**TITLE:** 2020-22 Postsecondary Education Budget Recommendation
Institutional Operating Funds Request

**RECOMMENDATION:** The Finance Committee reviewed and approved this item on October 16, 2019 and recommends the Council approve the Institutional Operating Funds Request.

**PRESENTERS:** Ben Brandstetter, Finance Committee Chair
Bill Payne, Vice President for Finance and Administration, CPE

## SUPPORTING INFORMATION

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 Finance Committee recommends total General Fund appropriations of $913,345,100 in fiscal year 2020-21 and $935,841,800 in fiscal year 2021-22 to support public postsecondary institution operations.*

As can be seen in Table 1, the recommended total General Fund appropriations represent increases of $52,989,800 in 2020-21 and $75,486,500 in 2021-22, or 6.2% and 8.8% increases, respectively, compared to the revised net General Fund base. Major components of the operating funds request include the beginning base, base adjustments, and additional appropriations for performance funding and KSU's land grant match. Each of these components is described in more detail below.

**Table 1: Components of 2020-22 Operating Funds 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.

See Attachment A for a detailed breakdown of the institutional operating funds request by institution.

**Beginning Base (2019-20 Total General Fund)**

In most budget years, a postsecondary institution's beginning base is simply the enacted General Fund appropriation in the second year of the prior biennium (or in the event of a mid-year budget cut in the second year, the revised appropriation). For the upcoming 2020-22 biennium, an additional calculation was required to determine the beginning base for each institution, due to the distribution among postsecondary institutions of $38,665,800 from the Postsecondary Education Performance Fund.

In the enacted 2018-20 Budget of the Commonwealth (HB 200), the General Assembly transferred $7,665,800 from campus operating budgets to the Postsecondary Education Performance Fund (PEPF) in fiscal year 2019-20, and it appropriated an additional $31,000,000 to the fund that same year. These funds were distributed among the institutions using an outcomes-based formula specified in KRS 164.092. As can be seen in Table 2 below, each institution's fiscal year 2019-20 total General Fund is the sum of its 2019-20 regular appropriation and its distribution from the PEPF. CPE staff concurs with Office of State Budget Director staff that the fiscal 2019-20 total General Fund is the beginning base for the upcoming biennium.

**Table 2: Calculated Beginning Base by Institution**

| Institution | A<br>FY20 Regular Appropriation | B<br>Performance Distribution | (A + B)<br>FY20 Total General Fund |
|---|---|---|---|
| University of Kentucky | $249,109,400 | $14,492,500 | $263,601,900 |
| University of Louisville | 123,290,400 | 3,343,300 | 126,633,700 |
| Eastern Kentucky University | 60,175,200 | 3,578,400 | 63,753,600 |
| Kentucky State University | 25,259,100 | 0 | 25,259,100 |
| Morehead State University | 38,466,800 | 0 | 38,466,800 |
| Murray State University | 44,581,400 | 0 | 44,581,400 |
| Northern Kentucky University | 47,974,500 | 4,325,500 | 52,300,000 |
| Western Kentucky University | 69,344,200 | 4,379,100 | 73,723,300 |
| KCTCS | 166,034,000 | 8,547,000 | 174,581,000 |
| System Total | $824,235,000 | $38,665,800 | $862,900,800 |

Figures displayed in the FY20 Regular Appropriation column above represent direct appropriations to each institution in fiscal year 2019-20 and were obtained from the *2018-2020 Budget of the Commonwealth* (HB 200). Figures shown in the Performance Distribution column were calculated using the statutorily required performance funding model (KRS 164.092) and were submitted to the Governor and Office of State Budget Director on April 1, 2019.

- *It is anticipated that earned performance funds, or $38,665,800 in Postsecondary Education Performance Funds distributed among Kentucky's public postsecondary institutions in fiscal year 2019-20, will become recurring to the General Fund base of each institution that earned a share of those funds (as shown in Table 2 above).*

In 2016, a guiding principle during development of both the university and two-year college funding models was that the distribution of operating funds among institutions should be closely aligned with student success outcomes produced. This aim can only be achieved if earned performance funds become recurring to the institutions that are producing the additional outcomes. Because the Commonwealth of Kentucky operates on a two-year budget cycle, there is only one opportunity every two years, in the second year of each biennium, for policymakers to make earned funds recurring. Allowing earned funds to become recurring is necessary for proper functioning of the funding models. Moving the distribution of state General Fund appropriations among institutions toward true equilibrium, also known as providing like funding for like activities, cannot be accomplished otherwise.

