

AGENDA
Budget Development Work Group
Council on Postsecondary Education
Thursday, June 15, 2017
11:30 AM
Spalding University, Library Lecture Lounge

1. Opening Remarks	
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4. Review 2016-18 Funding Components	27
a. Institutional Operating Funds	
b. Trust Funds	
c. Capital Projects	
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5. Performance Funding	
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1) Achieve Funding Model Equilibrium	95
2) Minimize Tuition and Fee Increases	96
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2) New Construction?	
d. CPE Agency Budget	
1) Contract Spaces	
2) Other?	
7. Other Business	
8. Adjournment	



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FY 2017-18 CPE Agency Budget Recommendation

Shaun McKiernan and Rebecca Bowman
Council on Postsecondary Education
June 15, 2017



AGENCY BUDGET DEVELOPMENT PROCESS

Process for Agency Budget

- Starts with the Budget Development Work Group
 - With input from CPE staff, assess needs of the agency
 - Structure must follow LRC and OSBD Guidelines
 - Existing Programs
 - Base + Defined Calculations + Additional Budget Requests
- Recommend funding request to the full Council
- Submit to Office of State Budget Director Nov. 15
- Governor's budget is introduced in the House
- Enacted budget contains appropriations and language that carries the force of law during the biennium

Enacted Budget for 2016-18 (HB 303)

K. POSTSECONDARY EDUCATION

Budget Units

1. COUNCIL ON POSTSECONDARY EDUCATION

	2016-17	2017-18
General Fund (Tobacco)	4,706,100	5,176,100
General Fund	41,226,200	41,268,000
Restricted Funds	5,041,000	5,045,100
Federal Funds	18,102,500	18,102,500
TOTAL	69,075,800	69,591,700

(1) **Carry Forward of General Fund Appropriation Balance:** Notwithstanding KRS 45.229, the General Fund appropriation in fiscal year 2015-2016 and fiscal year 2016-2017 to the Adult Education and Literacy Funding Program shall not lapse and shall carry forward.



Sample Budget Language (HB 303)

- HB 303 contains stipulations regarding the expenditure of CPE General Fund and other appropriations:

○ (3) **Lung Cancer Research Fund:** Included in the above General Fund (Tobacco) appropriation is \$4,706,100 in fiscal year 2016-2017 and \$5,176,100 in fiscal year 2017-2018 for the Lung Cancer Research Fund.

(4) **Ovarian Cancer:** Notwithstanding KRS 164.476(1), General Fund (Tobacco) moneys in the amount of \$800,000 in each fiscal year shall be allotted from the Lung Cancer Research Fund to the Ovarian Cancer Screening Outreach Program at the University of Kentucky.

Sample Budget Language (cont'd)

- HB 303 appropriated \$42.9 million in FY 2018 to a Postsecondary Education Performance Fund to be distributed to institutions (excluding KSU) based on achievement of performance goals and metrics as recommended by a postsecondary working group:

The working group shall be established for the purpose of developing a comprehensive funding model for the allocation of state General Fund appropriations for institutional operations.

The funding model shall incorporate elements of campus performance, mission, and enrollment, as well as any other components as determined through the process. The model shall include metrics that align with the goals of the Postsecondary Education Improvement Act of 1997 with appropriate differentiation that reflects the missions of the Commonwealth's research universities, comprehensive regional universities, and community and technical colleges.

Sample Budget Language (cont'd)

- HB 303 required CPE and KSU to collaborate in developing a management and improvement plan:

(2) **Performance Plan:** Kentucky State University shall be required to prepare a four-year management and improvement plan with annual goals and measurable metrics to meet those goals. The management and improvement plan and all goals shall include performance standards established in consultation with the Council on Postsecondary Education, and shall be subject to the approval of the Council. Kentucky State University shall prepare and submit an annual report to the Interim Joint Committee on Appropriations and Revenue detailing progress and implementation of the plan, to be submitted by December 1, 2016, and each December 1 thereafter.

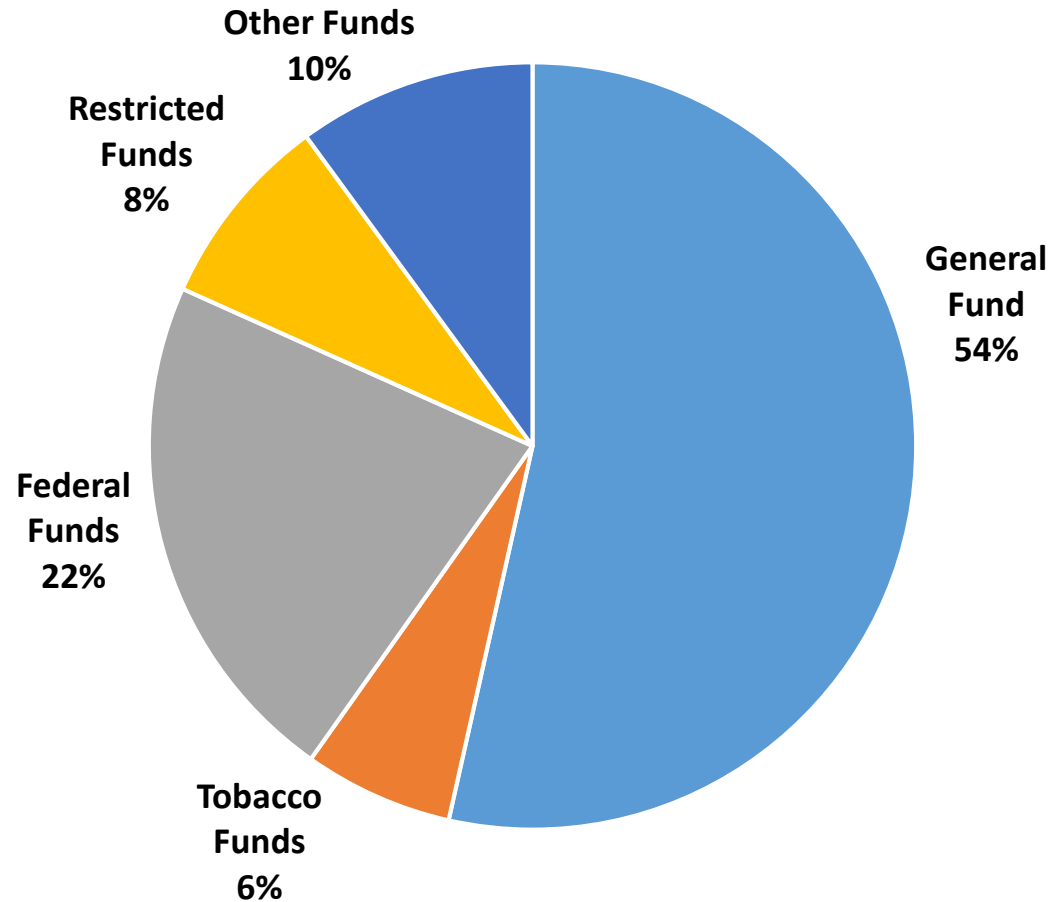


2017-18 BUDGET RECOMMENDATION

Budgeted Sources of Funds

(\$ in millions)

