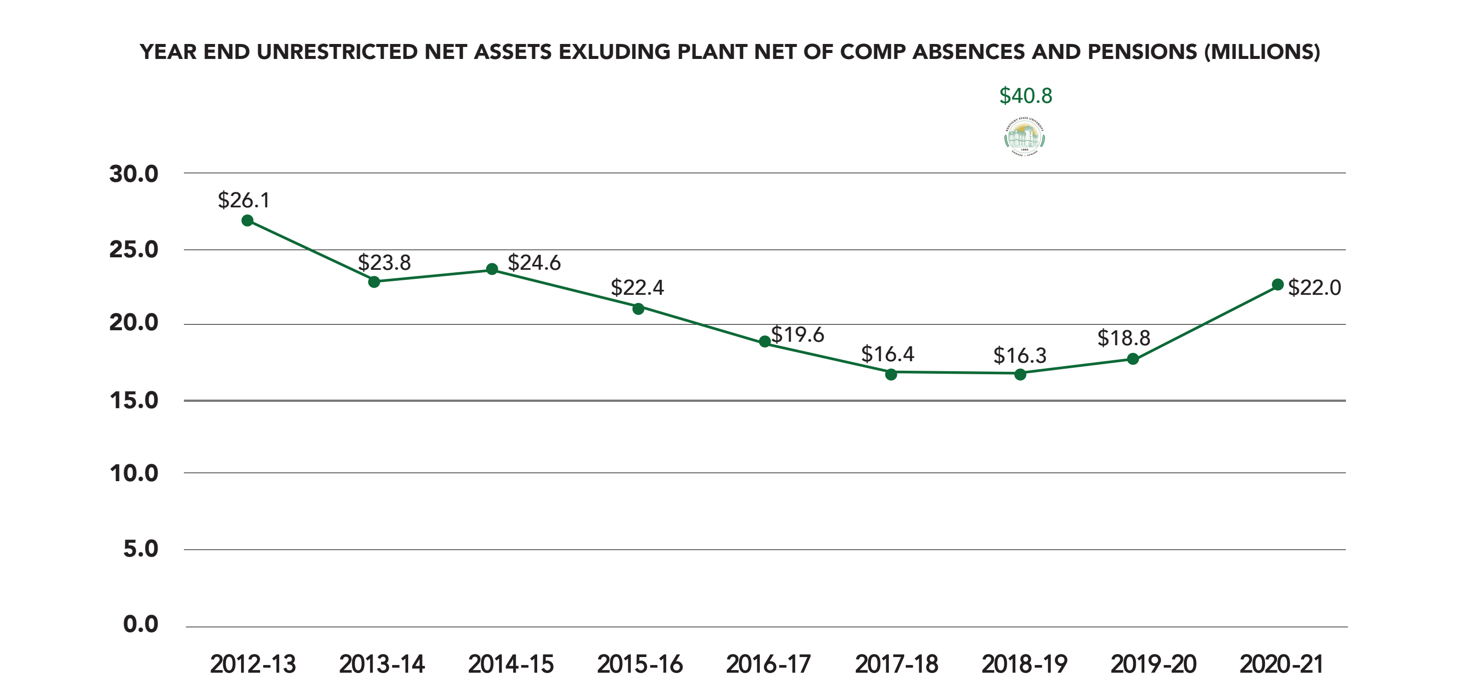


## TUITION & REVENUE

Kentucky State University is committed to the long term stability of the institution via fiscal prudence and expansion of auxiliary based revenues. There is a noteworthy data trend that began in the Fall of 2018 and repeats in 2019. The data show that of the students applying to the institution, fewer students were admitted, yet more students enrolled. In parallel, although the enrollment line is flat, the campus collected more tuition revenue from enrolled students. The recent employment of a four-year tuition guarantee coupled with the decision to forego an approved 4% annual tuition increase has generated a tuition sweet-spot in the marketplace. Students pay what the institution charges.