Mandated Programs

The Council defines mandated programs as research or public service activities that have an external legal mandate—through statute, resolution, budget bill language, or executive order—and receive appropriations greater than $450,000 per program at the research universities, greater than $200,000 per program at the comprehensive universities, and greater than $200,000 per program at KCTCS institutions. Programs must also meet additional criteria to achieve mandated program status, including that the program or activity is not integral to the “instructional” mission of the institution, is relatively unique among institutions, is “program-funded” or line-itemed in appropriations bills, could be operated by an agency or organization other than a college or university, and is funded primarily with state General Fund appropriations.

Most mandated programs receive the lion’s share of funding they need to conduct research or support service activities through direct General Fund appropriations to postsecondary institutions. Program funds are typically imbedded in an institution’s regular appropriation and the amount supporting a given mandated program is not always specified in budget bill language. This was the case during the 2018-20 budget development process, when the Executive Budget reduced or eliminated funding for many mandated programs and the Enacted Budget restored funding for some of the programs, but there was a lack of clarity in bill language regarding programs restored and funding amounts.

In previous biennia, the dearth of information regarding mandated program funding levels was not an issue, but with passage of Kentucky’s Performance Funding Statute (KRS 164.092) the lack of specificity has become problematic. This is because the first step in applying the new performance funding models is to deduct mandated program funding from each institution’s regular appropriation. Going forward, to ensure proper functioning of the performance funding models, budget bill language should identify the amount of mandated program funding included in each institution’s appropriation.

- *The Finance Committee recommends 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.*

Attachment B contains a list of mandated programs and funding amounts that was used by CPE staff in the 2019-20 iteration of the performance funding models. The programs on that list met the Council’s definition and qualifying criteria for being designated mandated programs. Both the program list and funding amounts have been reviewed and agreed upon by postsecondary institution presidents and chief budget officers.

Those same stakeholders, along with CPE senior staff, unanimously support including line items in the 2020-22 budget bill for mandated programs.

**Base Adjustments**

Base adjustments are technical in nature and typically relate to changes in existing state obligations for postsecondary education, such as increases or decreases over time in General Fund supported debt service that is located at the institutions. For the upcoming 2020-22 biennium, CPE staff and Office of State Budget Director officials agree that appropriations for University of Kentucky debt-service payments, campus stop loss contributions, and performance fund transfers represent necessary and appropriate base adjustments.

<u>Debt Service</u>
Prior to 1998, when General Fund debt supported bonds were issued to finance the construction of public postsecondary facilities, the resulting liability was accounted for at the institutional level and the General Assembly provided funding for debt service, which was included in campus base budgets and line-itemed in appropriations bills. Over time, as new debt was issued and mature debt retired, changes in debt service obligations occurred making periodic adjustments to the base necessary to reflect these changes. Following passage of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1), debt service for newer postsecondary projects (i.e., those constructed after 1997) has typically been located in the Finance and Administration Cabinet's budget.

In the enacted *2018-2020 Budget of the Commonwealth* (HB 200), the University of Kentucky received $40.0 million in General Fund debt supported bond funds for a *University of Kentucky HealthCare Disparities Initiative* capital project, $20.0 million each year of the biennium. Included in the university's $250,224,300 General Fund appropriation in fiscal 2018-19 was a half year's debt service or $848,500 to support the $20.0 million in new bonds issued in the first year of the biennium; and included in the university's $249,109,400 General Fund appropriation in fiscal year 2019-20 was $2,545,500 representing a full year's debt service to support the bonds issued in the first year and a half year's debt service to support the additional $20.0 million in new bonds issued in the second year.