Fund Type	2017-18
General Fund	\$ 44.2
Tobacco Funds	5.2
Federal Funds	18.1
Restricted Funds	6.8
Other Funds	<u>8.3</u>
Total	\$ 82.6



Includes carryforward funds



Fund Types

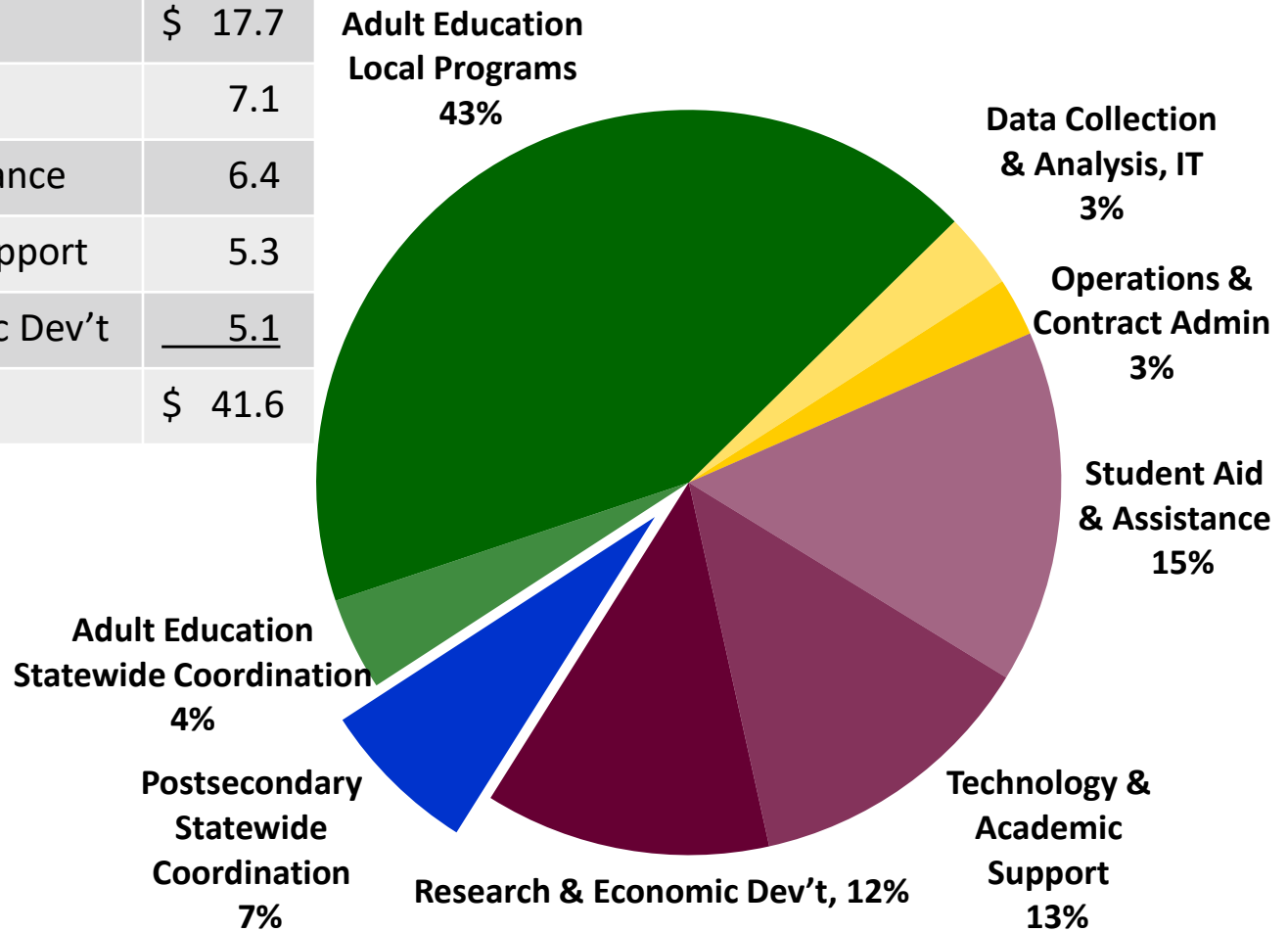
- **General Fund** – comes primarily from state income and sales tax
- **Tobacco Funds** – a portion of Master Settlement Agreement funds used for lung cancer research (UK/UofL) and ovarian cancer screenings (\$800,000/year per HB 303)
- ⇒ • **Federal Funds** – Grants for Adult Education, GEAR UP, and Improving Educator Quality. Federal grant fiscal year differs from state fiscal year. Grants may allow spending from prior year awards
- **Restricted Funds** – Cigarette tax proceeds (for cancer research), Licensure fees, GED transcript receipts, and federal grant indirect (supports Agency Operations)
- **Other Funds** – Equine program (pari-mutuel betting receipts), Revolving Loan Fund, awarded but undistributed lung cancer research funds, KY Virtual Library member fees, KY Postsecondary Education Network receipts



General Fund by Category

(\$ in millions)

Budget Category	2017-18
Adult Education (LP)	\$ 17.7
Agency Operations	7.1
Student Aid & Assistance	6.4
Tech. & Academic Support	5.3
Research & Economic Dev't	<u>5.1</u>
Total	\$ 41.6



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Major General Fund Categories

Adult Education

(\$ in millions)

	2016-17	2017-18
	<u>Budgeted</u>	<u>Budgeted</u>
Adult Education (S.C.)	\$ 1.7	\$ 1.7
Adult Education (Carryforward)	\$ 2.7	\$ 2.7
Adult Education (Local Prog.)	17.6	17.6
Subtotal	<u>\$ 22.0</u>	<u>\$ 22.0</u>

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Major General Fund Categories (cont'd)

Student Aid and Assistance

(\$ in millions)

	2016-17 <u>Budgeted</u>	2017-18 <u>Budgeted</u>
Contract Spaces	\$5.7	\$5.8
Professional Ed. Prep. Program	0.2	0.2
Gov's Minority Student College Prep.	0.2	0.2
State Autism Training Center (UofL)	0.1	0.1
SREB Doctoral Scholars (UK/UofL)	0.1	0.1
Washington Intern Program	0.0	0.0
	<u>\$6.3</u>	<u>\$6.4</u>

Contract Spaces provides reserved veterinary medicine and optometry seats to 164 and 44 Kentucky students, respectively, at in-state rates.



Major General Fund Categories (cont'd)

Technology and Academic Support

(\$ in millions)

	2016-17	2017-18
	<u>Budgeted</u>	<u>Budgeted</u>
Kentucky Virtual Library	\$1.7	\$1.7
Kentucky Virtual Campus	0.4	0.4
Ky Postsecondary Ed. Network	1.8	1.8
Subtotal	<u>\$3.9</u>	<u>\$3.9</u>
Senate Bill 1/Teacher Quality	1.4	1.4
	<u>\$5.3</u>	<u>\$5.3</u>

KPEN will likely be integrated with Kentucky Wired in the next biennium.