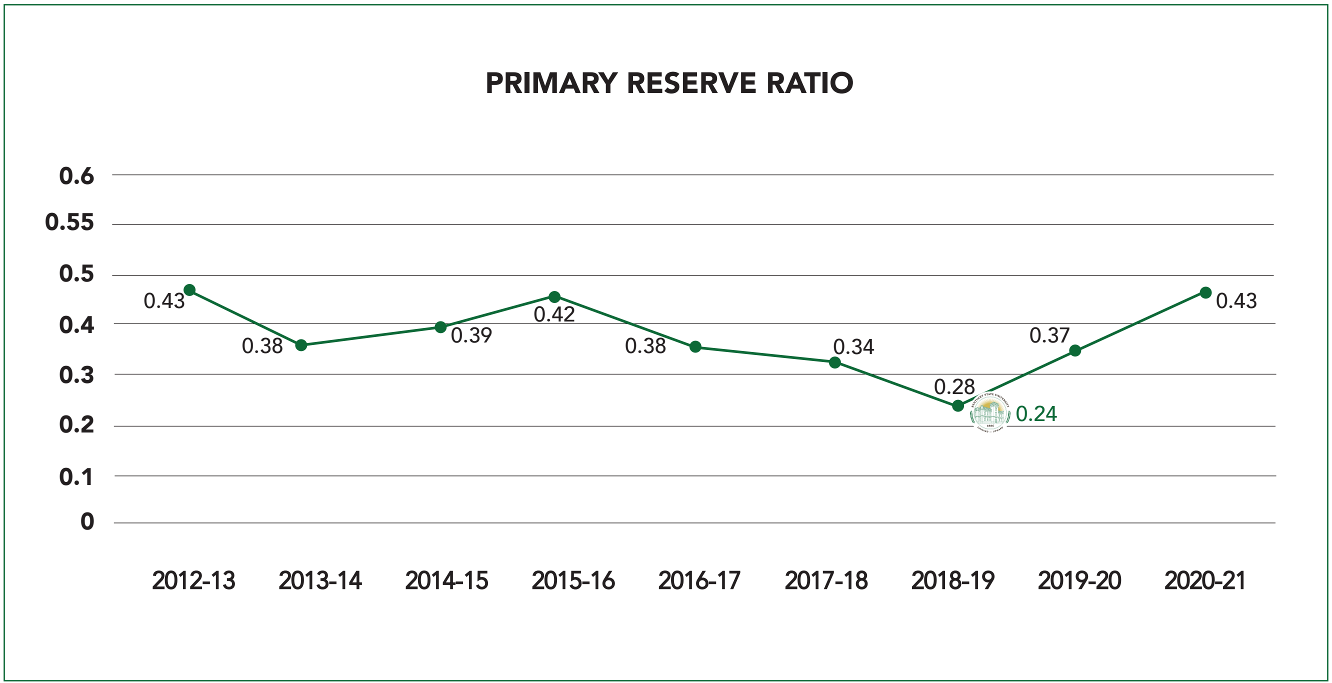



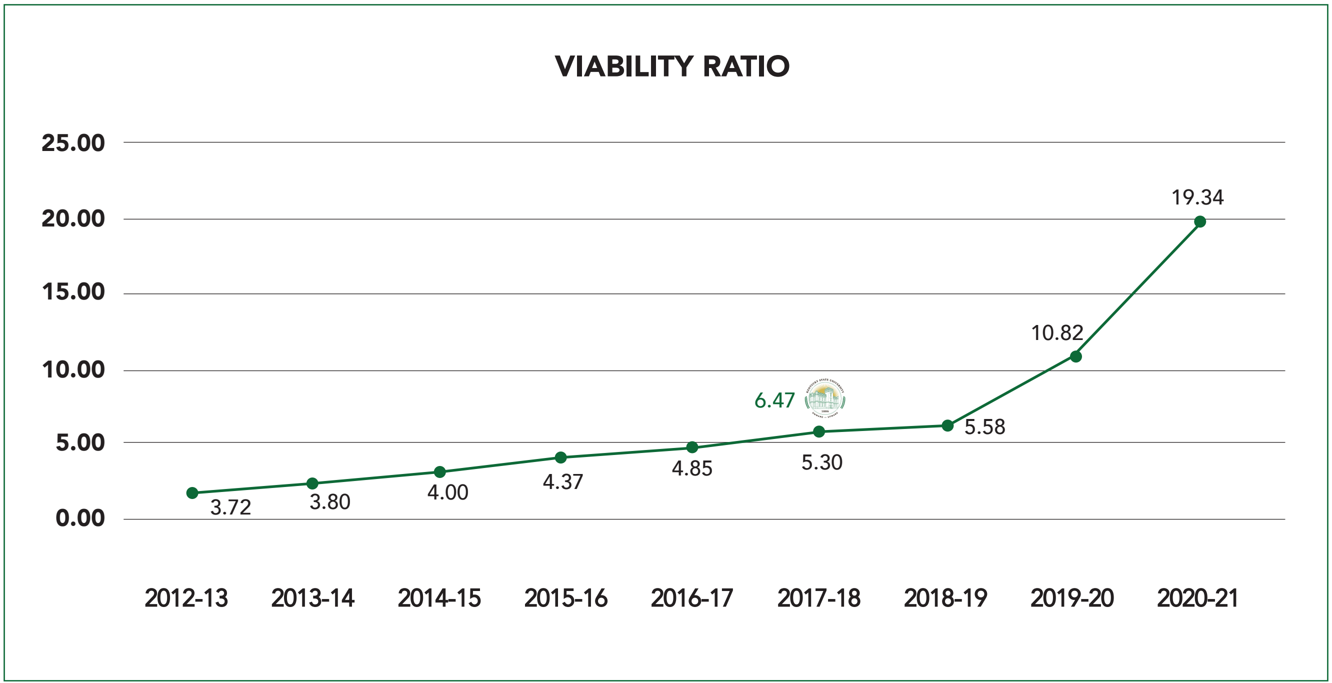
## FINANCIAL RATIOS & STABILITY

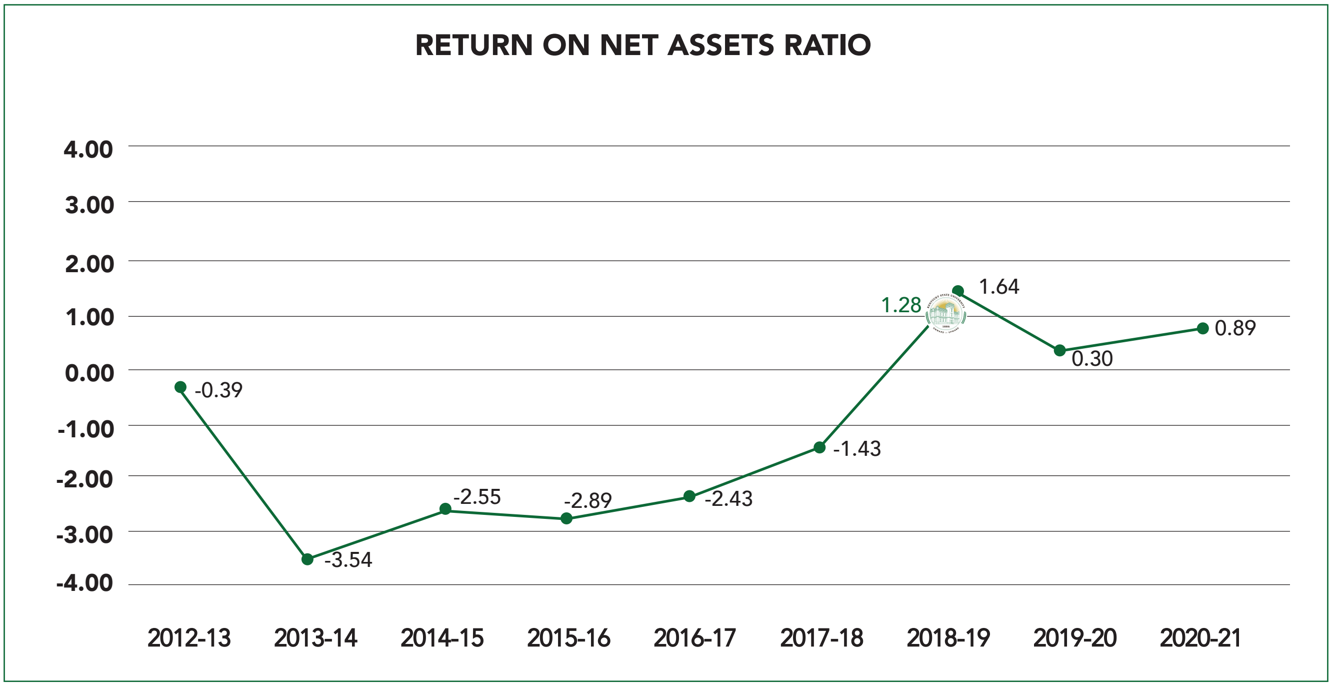
Consistent state funding is critical to the long term stability of Kentucky State University. The campus has suffered annual decreases in state appropriations resulting from the onboarding of a new performance funding stratagem. It is imperative that the institution builds on a firm revenue base while aligning expenditures with ongoing revenue.