- *It is anticipated that $2,545,500 included in the University of Kentucky's General Fund appropriation in fiscal year 2019-20 to support new bonds for a University of Kentucky HealthCare Disparities Initiative capital project will be transferred to the Finance and Administration Cabinet in accordance with common practice since passage of HB 1.*

Campus Stop Loss Contributions

Kentucky's Performance Funding Statute (KRS 164.092) calls for a gradual, three-year phase in of both university and two-year college sector funding models. Beginning in fiscal year 2018-19, a hold harmless provision, which prevented the transfer of any state General Fund appropriations among institutions, was applied. As a result of the hold harmless provision, no funds were transferred from any institution's fiscal 2018-19 regular appropriation to the Postsecondary Education Performance Fund (PEPF) in the enacted 2018-20 budget.

In fiscal year 2019-20, a 1.0% stop-loss provision was implemented in accordance with subsection (9)(a)2. of the statute, which required the funding formulas for both sectors to include a "stop-loss provision for fiscal year 2019-20 limiting the reduction in funding to any institution to one percent (1%) of that institution's formula base amount" (KRS 164.092). This was operationalized in the 2018-2020 budget bill by reducing each institution's fiscal year 2019-20 regular appropriation by an amount equal to one percent of its 2017-18 adjusted net General Fund and transferring the resulting $7,665,800 total to the PEPF.

For the upcoming biennium, subsection (9)(a)3. of the statute stipulates that the funding formulas for both university and two-year college sectors shall include a "stop-loss provision for fiscal year 2020-2021 limiting the reduction in funding to any institution to two percent (2%) of that institution's formula base amount" (KRS 164.092). CPE staff believes this requirement will be addressed in the 2020-2022 budget bill in the same manner as the 1.0% stop loss was handled last biennium; namely, by reducing each institution's fiscal year 2020-21 regular appropriation by two percent of its 2019-20 adjusted net General Fund and transferring the resulting $14,997,800 total to the PEPF (see Attachment C for details of the fiscal 2020-21 stop loss calculation).

- *It is anticipated that the statutorily required two percent (2%) stop loss provision in fiscal year 2020-21 will be operationalized in the 2020-22 budget bill by reducing each institution's 2020-21 regular appropriation by 2.0% of its 2019-20 adjusted net General Fund appropriation (as calculated in Attachment C and shown in Table 3).*

Subsection (9)(b) of KRS 164.092 reads that "[f]or fiscal year 2021-2022 and thereafter, hold-harmless and stop-loss provisions shall not be included in the funding formulas except by enactment of the General Assembly." The clear meaning of this subsection is that, unless action is taken by the legislature in construction of the *2020-2022 Budget of* *the Commonwealth* through bill language and appropriation amounts, all hold harmless and stop loss provisions will sunset in the second year of the upcoming biennium.

The impact of losing these provisions would be immediate and severe for Kentucky's two smallest universities, Kentucky State University and Morehead State University. For example, in the 2019-20 iteration of the university performance funding model, Kentucky State University's hold harmless allocation was $6,867,800 or 36.9% of its adjusted net General Fund appropriation in fiscal year 2019-20 and Morehead State University's hold harmless amount was $2,814,900 or 7.9% of its adjusted net General Fund that same year. Absent an infusion of new operating funds for the institutions—appropriated to the PEPF and distributed using the funding models—and barring any unanticipated large gains in performance at these institutions, it is estimated that KSU would lose more than a third of its funding that is available for educating students and MoSU would lose almost 8.0% of its similar funding.

**Table 3: 2020-22 Stop Loss Contributions by Institution**

| Institution | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---|---:|---:|
| University of Kentucky | ($3,633,500) | ($3,633,500) |
| University of Louisville | (2,518,800) | (2,518,800) |
| Eastern Kentucky University | (1,233,600) | (1,233,600) |
| Kentucky State University | (372,200) | (372,200) |
| Morehead State University | (712,900) | (712,900) |
| Murray State University | (827,600) | (827,600) |
| Northern Kentucky University | (1,019,500) | (1,019,500) |
| Western Kentucky University | (1,364,500) | (1,364,500) |
| KCTCS | (3,315,200) | (3,315,200) |

It was not the intention of Postsecondary Education Working Group (PEWG) members for Kentucky institutions to have to contend with fiscal cliffs like the ones facing KSU and MoSU. In fact, in a *Goal and Guiding Principles* document produced by a Funding Strategy Steering Committee of the working group, committee members agreed to a set of principles to guide funding model development, which included an imperative for the distribution mechanism to be "Reasonably Stable" and "not permit large annual shifts in funding to occur" (*Report of the Postsecondary Education Working Group to the Governor and Interim Joint Committee on Education*, Appendix B, December 2016).