Major General Fund Categories (cont'd)

Research and Economic Development

(\$ in millions)

	2016-17 <u>Budgeted</u>	2017-18 <u>Budgeted</u>
Carryforward	\$0.3	\$0.0
Ky Science and Tech. Corp.	4.8	4.8
Project Lead the Way	0.2	0.2
Program Administration	0.1	0.1
	<u>\$5.4</u>	<u>\$5.1</u>

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Major General Fund Categories (cont'd)

Agency Operations

(\$ in millions)

	2016-17 <u>Budgeted</u>	2017-18 <u>Budgeted</u>
Postsecondary Coordination	\$2.9	\$2.9
IT, Data Collection & Analysis	1.3	1.4
Operations & Contract Administration	1.0	1.1
Subtotal	<u>\$5.2</u>	<u>\$5.4</u>
Adult Education Statewide Coordination	1.7	1.7
Total	<u>\$6.9</u>	<u>\$7.1</u>

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Agency Operations – Sources of Funds

	<u>2016-17</u> <u>Final Budget</u>	<u>2017-18</u> <u>Proposed</u>	<u>Percent</u> <u>Change</u>
Sources of Funds			
Carryforward (Restricted: 136H)	\$ 326,082	\$ 295,082	
General Fund	\$ 6,893,400	\$ 7,132,300	3.5%
Restricted Funds (Federal Indirect: 136H)	300,000	447,000	49.0%
<i>Current Year Receipts</i>	<u>\$ 7,193,400</u>	<u>\$ 7,579,300</u>	5.4%
Total Sources of Funds	<u><u>\$ 7,519,482</u></u>	<u><u>\$ 7,874,382</u></u>	4.7%

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Agency Operations – Uses of Funds

Uses of Funds	2016-17	2017-18	Percent
	Final Budget	Proposed	Change
Salaries and Benefits	\$ 5,600,600	\$ 5,734,500	2.4%
Other Personnel	230,400	412,250	78.9%
<i>Personnel Subtotal</i>	<i>\$ 5,831,000</i>	<i>\$ 6,146,750</i>	<i>5.4%</i>
Utilities	\$ 70,000	\$ 63,100	-9.9%
Building Rental	352,000	352,000	0.0%
Other Rentals	136,000	30,200	-77.8%
Maintenance and Repairs	55,000	11,900	-78.4%
Postage and Related	2,000	2,100	5.0%
Misc. Services	20,000	9,500	-52.5%
Telecommunications	57,100	23,000	-59.7%
Computer Services	200,000	530,000	165.0%
Supplies	24,000	26,600	10.8%
Commodities	30,300	13,700	-54.8%
Exp. Allow-Payroll W-2 Report	40,000	40,000	0.0%
In-state Travel	100,000	55,000	-45.0%
Out-of-state Travel	46,900	35,000	-25.4%
Non-state Employee Travel	5,000	3,000	-40.0%
Dues and Subscriptions	110,000	110,000	0.0%
Other	145,100	6,100	-95.8%
<i>Operating Subtotal</i>	<i>\$ 1,393,400</i>	<i>\$ 1,311,200</i>	<i>-5.9%</i>
Total Uses of Funds	\$ 7,224,400	\$ 7,457,950	3.2%

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FEWER RESOURCES, MORE RESPONSIBILITIES

Change in State General Fund FY 2008 to 2018

General Fund Expenditures

(\$ in millions)

	2007-08 <u>Actual</u>	2017-18 <u>Budgeted</u>	<u>\$ Change</u>	<u>% Change</u>
Agency Operations	\$9.2	\$5.4	(\$3.8)	-41%
Adult Education (S.C.)	\$2.9	\$1.7	(\$1.2)	-41%
Adult Education (Local Prog.)	24.1	17.6	(6.5)	-27%
Subtotal	<u>\$27.0</u>	<u>\$19.3</u>	<u>(\$7.7)</u>	-29%
Student Aid & Assistance	5.9	6.4	0.5	8%
Technology & Academic Support	4.6	5.3	0.7	15%
Research & Economic Dev't	10.2	5.1	(5.1)	-50%
Total	<u><u>\$56.9</u></u>	<u><u>\$41.5</u></u>	<u><u>(\$15.4)</u></u>	-27%

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Change in Staffing Level FY 2008 to FY 2017

	<u>2007-08</u>	<u>2016-17</u>	<u># Change</u>	<u>% Change</u>
General Fund				
Agency Operations	71	49	-22	-32%
Adult Education	27	14	-13	-47%
Senate Bill 1	0	4	4	
Subtotal	<u>98</u>	<u>67</u>	<u>-31</u>	<u>-32%</u>
Federal Funds				
Adult Education	0	3	3	
GEAR UP	3	11	8	
Restricted Funds	0	4	4	
Virtual Library/KPEN	0	4	4	

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Additional Duties since FY 2008

- 2009 • Assist in the revision of K-12 standards, coordinate information sessions regarding academic standards, assure alignment of K-12 content standards with what is required for entry into postsecondary. Develop training materials for K-12 and postsecondary faculty related to Kentucky Core Academic Standards. Hosted national conference on standards (SB 1).
- 2010 • Facilitate statewide transfer agreement between KCTCS and public universities; develop a consistent statewide course numbering system for KCTCS; develop statewide course classification system and procedure to monitor transfer; standardize credit by exam equivalencies; establish commonality in college transcripts used at public institutions; other related items (HB 160).
- 2011 • Develop approval process for implementation of advanced practice doctoral programs at comprehensive universities (SB 130).
- 2012 • Abolished Board of Proprietary Education, created Commission on Proprietary Education, placed Council President, or designee, on the Commission (HB 308).
- 2013 • CPE required to participate in newly created Kentucky Center for Education and Workforce Statistics (KCEWS). CPE President serves on the KCEWS board (HB 140).



Additional Duties since FY 2008 (cont'd)

- 2014
- Report on impact of new school of optometry in the Commonwealth and contract spaces program (HB 235).
 - Work with KCEWS to develop and disseminate information on employment and earnings of public postsecondary institution graduates in Kentucky and post on CPE website (HB 87).
- 2016
- Join the national State Authorization Reciprocity Agreement (SARA) on behalf of Kentucky, act as portal agency for Kentucky institutions participating (SB 140).
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- Develop comprehensive university & KCTCS new board member training program (HB 15).
 - Convene and coordinate the work of the Postsecondary Education Performance Funding Model Workgroup, develop and submit model for allocating state General Fund (HB 303).
- 2017
- Investigate and make recommendations to the Governor regarding the removal of individual institutional board members and full institutional boards for cause (SB 107).
 - Implement a performance funding model for the allocation of general fund appropriations to public postsecondary institutions (SB 153).
 - Collaborate with KSU in developing performance standards for KSU's management and improvement plan, subject to Council approval. Submit to IJCAR by Dec 1. (HB 303).