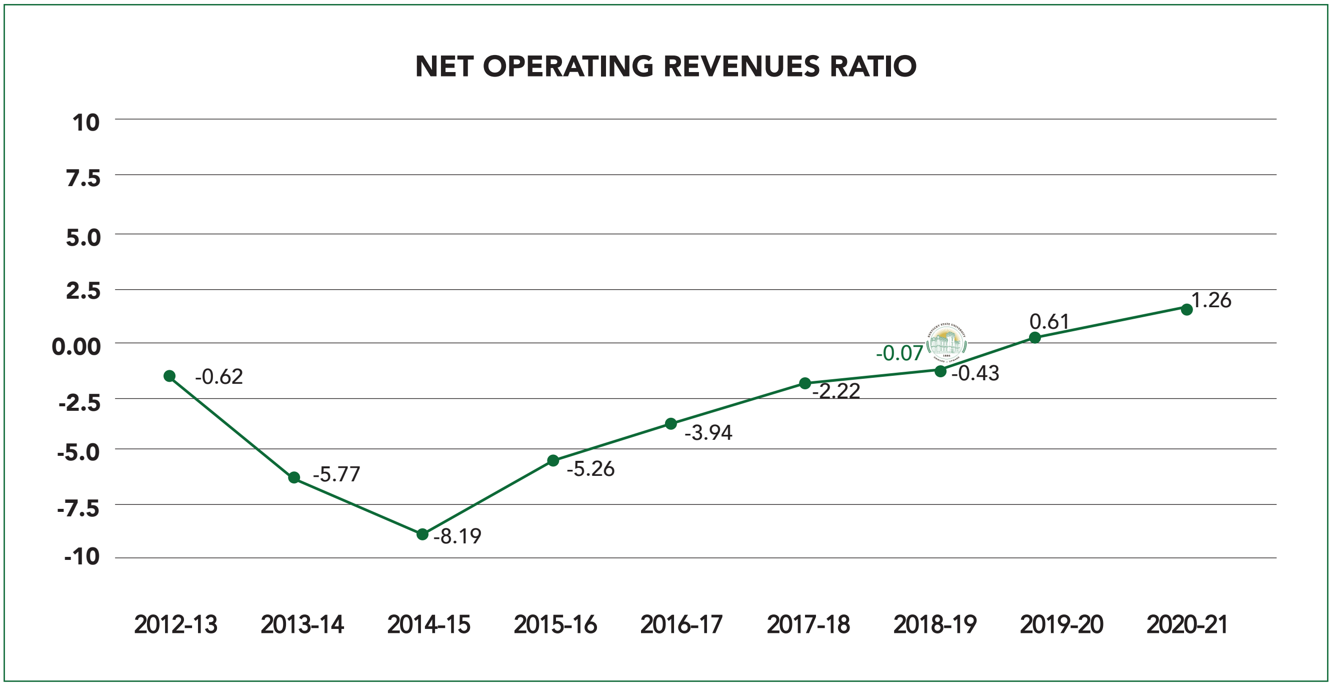
Kentucky State University again received an unmodified opinion which is the highest level of assurance our external audit firm can provide. The audit resolved six audit findings from prior years. Although the audit capture cash-flow on June 30, Kentucky State University had receivable claims on cash of $4,456,000 for expenditures incurred to be reimbursed by the Federal Government. Despite the timing issue on cash deposits, the institution exceeded the Composite Financial Index as required by the HB303 Management and Improvement Plan.