In their final report to the Governor and Interim Joint Committee on Education, working group members did not recommend that hold harmless and stop loss provisions should sunset after the three-year phase-in period. In fact, there was discussion in work group meetings regarding whether or not to establish a perpetual stop loss provision, but members decided the issue could be addressed three years down the road, when the working group was scheduled to reconvene.

In summary, unless the General Assembly takes action during the 2020 budget session to extend the stop loss provision in fiscal 2021-22, KSU, MoSU, and potentially other institutions could lose more than 2.0% of their adjusted net General Fund. For this reason, there is unanimous support among campus presidents, chief budget officers, and CPE senior staff for the Governor and General Assembly to take action and extend the stop loss provision.

- *The Finance Committee recommends 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 (as shown in Table 3 above).*

The above recommendation to keep a two percent (2%) stop loss provision in place for fiscal year 2021-22 does not represent a change in either the university or two-year college sector performance funding models.

<u>Performance Fund Transfers</u>
As described in the Campus Stop Loss Contributions section above, CPE staff is anticipating that each institution's fiscal year 2020-21 regular appropriation will be reduced by an amount equal to 2.0% of its fiscal year 2019-20 adjusted net General Fund appropriation to satisfy a statutorily required two percent (2%) stop loss provision (KRS 164.092) and is recommending that the Governor and General Assembly take action to maintain the two percent (2%) stop loss provision in fiscal year 2021-22. If authorized, these requests would result in an aggregate reduction in postsecondary institution regular General Fund appropriations of $14,997,800 each year of the biennium, as shown in Table 3 above.

- *The Finance Committee recommends that $14,997,800 in fiscal year 2020-21 stop loss contribution funds and $14,997,800 in fiscal year 2021-22 stop loss contribution funds be transferred from the institutions to the Postsecondary Education Performance Fund in the 2020-2022 Budget of the Commonwealth.*

## Additional Budget Requests

Over the past five months, CPE staff has engaged in a collaborative process involving multiple meetings with multiple stakeholders to identify funding components and request amounts to include in the Council's 2020-22 biennial budget recommendation that address the most pressing resource needs of Kentucky's public postsecondary system and provide the highest and best return on the state's investment. Following numerous discussions between and among Council members, campus presidents, chief budget officers, CPE senior staff, and student groups, there is consensus that the highest priorities for the 2020-22 biennium are additional appropriations for performance funding and General Fund debt supported bond funds for asset preservation.

As can be seen in Table 4 below, CPE staff recommends that the Council's institutional operating funds request include new funding for two components: performance funding and KSU's land grant match. The performance funding request is well aligned with the state's student success goals and with the objectives and strategies specified in the Council's *2016-2021 Strategic Agenda for Postsecondary Education*. The request for KSU's land-grant funding is a federal matching requirement. Additional information about both of these funding components is provided below.

**Table 4: Components of 2020-22 Additional Budget Requests**

| Funding Component | Fiscal Year 2020-21 | Fiscal Year 2021-22 |
|---|---|---|
| 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 |

Performance Funding

On March 21, 2017, Kentucky's Postsecondary Education Performance Funding Bill (SB 153), which had passed both the House and Senate with no changes, was signed into law by the Governor. The newly created statute (KRS 164.092) represented the culmination of a six-month effort by a working group of campus presidents, the Council president, and the Governor and legislative leaders (or their representatives), to develop both university and two-year college funding models for distributing state General Fund appropriations for postsecondary institution operations.