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FY 2017-18 CPE Agency Budget Recommendation

Shaun McKiernan and Rebecca Bowman
Council on Postsecondary Education
June 15, 2017



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Council on Postsecondary Education
2018-20 Biennial Budget Request Development Timeline
June 15, 2017

Group	Date	Activity
CBO Meeting	May 31, 2017	<ul style="list-style-type: none"> • Share timeline and discuss process. • Review funding components, amounts, and rationale from previous biennia. • Review updated funding model and draft administrative regulations. • Discuss funding components for 2018-20.
Presidents' Meeting	June 7, 2017	<ul style="list-style-type: none"> • Update presidents regarding progress. • Review updated funding model and draft administrative regulations. • Discuss funding components for 2018-20.
BDWG Meeting	June 15, 2017	<ul style="list-style-type: none"> • Share timeline and discuss process. • Review funding components, amounts, and rationale from previous biennia. • Review updated funding model and draft administrative regulations. • Discuss funding components for 2018-20.
CBO Meeting	June 21, 2017	<ul style="list-style-type: none"> • Continue discussion of 2018-20 funding components. • Initiate discussion of funding amounts and rationale for request.
CBO Meeting	July 19, 2017	<ul style="list-style-type: none"> • Continue discussion of 2018-20 funding components. • Continue discussion of funding amounts and rationale for request.
Presidents' Meeting	August 2, 2017	<ul style="list-style-type: none"> • Update presidents regarding progress. • Continue discussion of 2018-20 funding components. • Initiate discussion of funding amounts and rationale for request.
BDWG Meeting	<i>[Mid - August]</i>	<ul style="list-style-type: none"> • Continue discussion of 2018-20 funding components. • Initiate discussion of funding amounts and rationale for request.
CBO Meeting	August 23, 2017	<ul style="list-style-type: none"> • Formulate draft funding recommendation to share with presidents. • Draft will include funding components, amounts, and rationale for the request.
➔ Presidents' Meeting	September 6, 2017	<ul style="list-style-type: none"> • Review draft funding recommendation. • Discuss funding components, amounts, and rationale for the request.
BDWG Meeting	<i>[Mid - September]</i>	<ul style="list-style-type: none"> • Review draft funding recommendation. • Discuss funding components, amounts, and rationale for the request.
Council Meeting	September 11, 2017	<ul style="list-style-type: none"> • Update Council regarding 2018-20 budget development process.
CBO Meeting	September 20, 2017	<ul style="list-style-type: none"> • Modify funding recommendation based on input from presidents and BDWG. • Review and discuss preliminary presentation materials.
Presidents' Meeting	October 4, 2017	<ul style="list-style-type: none"> • Review and discuss modified funding recommendation. • Review and discuss preliminary presentation materials.
BDWG Meeting	<i>[Mid - October]</i>	<ul style="list-style-type: none"> • Review and discuss modified funding recommendation. • Review and discuss preliminary presentation materials.
➔ Joint Meeting of CBOs & Presidents	October 18, 2017	<ul style="list-style-type: none"> • Finalize funding recommendation. • Finalize presentation materials.
BDWG Meeting	November 2, 2017	<ul style="list-style-type: none"> • Review and discuss final funding recommendation.
Council Meeting	November 3, 2017	<ul style="list-style-type: none"> • Council takes action on proposed 2018-20 biennial budget recommendation.
CPE Staff	November 15, 2017	<ul style="list-style-type: none"> • Budget Submission

Council on Postsecondary Education

November 13, 2015

2016–18 Postsecondary Education Budget Recommendation Executive Summary

During the decade of the 2000s, no state in the nation made more progress on key measures of student success than did Kentucky, due in large part to sizable state investment in public higher education, including increased appropriations for campus operations, trust funds, capital projects, and student financial aid. Since 2009, however, the rate of improvement on those same metrics has slowed considerably, coinciding with onset of the Great Recession and the postsecondary institutions sustaining seven budget cuts over the past eight years. In nominal terms, the postsecondary institutions lost \$173.5 million or about 16 percent of their combined net General Fund appropriations between fiscal years 2007-08 and 2014-15.

Even though the recession ended several years ago, Kentucky is one of only a handful of states that has not begun reinvesting in higher education (CBPP, 2015). Members of the higher education community believe that reinvestment in Kentucky higher education is absolutely necessary for state colleges and universities to maintain quality academic programming, to sustain responsive and effective student support services, to regain the state's leadership position in rate of improvement on key student success measures, to alleviate stresses on institutional operating budgets and tuition and fee increases, and to recruit and retain prominent research and instructional faculty.

For the past eight months, Council staff has worked collaboratively with campus presidents, provosts, chief budget officers, institutional research directors, and members of the Council's Budget Development Work Group to develop the 2016-18 postsecondary education budget recommendation outlined below. Staff is pleased to proclaim that all nine public institution presidents and the Council president endorse the recommendation in its entirety.

The Council's 2016-18 budget recommendation contains four major funding categories, including: (a) institutional operating funds; (b) strategic investment and incentive trust funds; (c) capital construction and information technology; and (d) the CPE agency budget.

Institutional Operating Funds

General Fund appropriations for institutional operations, along with tuition and fee revenue, support education and general (E&G) expenditures on campus, including faculty and staff salaries and benefits, student financial aid, utilities, building maintenance, libraries, student support services, and numerous other operating expenses. In addition to these uses, operating funds are also used to pursue specialized activities and initiatives that further goals of *The Postsecondary Education Improvement Act of 1997* (HB 1) and objectives of the Council's *2011-15 Strategic Agenda for Kentucky Postsecondary and Adult Education*.

The Council's 2016-18 operating funds request seeks preservation of the existing General Fund appropriation for postsecondary education and includes an additional budget request for restoration of half of the state funding cuts imposed since 2007-08. If authorized, the entire amount of requested restoration funds will be subject to performance criteria. In addition, funding for five special initiatives, including Centers for Research Excellence at the research universities, an equity adjustment at two comprehensive universities, funding for student recruitment and retention activities and land grant program matching funds at Kentucky State University, and a tuition stabilization fund at KCTCS, is requested.

Specifically, CPE staff recommends increased operating funds appropriations of:

- \$43.4 million in 2016-17 and \$86.7 million in 2017-18 to support a new performance funding approach that provides financial incentives for institutions to accelerate improvement on key student success measures.
- \$6.0 million in 2016-17 and \$12.0 million in 2017-18 to establish or expand Centers for Research Excellence at the University of Kentucky and the University of Louisville.
- \$7.9 million in 2016-17 and \$15.8 million in 2017-18 to address disparities in state support among institutions in the comprehensive sector.
- \$2.7 million in 2016-17 and \$1.8 million in 2017-18 to support student recruitment and retention activities at Kentucky State University.
- \$2.7 million in 2016-17 and \$2.7 million in 2017-18 to provide a sufficient amount of state funds to meet federal matching requirements for Kentucky State University's land grant program.
- \$1.8 million in 2016-17 and \$3.5 million in 2017-18 to support lower tuition and fee increases at Kentucky Community and Technical College System institutions in the upcoming biennium.

