

**Council on Postsecondary Education  
November 5, 2007**

## Postsecondary Education Budget Recommendation for 2008-10 Continuing Operations

Funds for continuing operations for postsecondary education are recommended as the Council's first priority in the upcoming biennium. Continuing operations include maintenance of ongoing operations at Kentucky public postsecondary institutions, CPE agency operations, and the Adult Education Funding Program. The staff recommends that the Council request appropriations of \$1,217,237,000 in 2008-09 and \$1,276,891,100 in 2009-10 for continuing postsecondary operations. A summary of recommended appropriation amounts for continuing operations is provided below.

<i>Description</i>	<i>FY 2008-09</i>	<i>FY 2009-10</i>
Maintenance of Institutional Ongoing Operations <sup>1</sup>	\$1,179,794,300	\$1,236,857,500
CPE Agency Operations	10,416,700	11,007,600
Adult Education Funding Program	27,026,000	29,026,000
<b>Total</b>	<b>\$1,217,237,000</b>	<b>\$1,276,891,100</b>

<sup>1</sup> The Council's 2008-10 budget recommendation does not reflect changes in the 2008-10 Branch Budget Guidelines related to significant increases in KERS benefit rates for nonhazardous and hazardous employees. The Council staff is still reviewing the financial implications of implementing the recommended rates prescribed in the guidelines, and the budget recommendation will likely require a substantial increase if the new rates are applied.

### I. Maintenance of Institutional Ongoing Operations

Providing an adequate level of funding so that Kentucky public postsecondary institutions can maintain current service levels (i.e., existing student enrollment, faculty lines, and staff positions) is recommended as the Council's first priority. The staff recommends that the Council request appropriations of \$1,179,794,300 in 2008-09 and \$1,236,857,500 in 2009-10 to provide General Fund support for maintenance of ongoing operations at Kentucky public postsecondary institutions. These amounts include additional budget requests of \$67,655,100 in 2008-09 and \$124,718,300 in 2009-10 over the 2007-08 General Fund appropriation for base adjustments that support ongoing institutional operations. There are six adjustments included in this request:

- Additions to the base related to transfers of trust fund and funding program appropriations.
- Increases that support inflationary pressures.
- Capital renewal.
- M&O for new facilities that came into use during the 2006-08 biennium or will come into use during the 2008-10 biennium.
- Changes in debt-service obligations for state supported facilities.
- Changes in indigent care contractual obligations (UofL hospital).

Below is an itemized list of base adjustments to support current service levels at Kentucky’s public postsecondary institutions, as well as a brief description of each adjustment.

<i>Maintenance of Institutional Ongoing Operations</i>	<i>FY 2008-09</i>	<i>FY 2009-10</i>
Trust Fund and Funding Program Transfers	\$6,459,600	\$6,459,600
Inflationary Increase Adjustment	35,986,500	74,249,500
Capital Renewal	5,000,000	5,000,000
M&O of New Facilities	7,980,000	26,346,000
Changes in Debt Service	11,368,400	11,441,500
Changes in Contractual Obligations	860,600	1,221,700
<b>Total</b>	<b>\$67,655,100</b>	<b>\$124,718,300</b>

**Trust Fund and Funding Program Transfers:** The 2006 General Assembly appropriated \$7.2 million in 2007-08 to the Council’s trust funds and funding programs budget to support the Research Support Program, the Regional Stewardship Program, and the Workforce Development/Transfer Program. While these funds were appropriated to the Council, \$5.7 million of the total was distributed to institutions to support the hiring of research faculty at UK and UofL, to bolster regional outreach and engagement infrastructures at the comprehensive universities, and to promote workforce education and transfer programs at KCTCS. Council guidelines for these programs stipulate that once an institution achieves certain programmatic milestones, an amount equivalent to the 2007-08 distribution will be transferred to the qualifying institution’s operating budget as a base adjustment to provide a recurring source of funding for program activities. The staff recommends that \$5.7 million in distributed research support, regional stewardship, and workforce development funds be transferred to the institutions responsible for program implementation. Due to rising program costs, these funds will be adjusted for inflation in 2008-09 and 2009-10 (see Inflationary Increase Adjustment in this section).