Now in their third year of operation, the university and KCTCS funding models have been used to distribute among the public postsecondary institutions $42.9 million in fiscal year 2017-18, $31.0 million in 2018-19, and $38.7 million in 2019-20 appropriated to a Postsecondary Education Performance Fund (PEPF) established in the *2016-18 Budget of the Commonwealth* (HB 303). In terms of process, the General Assembly appropriated funds to the PEPF in each of those years, CPE and KCTCS staffs ran the funding models and certified resulting distributions to the State Budget Director by April 1 each year, and distributions were effected through the quarterly allotment process.

A major impetus for adoption of the performance funding models was to provide financial incentives for institutions and students to accelerate progress toward attainment of the state's student success goals, including Kentucky's big goal of increasing educational attainment of working age adults to 60% by the year 2030. Several years ago, the number of degrees and credentials produced by Kentucky postsecondary institutions was growing by about 1.7% per year, which was not sufficient for the state to achieve its 60 X 30 goal. Over the past two years, following adoption of the performance funding models, degrees and credentials grew at an average rate of about 4.0% per year, putting Kentucky back on track to achieve its attainment goal.

- *The Finance Committee recommends appropriations of $52,492,400 in 2020-21 and $74,989,100 in 2021-22 for performance funding to provide incentives for postsecondary institutions to increase student success and course completion outcomes and accelerate progress toward the state's 60 X 30 attainment goal.*

If the requested appropriations are authorized, it is anticipated that the funds will be placed in the Postsecondary Education Performance Fund pending application of the funding models by CPE and KCTCS staffs and certification to Office of State Budget Director officials of the resulting distribution of funds among institutions by April 1, 2020 and April 1, 2021.

As described above, additional appropriations for institutional operations are important to provide resources necessary for postsecondary institutions and students to continue making progress toward the state's student success goals. CPE staff and campus officials do not believe that the rates of growth in degree and credential production seen over the past two years are sustainable without an infusion of new funding. State reinvestment in postsecondary education is also important to help maintain affordability for Kentucky citizens.

Over the past decade, reductions in state support and mandated increases in employer-paid pension contributions have strained campus budgets and placed upward pressure on tuition and fees. Despite Council adopted tuition and fee ceilings, published resident undergraduate tuition and fees have increased by 55% since 2009. Additional funding for campus operations is necessary to relieve stress on institutional budgets and maintain affordability and access for Kentucky residents.

<u>KSU Land Grant Match</u>
Kentucky State University is an 1890 Land-Grant Institution. As such, it is eligible to receive federal grant funds appropriated by Congress each year to support land-grant program research and service activities. These federal funds must be matched dollar-for-dollar by the state, from non-federal sources, to ensure that KSU will continue to receive its full allotment of federal grant funds. Meeting the land-grant matching requirement is an obligation of the state, not Kentucky State University. Other sources of federal funds and tuition and fee revenue cannot be used to meet the match.

For 2019-20, KSU will receive $7,148,800 (rounded) in United States Department of Agriculture (USDA) administered federal grants to support its land-grant program. That same year, based on records maintained by Council staff and used in the 2019-20 iteration of the university performance funding model, KSU $6,651,400 in General Fund appropriations in its base to meet the matching requirement, resulting in a funding gap of $497,400.

- *The Finance Committee recommends appropriations of $497,400 in fiscal year 2020-21 and $497,400 in fiscal year 2021-22 to provide a sufficient amount of recurring state General Fund to meet the federal matching requirement for Kentucky State University's land-grant program.*

- *In addition, because KSU's land-grant program is under-matched in fiscal year 2019-20, the Finance Committee recommends a current year appropriation of $497,400 to complete the state's matching obligation in fiscal year 2019-20.*

If the requested funds are authorized, it is recommended that they be appropriated directly to Kentucky State University as part of the University's regular General Fund appropriation. Since KSU's land-grant program meets the Council's qualifying criteria and has been designated as a mandated program, these funds would not run through the university performance funding model. These funds will be used to help sustain the effectiveness and impact of outreach, service, and applied research at KSU's land-grant program.