See the Institutional Operating Funds agenda item for more detail regarding these requests.

Strategic Investment and Incentive Trust Funds

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) created six Strategic Investment and Incentive Trust Funds to bring about change and improvement in Kentucky colleges and universities by providing strategic financial incentives for institutions to pursue desired state goals for postsecondary education. When the General Assembly authorizes appropriations for trust fund programs, they are typically maintained and administered by the Council, but represent resources that are passed through to postsecondary institutions based on compliance with Council approved guidelines and procedures.

For the 2016-18 biennium, Council staff recommends \$11.9 million in debt service and \$125.0 million in bond funds to support a fifth round of funding for the Bucks for Brains program. These funds will be allocated between two programs, \$120.0 million for the Endowment Match Program and \$5.0 million for the Workforce Development Match Program, and three trust funds, as described below.

CPE staff recommends trust fund appropriations of:

- \$9.5 million in 2017-18, recurring in subsequent years, to pay debt service on a \$100.0 million bond issue to support Endowment Match Program activities and initiatives at the University of Kentucky and the University of Louisville.
- \$1.9 million in 2017-18, recurring in subsequent years, to pay debt service on a \$20.0 million bond issue to support Endowment Match Program activities and initiatives at the comprehensive universities.
- \$478,000 in 2017-18, recurring in subsequent years, to pay debt service on a \$5.0 million bond issue to support Workforce Development Match Program activities and initiatives at KCTCS institutions.

If authorized and appropriated, it is anticipated that these funds will be placed in the Research Challenge Trust Fund (RCTF), the Comprehensive University Excellence Trust Fund (CUETF), and the Workforce Development Trust Fund (WDTF), respectively, pending eventual distribution to postsecondary institutions in accordance with Council approved guidelines.

The \$100.0 million requested for the research universities will be allocated one-third to the University of Louisville and two-thirds to the University of Kentucky, in accordance with statutory provisions of the RCTF. The requested \$20.0 million for the comprehensive

universities will be allocated based on each institution's share of sector net General Fund appropriations in keeping with statutory provisions of the CUETF. KCTCS officials will determine how \$5.0 million allocated to their sector will be distributed among institutions.

See the Strategic Investment and Incentive Trust Funds agenda item for more information regarding the trust fund request.

Capital Construction and Information Technology

Every biennium, the Council makes a budget recommendation to the Governor and General Assembly that identifies anticipated capital construction and information technology and equipment needs of Kentucky's public postsecondary institutions. Two years ago, CPE staff recommended that the Council and elected leadership of the Commonwealth commit to a multi-biennia capital investment strategy that would more appropriately balance spending on asset preservation and renovation projects, while continuing to provide sufficient funding for new and expanded space to accommodate anticipated enrollment growth and research space needs. This balanced approach was recommended by a 2007 VFA study of over 700 existing E&G facilities and expected needs at public colleges and universities in Kentucky.

The principal components of this funding category include bond issue and debt service requests for: (a) asset preservation and renovation; (b) new and expanded space; and (c) information technology and equipment.

For 2016-18, CPE staff recommends bond issues totaling \$600.0 million to support asset preservation and renovation projects and new and expanded space projects at state colleges and universities. This amount represents the second installment of a \$1.8 billion total capital investment, requested over three biennia. Staff also proposes \$40.0 million for information technology initiatives and equipment purchases for the upcoming biennium.

Specifically, CPE staff recommends capital construction and information technology appropriations of:

- \$25.3 million in 2017-18, recurring in subsequent years, to pay debt service on a \$288.0 million bond issue to finance asset preservation and renovation projects during the 2016-18 biennium.
- \$27.4 million in 2017-18, recurring in subsequent years, to pay debt service on a \$312.0 million bond issue to finance new and expanded education and general and research space during the 2016-18 biennium.

- \$5.2 million in 2017-18, recurring in subsequent years, to pay debt service on a \$40.0 million bond issue to finance information technology initiatives and equipment purchases during the 2016-18 biennium.

If capital construction and information technology funding is authorized and appropriated, the requested \$600.0 million for asset preservation and renovation and new and expanded space will be allocated among institutions using an agreed upon formula that assigns each institution a \$15.0 million base allocation (i.e., a total of \$135.0 million for nine institutions), with the remaining \$465.0 million distributed based on each institution's share of VFA Study assessed need (55 percent), FTE students (26 percent), total public funds (12 percent), and extramural research and development expenditures (7 percent).

The requested \$40.0 million for information technology and equipment will be divided into two components, \$6.75 million for statewide initiatives and \$33.25 million for campus based initiatives, with the latter component allocated among institutions using an agreed upon formula that assigns each institution a \$750,000 base allocation (i.e., a total of \$6.75 million for nine institutions), with the remaining \$26.5 million distributed based on each institution's share of system total spending on instruction.

Institutionally Funded Capital Projects. In addition to the aforementioned requests for state General Fund supported capital projects, staff recommends that the Council continue to endorse and support institutionally funded capital projects that further the goals of HB 1 and objectives of the Council's *2011-15 Strategic Agenda*. Specifically, staff recommends the following agency funded projects:

- Authorization of \$1.0 billion in agency bonds to finance capital projects on postsecondary campuses during the upcoming biennium. This funding level represents all anticipated agency bond funded projects submitted by the campuses.
- Authorization of \$5.2 billion in agency, federal, private, and other fund source authority to address life safety, major maintenance, equipment acquisitions, infrastructure repair and upgrades, and new construction on postsecondary campuses during the upcoming biennium. This funding level represents all anticipated agency, federal, private, and other fund source financed projects submitted by the campuses.
- Authorization for nine projects (one at each institution) to improve energy efficiency in campus buildings, including energy equipment acquisitions and infrastructure repair and upgrades.

See the Capital Construction and Information Technology agenda item for more detail about the capital projects request.

CPE Agency Budget

The recommended agency budget for 2016-18 includes additional budget requests for five existing expenditure categories: (1) Agency Operations; (2) Adult Education; (3) Student Aid and Assistance; (4) Technology and Academic Support; and (5) Research and Economic Development.