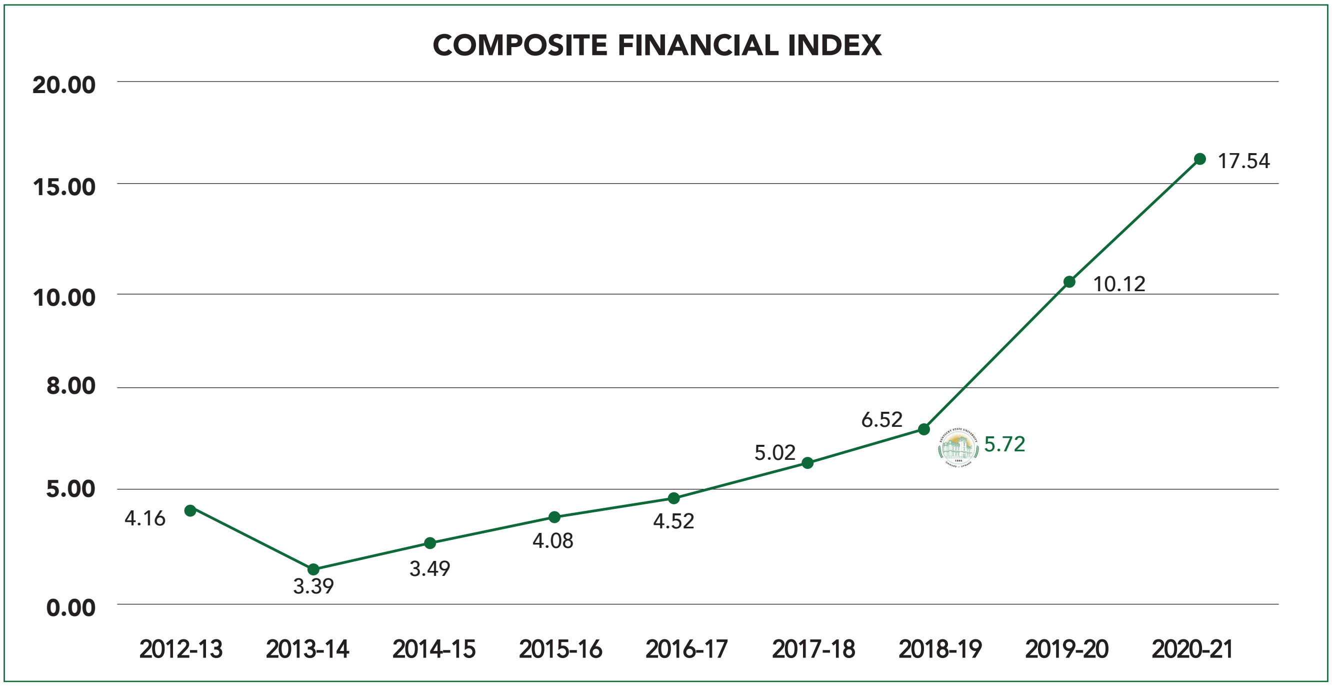
The primary metric to evaluate the financial stability of the University is the change in unrestricted net assets each year and the reason for any change. Any use of unrestricted net assets (fund balance) should be a planned investment in the future of the University, fund balances cannot be used to support ongoing operations. Kentucky State University has not used our fund balance for ongoing operations.