**Endorsements**

Need-Based Aid Programs

An urgent priority in the Council's *2016-2021 Strategic Agenda for Postsecondary Education* is to ensure that postsecondary education is accessible to all Kentucky residents and that students have the support and resources they need to pursue a college degree or credential. This priority is operationalized in the objectives and strategies of the *Strategic Agenda* related to expanding financial access to college and maintaining affordability by advocating for sufficient state operating and financial aid support and moderating tuition and fee increases. Research has shown that states and postsecondary institutions can promote student success by reducing financial barriers to college access and completion.

Although the Council is not statutorily required to make a request for student financial aid programs, the alignment of financial aid policies with higher education funding and tuition and fee policies is critical to the attainment of the state's student success goals and *Strategic Agenda* objectives and strategies.

- *The Council supports and endorses 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.*

Council on Postsecondary Education
2020-22 Biennial Budget Recommendation
Request for Institutional Operating Funds

*Purple Card*

ATTACHMENT A
October 16, 2019

| | UK | UofL | EKU | KSU | MoSU | MuSU | NKU | WKU | KCTCS | PEPF | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Current Year Base: | | | | | | | | | | | |
| 2019-20 Regular Appropriation | $249,109,400 | $123,290,400 | $60,175,200 | $25,259,100 | $38,466,800 | $44,581,400 | $47,974,500 | $69,344,200 | $166,034,000 | $38,665,800 | $862,900,800 |
| Plus: 2019-20 Performance Distribution | 14,492,500 | 3,343,300 | 3,578,400 | 0 | 0 | 0 | 4,325,500 | 4,379,100 | 8,547,000 | (38,665,800) | 0 |
| ➡ 2019-20 Total General Fund | $263,601,900 | $126,633,700 | $63,753,600 | $25,259,100 | $38,466,800 | $44,581,400 | $52,300,000 | $73,723,300 | $174,581,000 | $0 | $862,900,800 |
| Minus: Debt Service | (2,545,500) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- NA -- | (2,545,500) |
| Mandated Programs | (79,382,500) | (695,200) | (2,071,900) | (6,651,400) | (2,822,400) | (3,200,000) | (1,323,900) | (5,497,700) | (8,819,400) | -- NA -- | (110,464,400) |
| 2019-20 Adjusted Net General Fund | $181,673,900 | $125,938,500 | $61,681,700 | $18,607,700 | $35,644,400 | $41,381,400 | $50,976,100 | $68,225,600 | $165,761,600 | $0 | $749,890,900 |
| First-Year Operating Request: | | | | | | | | | | | |
| ➡ 2019-20 Total General Fund | $263,601,900 | $126,633,700 | $63,753,600 | $25,259,100 | $38,466,800 | $44,581,400 | $52,300,000 | $73,723,300 | $174,581,000 | $0 | $862,900,800 |
| Minus: Base Adjustments | | | | | | | | | | | |
| Debt Service [1] | (2,545,500) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- NA -- | (2,545,500) |
| 2020-21 Performance Contribution @2% [2] | (3,633,500) | (2,518,800) | (1,233,600) | (372,200) | (712,900) | (827,600) | (1,019,500) | (1,364,500) | (3,315,200) | 14,997,800 | 0 |
| Plus: Additional Budget Requests | | | | | | | | | | | |
| Performance Funding | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 52,492,400 | 52,492,400 |
| KSU Land Grant Match | 0 | 0 | 0 | 497,400 | 0 | 0 | 0 | 0 | 0 | -- NA -- | 497,400 |
| 2020-21 Requested General Fund | $257,422,900 | $124,114,900 | $62,520,000 | $25,384,300 | $37,753,900 | $43,753,800 | $51,280,500 | $72,358,800 | $171,265,800 | $67,490,200 | $913,345,100 |
| Dollar Change from Base Year [3] | ($6,179,000) | ($2,518,800) | ($1,233,600) | $125,200 | ($712,900) | ($827,600) | ($1,019,500) | ($1,364,500) | ($3,315,200) | $67,490,200 | $50,444,300 |
| Percent Change from Base Year [3] | -2.3% | -2.0% | -1.9% | 0.5% | -1.9% | -1.9% | -1.9% | -1.9% | -1.9% | -- NA -- | 5.8% |
| Second-Year Operating Request: | | | | | | | | | | | |
| ➡ 2019-20 Total General Fund | $263,601,900 | $126,633,700 | $63,753,600 | $25,259,100 | $38,466,800 | $44,581,400 | $52,300,000 | $73,723,300 | $174,581,000 | $0 | $862,900,800 |
| Minus: Base Adjustments | | | | | | | | | | | |
| Debt Service [1] | (2,545,500) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -- NA -- | (2,545,500) |
| 2021-22 Performance Contribution @2% [4] | (3,633,500) | (2,518,800) | (1,233,600) | (372,200) | (712,900) | (827,600) | (1,019,500) | (1,364,500) | (3,315,200) | 14,997,800 | 0 |
| Plus: Additional Budget Requests | | | | | | | | | | | |
| Performance Funding | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 74,989,100 | 74,989,100 |
| KSU Land Grant Match | 0 | 0 | 0 | 497,400 | 0 | 0 | 0 | 0 | 0 | -- NA -- | 497,400 |
| 2021-22 Requested General Fund | $257,422,900 | $124,114,900 | $62,520,000 | $25,384,300 | $37,753,900 | $43,753,800 | $51,280,500 | $72,358,800 | $171,265,800 | $89,986,900 | $935,841,800 |
| Dollar Change from Base Year [3] | ($6,179,000) | ($2,518,800) | ($1,233,600) | $125,200 | ($712,900) | ($827,600) | ($1,019,500) | ($1,364,500) | ($3,315,200) | $89,986,900 | $72,941,000 |
| Percent Change from Base Year [3] | -2.3% | -2.0% | -1.9% | 0.5% | -1.9% | -1.9% | -1.9% | -1.9% | -1.9% | -- NA -- | 8.5% |