CPE staff recommends increases in agency budget appropriations of:

- \$827,700 in 2016-17 and \$1,237,500 in 2017-18 for Agency Operations, which supports personnel and operating expenses associated with the Council's statewide coordinating board function.
- \$1.4 million in 2016-17 and \$2.6 million in 2017-18 for Adult Education statewide coordination and local program providers, which support increased GED completion in 120 counties throughout the Commonwealth.
- \$419,900 in 2016-17 and \$602,700 in 2017-18 for Student Aid and Assistance programs administered by CPE, which includes anticipated tuition and fee increases for Contract Spaces and two additional SREB Doctoral Scholars program participants.
- \$152,500 in 2016-17 and \$309,200 in 2017-18 to support inflationary increases for Technology and Academic Support programs coordinated by CPE, including the Kentucky Virtual Campus, Kentucky Virtual Library, and Kentucky Postsecondary Education Network.
- \$149,400 in 2016-17 and \$302,900 in 2017-18 to support inflationary increases for Research and Economic Development initiatives funded through CPE, including Kentucky Science and Technology Corporation (KSTC) programs.

Commonwealth College. The Agency Budget also includes a request each year of the biennium for Commonwealth College, a new online, competency-based program designed to increase the number of adults with bachelor's degrees in high-demand, occupational areas. This program was developed by CPE staff and campus officials in response to the Adult Learner Degree Attainment Initiative, contained in HB 265 (2012). Council staff recommends funding to support start-up infrastructure and implementation costs, faculty professional development, technology, marketing and outreach efforts and strategic partnerships.

- Council staff recommends General Fund appropriations of \$2,420,000 in 2016-17 and \$2,420,000 in 2017-18 for Commonwealth College.

Debt Service. The Agency Budget will also include requests for annual debt service associated with requests for \$288.0 million in bond funds to support asset preservation

and renovation projects, \$312.0 million in bond funds to support new and expanded facilities space, and \$40.0 million in bond funds to support an Information Technology and Equipment pool for the postsecondary system, as well as, debt service on multiple bond issues totaling \$125.0 million for the Bucks for Brains program.

See the CPE Agency Budget agenda item for more information about the agency request.

Endorsements

CPE staff recommends that the Council review and adopt the following endorsements:

- The Council on Postsecondary Education will fully support and endorse any funding that the Governor and General Assembly can provide to help the postsecondary institutions defray the cost of state mandated KERS cost increases.
- The Council will actively support and endorse any funding that the Governor and General Assembly can provide to help the postsecondary institutions cover the cost of 403(b) Plan increases.
- The Council will strongly support and endorse any funding the Governor and General Assembly can provide for Kentucky's need-based aid programs administered by KHEAA, including the College Access Program (CAP) and the Kentucky Tuition Grant (KTG).

See the Institutional Operating Funds agenda item for more information regarding these endorsements.

Staff preparation by Bill Payne, Sherron Jackson, Shaun McKiernan, and Scott Boelscher

Making Kentucky **STRONGER BY DEGREES**



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**Presentation to Kentucky Council on Postsecondary Education
Bill Payne, Scott Boelscher, and Shaun McKiernan
November 13, 2015**

2016-18 Biennial Budget Recommendation

Funding Categories

- A. Operating Funds
- B. Trust Funds
- C. Capital Projects
- D. Agency Budget

Operating Funds Request

Operating Funds Request

Proposed Funding Level

(In Millions)

Funding Category	Fiscal Year 2016-17	Fiscal Year 2017-18
Additional Budget Requests For:		
Restoration/Performance Funding	\$43.4	\$ 86.7
Special Initiatives	<u>21.1</u>	<u>35.8</u>
Total Operating Funds Request	\$64.5	\$122.6
% Increase on FY16 Base (\$914.9 M)	7.0%	13.4%

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Performance Funding

Performance Funding

Proposed Funding Level

(In Millions)

Funding Category	Fiscal Year 2016-17	Fiscal Year 2017-18
Restoration/Performance Funding	\$43.4	\$86.7
% Increase on FY16 Base (\$914.9 M)	4.7%	9.5%

- Partial restoration of state funding cuts since 2007-08 (i.e., second year request is half of \$173.5 million in cuts).
- Entire amount will be at-risk subject to performance.
- For funds to be retained on recurring basis in 2018-20, performance targets must be achieved.

Performance Funding

Agreed Upon Metrics

KCTCS

- Credentials Awarded▲
- Retention Rate (1st to 2nd year)▲
- Graduation Rate (3-year)▲●
- 40 • College Readiness Success
 - Complete English course (by end 2nd fall)
 - Complete Math course (by end 2nd fall)
- Workforce Training
- Transfers with Associates

Universities

- Baccalaureate Degrees▲
- Retention Rate (1st to 2nd Year)▲
- Progression▲
- Graduation Rate (6-Year)▲●
- Sector Specific
 - UK&UL: Research Expenditures
 - Comps: STEM+H Degrees
- Institution Specific

▲ Includes components related to closing achievement gaps for underrepresented minority and low-income students.

● Graduation rate will be included as a metric in the 2016-18 biennium, but not assigned any weight until 2018-20.

Performance Funding Target Setting Process

- Performance funding metrics and targets will be consistent with statewide *Strategic Agenda* metrics and targets.
- CPE and campus staffs will negotiate “stretch achievable targets” for each performance funding metric.
- The types of information used to set targets for each campus include:
 - Five years of trend data;
 - Peer group comparisons;
 - Share of state goals; and
 - Campus strategic plan goals.
- The proportion of the targets each campus achieves will determine the proportion of the 2016-18 appropriation that becomes recurring.

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Performance Funding Assessment Method

<u>Performance Metric</u>	<u>Two-Year Change Goal</u>	<u>Actual Two-Year Change</u>	<u>Percent of Goal Attained</u>	<u>Point Value</u>
Baccalaureate Degrees	400	200	50%	0.50
Retention Rate	5.5 ppt	5.5 ppt	100%	1.00
Graduation Rate	5.0 ppt	4.0 ppt	80%	0.80
Student Progression	1,120	784	70%	0.70
Closing Achievement Gaps	60	30	50%	0.50
Composite Point Score:				3.50
Total Possible Points: ÷				<u>5.00</u>
Proportion Earned:				70%

ppt = percentage point change

In the above example, 70% of allocated performance funds would become recurring in 2018-20 (i.e., $3.50/5.0 = 70\%$).

Performance Funding

Unearned Funds

- CPE conducts first performance assessment in fall 2017.
- Unearned funds deducted from campus base and transferred to trust fund at CPE (July 1, 2018).
- Institution submits action plan for Council approval to access unearned funds during 2018-20.
- Institution allowed second opportunity to meet goals.
- CPE conducts second performance assessment in fall 2019.
- Campuses compete for residual unearned funds at end of second biennium based on performance.

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Special Initiatives

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Special Initiatives

Proposed Funding Level

(In Millions)

Funding Category	Fiscal Year 2016-17	Fiscal Year 2017-18
Special Initiatives:		
Centers for Research Excellence	\$6.0	\$12.0
45 Equity Adjustment	7.9	15.8
KSU Recruitment and Retention ⁽¹⁾	2.7	1.8
KSU Land Grant Match	2.7	2.7
KCTCS Tuition Stabilization	<u>1.8</u>	<u>3.5</u>
Request Totals	\$21.1	\$35.8
% Increase on FY16 Base (\$914.9 M)	2.3%	3.9%

⁽¹⁾ This request is for temporary, nonrecurring funds.