RETURN ON NET ASSETS RATIO
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-0.39
-3.54
-2.55
-2.89
-2.43
-1.43
1.28
1.64
0.30
0.89
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21


NET OPERATING REVENUES RATIO
10
7.5
5.0
2.5
0.00
-2.5
-5.0
-7.5
-10
-0.62
-5.77
-8.19
-5.26
-3.94
-2.22
-0.07
-0.43
0.61
1.26
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21




| METRIC | TARGETS AND ACHIEVEMENTS | | | | | |
|---|---|---|---|---|---|---|
| | ACTUAL 2015-16 | ACTUAL 2016-17 | ACTUAL 2017-18 | ACTUAL 2018-19 | TARGET 2019-20 | TARGET 2020-21 |
| **Headcount** | 1,586 | 1,757 | 1,926 | 2,171 | 2,100 | 2,100 |
| **Primary Reserve Ratio** | 0.42 | 0.59 | 0.55 | 0.24 | 0.37 | 0.43 |
| **Viability Ratio** | 4.37 | 8.09 | 8.86 | 6.47 | 10.82 | 19.34 |
| **Return on Net Assets Ratio** | -2.89% | 4.06% | 31.64% | 1.28% | 0.30% | 0.89% |
| **Net Operating Revenues Ratio** | -5.26 | 0.51 | 4.10 | -0.07 | 0.43 | 1.26 |
| **Composite Financial Index** | 4.08 | 8.35 | 8.90 | 5.72 | 10.12 | 17.54 |
| **Use of Reserve for Ongoing Expenses** | $3,083,960 | $0 | $0 | $0 | $0 | $0 |

# MANAGEMENT & IMPROVEMENT PLAN SUMMARY

The 2019 Management and Improvement Plan update confirms that Kentucky State University has implemented the necessary cost containment strategies, including the reorganization of administrative and academic function, the elimination of managerial duplication, personnel reductions and improved revenue collection. While these efforts are central to fiscal viability, alone these activities are insufficient to launch programmatic growth and expansion. Kentucky State University has demonstrated that it merits continued state level investments.

The years to come require an unwavering commitment to academic excellence, brand identity, and workforce production. Kentucky State University must continue ongoing efforts toward strategic enrollment growth, research productivity, economic development, and student success. A university is known for the quality of both its inputs and its outputs. There are several investments that can accelerate institutional stability. These supports include, but are not limited to:

- A commitment to provide Kentucky State University with the full matching funds requirement for all agricultural research and extension activities in the land-grant programs;
- Elimination of the existential threat posed by delayed equilibrium in adoption of the performance funding formula by making permanent the stop-loss provision (arguably the removal of the provision violates HB303 in both principal and substance);
- Authorizing Kentucky State University pursuant to KRS 45.763 to facilitate a public-private partnership to develop student housing to sustain increased enrollment;
- Granting Kentucky State University permission to retain proceeds from the sale of real estate and other real properties without sequestration or return of monies to the Commonwealth's general fund; and
- Providing Kentucky State University restricted supplemental appropriations to maintain academic excellence focused on student retention and success in strong support of the Commonwealth's workforce needs.

With stable enrollment, increasing revenues, judicious expenditures, and support from the Commonwealth, Kentucky State University is positioned to demonstrate continued improvement, institutional success, and state-wide utility going forward. The institution continues to meet the required targets for continued state appropriations and investment. Annual data provide compelling evidence of institutional transformation over the last three years. Kentucky State University aims to achieve all benchmarks and metrics set forth by the General Assembly.

Onward. Upward. *Forward.*

KENTUCKY STATE UNIVERSITY
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