In response to a documented need for more engineers in Kentucky, the Council adopted a *Statewide Engineering Strategy* in July 2000 to increase geographic access and productivity in engineering education. The current year budget for the Science and Technology Funding Program contains a \$1,000,000 appropriation supporting this program. At its May 2007 meeting, the Council approved moving these funds to the institutions upon redesign of distance learning courses to improve the student experience, and upon accreditation of the joint electrical engineering program offered by Murray State University and the University of Louisville. Although joint program accreditation cannot occur before 2009, the Quality and Accountability Policy Group recommended at the November 2007 meeting, and the Council approved, a transfer of \$750,000 from the Council’s trust funds and funding programs budget to the University of Kentucky (\$250,000), the University of Louisville (\$125,000), and Western Kentucky University (\$375,000), beginning in 2008-09. The staff recommends that these funds be appropriated, but not allotted, until such time as the institutions meet Council requirements to collaboratively redesign distance learning courses, with support of the Kentucky Virtual Campus, to conform to best practices in distance education. Due to rising program costs, these funds will be adjusted for inflation in 2008-09 and 2009-10 (see Inflationary Increase Adjustment in this section). The remaining \$250,000 will remain in the CPE budget until joint electrical engineering program accreditation is achieved.

The staff recommends that, beginning in 2008-09, \$6,459,600 in recurring funds be transferred from the Council’s budget to the institutions responsible for program implementation. A listing of amounts to be transferred by institution follows.

	<u>2008-09</u>	<u>2009-10</u>
Eastern Kentucky University	\$200,000	\$200,000
Kentucky State University <sup>1</sup>	209,600	209,600
Morehead State University	200,000	200,000
Murray State University	200,000	200,000
Northern Kentucky University <sup>2</sup>	500,000	500,000
Western Kentucky University <sup>3</sup>	575,000	575,000
University of Kentucky <sup>3</sup>	2,250,000	2,250,000
University of Louisville <sup>3</sup>	1,125,000	1,125,000
KCTCS	<u>1,200,000</u>	<u>1,200,000</u>
<b>Total</b>	<b>\$6,459,600</b>	<b>\$6,459,600</b>

<sup>1</sup> Includes transfer of Martin Luther King, Jr., Scholarship funds to KSU.  
<sup>2</sup> Includes transfer of stewardship program Regional Grant funds to NKU.  
<sup>3</sup> Includes transfer of *Statewide Engineering Strategy* funds to identified institutions.

**Inflationary Increase Adjustment:** The Council’s budget recommendation seeks to ensure that adequate funds are available to perpetuate the existing educational services and programs of the institutions in the face of inflationary pressures. One way it accomplishes this is by applying a basic adjustment for inflationary pressures calculated by multiplying institution net base General Fund appropriation by a higher education cost adjustment (HECA index of 3.3 percent) in 2008-09 and 2009-10 related to maintenance of ongoing operations. Given that

the largest expenditures for postsecondary education are salaries, this inflation adjustment uses a combination of two federally developed and maintained price indices – the Employment Cost Index (ECI) and the Gross Domestic Product Implicit Price Deflator (GDP IPD). The ECI (75 percent of HECA index) includes salaries and benefits for private sector white-collar workers, excluding sales occupations. The GDP IPD (25 percent of HECA index) reflects general price inflation in the U.S. economy. The staff recommends that the Council request \$35,986,500 in 2008-09 and \$74,249,500 in 2009-10 over the 2007-08 General Fund appropriation for inflationary adjustments that support ongoing institutional operations.