Special Initiatives

Centers for Research Excellence

- The *Strategic Agenda* calls for universities to increase basic, applied, and translational research to create new knowledge and economic growth.
- Funding to establish or expand research centers at UK and UofL that address important state needs.
- Targeted cluster hires of prominent research faculty and staff in designated focus areas.
- Bolster recruitment and retention of outstanding research faculty, increase sponsored research funding, and support economic development and improved quality of life.

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Special Initiatives

Equity Adjustment

- Council resolution directing staff to develop mechanism for allocating state funds that considered enrollment, mission, and performance (November, 2013).
- A work group of Council staff and CBOs and an advisory group of Council members and campus presidents worked together to develop the model (April - December, 2014).
- When model was run using historical data it revealed disparities in state support in the comprehensive sector.
- Funding to bring state appropriations at NKU and WKU up to the sector median as determined by the model.

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Special Initiatives

KSU Student Recruitment and Retention

- Over past four years, KSU experienced steep declines in student enrollment (-33%) and tuition & fee revenue (-29%).
- Combined with state cuts, the resulting loss in public funds revenue (-19%) created stress on KSU's operating budget.
- Absent external intervention, KSU will be in an untenable financial position within two years.
- Funding to bolster campus finances due to large decreases in enrollment and tuition and fee revenue.
- Requested funds will support student recruitment and retention initiatives that stimulate enrollment growth.

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Special Initiatives

KSU Land Grant Match

- As 1890 land grant, KSU is eligible to receive federal grants to support land grant program activities and services.
- Conditions of the grant require federal funds to be matched dollar-for-dollar by the state, from non-federal sources.
- 49 • Every year since 2006-07, state funding has not been sufficient to meet the match and the gap has widened.
- KSU has been operating under annual waivers, but there is no guarantee that waivers will be granted going forward.
- Funding to meet the federal match requirement for KSU's land grant program.

Special Initiatives

KCTCS Tuition Stabilization

- Resident tuition and fee sticker prices at KCTCS are highest in the region and among the highest nationwide.
- Primarily because KCTCS does not receive local tax support and its state appropriation per student is relatively low compared to community colleges in the region.
- Since 2008-09, the Council has adopted tuition ceilings and KCTCS's ceilings have been lower than the other sectors.
- These factors have created growing stress on KCTCS's operating budget.
- Funding to reduce pressure on tuition and fee increases at KCTCS in the upcoming biennium.

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Trust Funds Request

Trust Funds Request

Proposed Funding Level (In Millions)

Funding Category	Requested Bond Funds	2017-18 Debt Service
Bucks for Brains:		
Research Challenge Trust Fund	\$100.0	\$ 9.5
Comprehensive University Excellence	20.0	1.9
Workforce Development Trust Fund	<u>5.0</u>	<u>0.5</u>
Trust Fund Request Totals	\$125.0	\$11.9

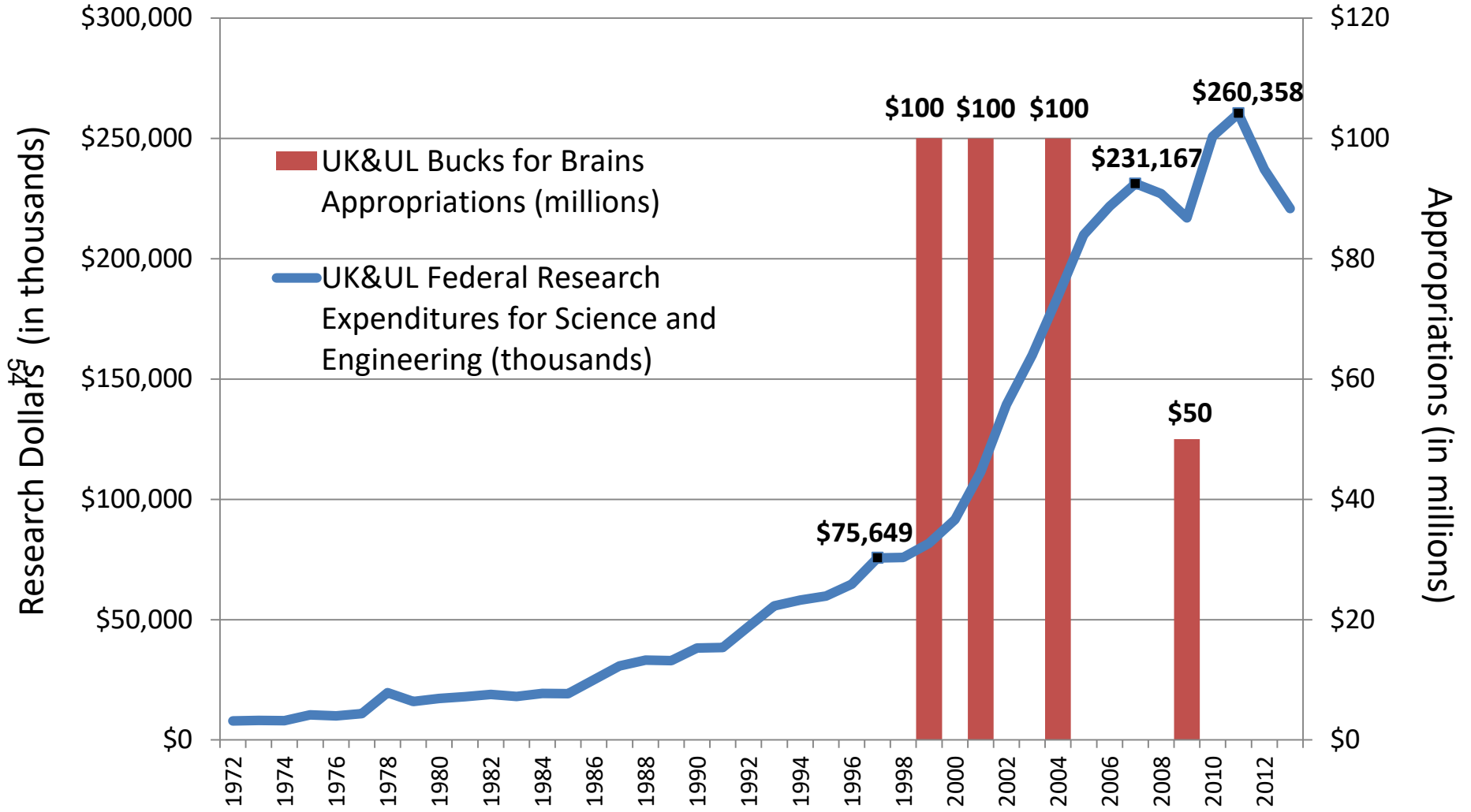
Note: If requested funding is authorized, it is anticipated that \$100.0 million in RCTF, \$20.0 million in CUETF, and \$5.0 million in WDTF appropriations will be maintained in trust funds pending distribution to postsecondary institutions in accordance with Council approved guidelines.

