



Asset Preservation Fee Exemption Policy

Unit/Department: Finance & Tuition

CPE Contact

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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 not 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.