**Capital Renewal:** Another adjustment to support ongoing operations is a capital renewal appropriation equating to approximately 5 percent of the General Fund base or \$5 million in 2008-09 and \$5 million in 2009-10, to be matched in each year of the biennium by institutions and distributed on a proportionate square footage basis. The need for this recommendation is supported in part by the results of the joint CPE/institution directed Facility Condition Assessment and Space Study Project conducted by VFA and released in 2007. This capital study reported a large backlog of capital renewal projects due to aging facilities and acknowledging that many major systems (electrical, plumbing, roofs, etc.) are at the end of their expected useful life and need attention. The budget recommendation for ongoing capital renewal appropriations matched by institutional funds is a proactive and shared first-step in helping reduce the magnitude of this problem in future biennia.

**M&O of New Facilities:** The staff also recommends an adjustment for maintenance and operations (M&O) of public postsecondary facilities that either came online in 2007-08 or are expected to come online in the next biennium. This equates to a recommendation of \$7,980,000 in 2008-09 and \$26,346,000 in 2009-10 over the 2007-08 General Fund appropriation. These totals reflect new facility square footage as well as custodial, maintenance support, and utility costs.

**Changes in Debt Service:** This adjustment pertains to changes in debt service over the upcoming biennium on debt issued prior to 1998, which is included in institutional base budgets. The request seeks an appropriation of \$20,488,100 in 2008-09 and \$20,561,200 in 2009-10 for debt service on existing facilities. The staff recommends base adjustments of \$11,368,400 in 2008-09 and \$11,441,500 in 2009-10 to reflect changes in debt service on existing education and general (E&G) debt.

**Changes in Contractual Obligations:** The University of Louisville hospital provides indigent care for citizens of the Louisville/Jefferson County metropolitan area and for citizens of Kentucky through a contractual Quality and Charity Care Trust (QCCT) agreement among the University of Louisville, the Commonwealth of Kentucky, Metro Louisville, and University Medical Center, Inc. The contract is adjusted annually for inflation. The request seeks an appropriation of \$19,842,900 in 2008-09 and \$20,204,000 in 2009-10 for indigent care provided by UofL Hospital. The staff recommends adjustments of \$860,600 in 2008-09 and \$1,221,700 in 2009-10 to reflect changes in contract costs.

## II. CPE Agency Operations

CPE agency operations include personnel and operating expenses necessary to manage the agency and programs of the Council, including employees involved in the delivery of Kentucky Adult Education services and the Kentucky Virtual Campus and Virtual Library. The agency is organized into six primary units with agency operations providing funding support to all units.

- **The Executive Unit** provides leadership and direction to the other units, coordinates postsecondary education equal opportunity efforts, provides legal services to the agency, oversees governmental and legislative services, media relations, and communications planning for the entire agency, and human resource management.
- **The Finance and Planning Unit** is responsible for developing funding approaches for the institutions, the analysis of postsecondary education financial information, the review and recommendation of capital construction projects, tuition setting, reciprocity agreements, and the administration of the strategic investment and incentive trust funds, as well as directing strategic planning and accountability efforts. In addition to these institutionally focused activities, the finance unit also is responsible for the administrative and business operations of the agency, which includes budgeting, accounting, purchasing, printing/copying, telecommunications services, and inventory control.
- **The Academic Affairs Unit** includes activities related to approval, modification, disapproval, or discontinuance of academic programs, extended campus activities, academic course inventory, admissions standards, accountability, statewide strategic planning, early childhood literacy, baccalaureate degree transfer, Academic Common Market, KEES, and licensure of independent colleges and universities. The academic affairs unit administers the faculty development program located in the Technology Initiative Trust Fund and the Early Math Testing and Local P-16 Council initiatives funded through the Council's pass-through programs. New economy responsibilities arise out of HB 572, 2000 Regular Session, and include oversight of the Science and Technology Funding Program and coordination of the state's economic development initiatives in conjunction with the Economic Development Cabinet.
- **The Information and Technology Unit** is composed of two sections. The information and research section administers activities related to the collection and analysis of student data collected through the agency's comprehensive database. It supports decision making at the Council by collecting and analyzing data from public and private postsecondary institutions within the state, and produces statistical reports, conducts policy and accountability research, and works with other agencies to develop data collection and retrieval systems. The technology section provides support and maintenance of the agency's computing needs including the local area network and coordination of statewide technology efforts. These services are available to all program units of the Council. This unit also includes Web masters, programmers, and developers.