(1) It is assumed that $2,545,500 in debt service for a *UK HealthCare Disparities Initiative* capital project that was in the university's total appropriation in fiscal year 2019-20 will be transferred to the Finance Cabinet beginning in 2020-21.

(2) Section (9)(a) of KRS 164.092 requires the performance funding formula to include a stop-loss provision for fiscal year 2020-2021, limiting the reduction in funding to any institution to 2.0% of that institution's formula base amount. Per the statute, an amount equal to 2.0% of each institution's 2019-20 adjusted net General Fund appropriation has been deducted from that institution's beginning base in 2020-21 and placed in the Postsecondary Education Performance Fund.

(3) Dollar and percent change figures for the postsecondary institutions do not reflect distribution of any funds from the Postsecondary Education Performance Fund (PEPF). The funding model will be run in April each year of the upcoming biennium to determine the distribution of any available performance funds.

(4) Subsection (9)(b) of KRS 164.092 stipulates that "[f]or fiscal year 2021-2022 and thereafter, hold-harmless and stop-loss provisions shall not be included in the funding formulas except by enactment of the General Assembly." There is consensus among Kentucky public postsecondary institution presidents and CBOs that the Council's 2020-22 biennial budget request should include a recommendation that the Governor and General Assembly take action, in construction of the *2020-2022 Budget of the Commonwealth* through bill language and appropriation amounts, to provide a 2.0% stop loss in the second year of the biennium. This request does not in any way represent a change in the funding models.

Council on Postsecondary Education
2020-22 Biennial Budget Recommendation
Mandated Program Appropriations by Institution
Fiscal Year 2019-20

ATTACHMENT B
October 16, 2019

| Institution | 2019-20 Mandated Program Funding |
|---|---|
| University of Kentucky | |
| Hospital Direct Support | 0 |
| Agriculture Cooperative Extension | 31,275,300 |
| Agriculture Experiment Station | 29,479,600 |
| Agriculture Public Service | 1,800,000 |
| Livestock Disease Diagnostic Lab | 4,034,200 |
| Kentucky Geological Survey | 4,076,300 |
| University Press | 0 |
| Center on Aging | 2,040,500 |
| Center for Entrepreneurship | 600,000 |
| Rural Health Care | 450,200 |
| Center on Cancer Prevention | 450,200 |
| Center for Applied Energy Research | 5,176,200 |
| Subtotal | 79,382,500 |
| University of Louisville | |
| Rural Health Care | 695,200 |
| Eastern Kentucky University | |
| Community Operations Board | 0 |
| Model Laboratory School | 2,071,900 |
| Subtotal | 2,071,900 |
| Kentucky State University | |
| Land Grant Program | 6,651,400 |
| Morehead State University | |
| Craft Academy | 2,822,400 |
| Kentucky Folk Art Center | 0 |
| Subtotal | 2,822,400 |
| Murray State University | |
| Breathitt Veterinary Center | 3,200,000 |
| Northern Kentucky University | |
| Kentucky Center for Mathematics | 1,323,900 |