- **The Kentucky Adult Education Unit** was transferred to the Council in 2003. Every Kentucky county is served by a comprehensive adult education program that offers all levels of adult education instruction, family literacy, and employability and life skills instruction. The Council staff reorganized by adding the adult education staff and activities to the Council, consolidating various administrative functions for the agency, and centralizing key support functions. These functions include accounting, budgeting, purchasing, printing, facilities management, and telecommunications services, which were previously dispersed between agency operations, KYVC/KYVL, and adult education. Information and technology services, personnel and payroll services, and communications also were reorganized and centralized.
- **The Kentucky Virtual Campus and Virtual Library Unit** is composed of two interrelated functions. KYVC is Kentucky’s official virtual campus that is designed to be a student-centered, technology-based utility for the support of lifelong learning. KYVC simplifies access to quality college credit, professional development, and supplemental studies. The KYVU provides a single access point to statewide learning support services, including KYVL, thus serving as a seamless transition to higher education for Kentucky citizens. The KYVL’s mission is to provide Kentuckians with equitable access to quality library and information resources and qualified, well-trained staff to support the Kentucky Virtual Campus, as well as meet broader needs for learning, working, and living.

The staff recommends that the Council request an appropriation of \$10,416,700 in 2008-09 and \$11,007,600 in 2009-10 for agency operations. These amounts include additional budget requests of \$1,569,200 in 2008-09 and \$2,160,100 in 2009-10 over the 2007-08 General Fund appropriation for various categories of expenditure, including mandatory adjustments in employee salaries and benefits (i.e., defined calculations), three new agency staff support positions, two new staff positions to support implementation of the Kentucky Postsecondary Education Data System, and an increase in the agency’s external communications budget to support increased production of Council publications and reports. A summary of recommended increases is provided below.

<i>Expense Category</i>	<i>2008-09</i>	<i>2009-10</i>
Defined Calculations	\$910,800	\$1,469,600
New Personnel	228,000	245,600
KY Postsecondary Ed Data System	210,400	224,900
Agency Publications	220,000	220,000
<b>Total</b>	<b>\$1,569,200</b>	<b>\$2,160,100</b>

### III. Adult Education Funding Program

As part of a statewide imperative to double the number of working-age Kentuckians with a bachelor's degree by 2020, the Council has charged Kentucky Adult Education (KYAE) with increasing GED productivity from 9,281 in 2007 to 15,000 in 2020 and increasing the GED postsecondary transition rate to 36 percent by 2020. In response to these aggressive goals, KYAE staff developed a new framework for adult education, which places more emphasis on quality student learning outcomes, more flexibility in providing adult education services, higher performance expectations, and new opportunities for local programs to earn additional funding based on student outcomes. The framework strategically repositions local adult education programs as principal drivers for raising the educational attainment levels of Kentucky adults and accomplishing the goals of the Kentucky Adult Education Act of 2000 and the Council's Public Agenda.

The staff recommends that the Council request an appropriation of \$27,026,000 in 2008-09 and \$29,026,000 in 2009-10 for the Adult Education Funding Program. These amounts include additional budget requests of \$2,000,000 in 2008-09 and \$4,000,000 in 2009-10 over the 2007-08 General Fund appropriation to support increased service provision at local adult education programs located throughout Kentucky and facilitate attainment of the Council's 2020 GED attainment goal. These funds will help local programs produce quality student outcomes, such as increased GED attainment, higher GED scores, learning gains for low-level learners, and more Kentucky adults prepared for college-level work and 21<sup>st</sup> century jobs.