Council on Postsecondary Education
2020-22 Biennial Budget Recommendation
Mandated Program Appropriations by Institution
Fiscal Year 2019-20

ATTACHMENT B
October 16, 2019

| Institution | 2019-20 Mandated Program Funding |
|---|---|
| Western Kentucky University | |
| Gatton Academy | 4,747,700 |
| Kentucky Mesonet | 750,000 |
| Subtotal | 5,497,700 |
| University Total | 101,645,000 |
| KCTCS | |
| Fire Commission | 1,869,900 |
| KBEMS | 1,799,700 |
| Kentucky Coal Academy | 0 |
| Kentucky Wins/Trains | 4,149,800 |
| Adult Agriculture | 1,000,000 |
| Subtotal | 8,819,400 |
| System Total | 110,464,400 |

Council on Postsecondary Education
2020-22 Biennial Budget Recommendation
Treatment of Mandated Programs

- There is consensus among postsecondary institution presidents and CBOs that the mandated program appropriations shown above, which were used in the 2019-20 iteration of the performance funding model, represent the appropriate beginning base for such programs in the 2020-22 budget development process and that funding for each mandated program should be line-itemed in budget bill language going forward.

Council on Postsecondary Education
2020-22 Biennial Budget Recommendation
Performance Fund Contributions by Sector and Institution
Fiscal Year 2020-21

ATTACHMENT C
October 16, 2019

| | A | B | C | D (A - B - C) | E (D x -.02) |
|---|---|---|---|---|---|
| Institution | 2019-20 Total Appropriation [1] | Adjustments to General Fund | 2019-20 Mandated Program Funding [3] | Adjusted Net General Fund | Required 2020-21 Stop Loss @ 2.0% |
| University of Kentucky | $263,601,900 | ($2,545,500) [2] | ($79,382,500) | $181,673,900 | ($3,633,500) |
| University of Louisville | 126,633,700 | 0 | (695,200) | 125,938,500 | (2,518,800) |
| Eastern Kentucky University | 63,753,600 | 0 | (2,071,900) | 61,681,700 | (1,233,600) |
| Kentucky State University | 25,259,100 | 0 | (6,651,400) | 18,607,700 | (372,200) |
| Morehead State University | 38,466,800 | 0 | (2,822,400) | 35,644,400 | (712,900) |
| Murray State University | 44,581,400 | 0 | (3,200,000) | 41,381,400 | (827,600) |
| Northern Kentucky University | 52,300,000 | 0 | (1,323,900) | 50,976,100 | (1,019,500) |
| Western Kentucky University | 73,723,300 | 0 | (5,497,700) | 68,225,600 | (1,364,500) |
| Subtotal | $688,319,800 | ($2,545,500) | ($101,645,000) | $584,129,300 | ($11,682,600) |
| KCTCS | 174,581,000 | | (8,819,400) | 165,761,600 | (3,315,200) |
| Total | $862,900,800 | | ($110,464,400) | $749,890,900 | ($14,997,800) |

Total 2020-21 Performance Fund Contribution: $14,997,800

[1] Sum of fiscal year 2019-20 General Fund appropriation for each institution as enacted (i.e., regular appropriation) and each institution's distribution from $38.7 million appropriated to the Postsecondary Education Performance Fund in fiscal 2019-20.

[2] Debt service for UK HealthCare Disparities Initiative capital project in fiscal year 2019-20. It is assumed this debt service will be transferred to the Finance Cabinet in 2020-21.

[3] Mandated program funding amounts used in the 2019-20 iteration of the performance funding model.