Trust Funds Request

Bucks for Brains

- During the first decade of reform, Kentucky's research universities more than doubled their endowment market values and federal research funding.
- While these achievements are noteworthy, the rate of growth in these indicators has slowed in recent years.
- The *Strategic Agenda* stresses the importance of securing appropriations for research matching programs to maximize sponsored research and multi-campus collaborations.
- Analyses show Bucks for Brains funding is highly correlated with growth in endowment values and sponsored research.

Bucks for Brains Appropriations and Federal Research Expenditures for Science and Engineering 1972-2013 (nominal dollars)



Capital Projects Request

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Capital Projects Request

Proposed Funding Level

(In Millions)

Funding Category	Requested Bond Funds	2017-18 Debt Service
Asset Preservation and Renovation	\$288.0	\$ 25.3
New and Expanded Space	312.0	27.4
Information Technology & Equipment	<u>40.0</u>	<u>5.2</u>
Total State Request	\$640.0	\$ 57.8

Institutionally Funded Projects:

Agency Bond Authority	\$1.0 B
Restricted Funds	\$5.2 B

Asset Preservation/New Construction Request Features

- CPE staff recommends debt service to support a \$600.0 million bond issue for asset preservation and new construction.
- Second installment of a three-biennia \$1.8 billion approach.
- Based on VFA findings, allocates 48% of proposed new funding to asset preservation and 52% to new and expanded space.
- Places greater emphasis on asset preservation by establishing a specified spending level for such projects at each institution.
- Provides increased flexibility by requesting a pool of funding for each campus, as opposed to line-itemed projects.
- Each pool is supported by a list of projects in institutional priority order.

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Asset Preservation/New Construction

Advantages of Proposed Approach

- Supported by campus presidents, CPAB members, and elected leadership in 2014-16.
- Promotes balance between asset preservation and new construction, as recommended by VFA study.
- Pooled approach is scalable to any funding level.
- Allows institution option to implement highest cost project, or multiple smaller but critical projects.
- Multiple biennia approach enhances planning capability and increases flexibility.
- Protects state investment in infrastructure and facilities.
- Data driven process for assessing needs and allocating funds.

Information Technology & Equipment Request Features

- CPE staff recommends debt service to support a \$40.0 million bond issue for technology and equipment, including:
 - \$6,750,000 for statewide initiatives; and
 - \$33,250,000 for campus-based initiatives.
- Each institution would receive a fixed \$750,000 base allocation, with the remaining \$26.5 million distributed based on each institution's share of total spending on instruction.
- If authorized by the General Assembly, funding for this request would be appropriated to the Technology Initiatives Trust Fund.

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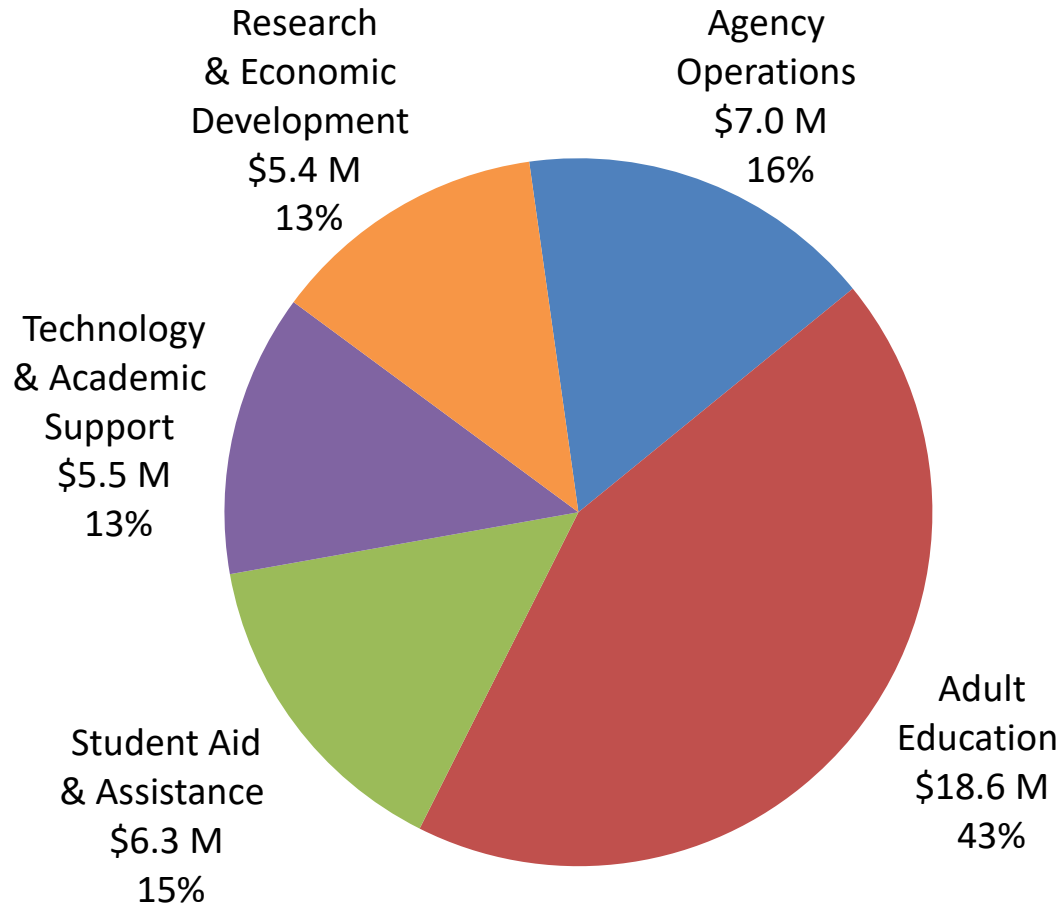
Agency Budget Request

09

Agency Budget Components

2015-16 General Fund Base ¹

Total = \$42.9 Million



¹ Excludes debt service.

Agency Budget Request Features

Basis for developing draft 2016-18 agency budget:

- Followed base and defined calculation instructions.
- Requesting inflationary increases for most programs, based on estimated General Fund growth (i.e., 2.75% per year).
- Includes larger requested increases for:
 - Contract Spaces (to maintain number of slots);
 - SREB Doctoral Scholars (to fund two additional scholars); and
 - Kentucky Adult Education (requested same % increase as the institutions).
- Requesting funding for five additional staff members.
- Includes funding request for Commonwealth College.

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Agency Budget

Proposed Funding Increase

(In Millions)

Funding Category	Fiscal Year 2016-17	Fiscal Year 2017-18
Agency Operations	\$0.8	\$1.2
Adult Education	1.4	2.6
Student Aid and Assistance	0.4	0.6
Technology and Academic Support	0.2	0.3
Research and Economic Development	<u>0.1</u>	<u>0.3</u>
Total Request	\$2.9	\$5.0
% Increase on FY16 Base (\$42.9 M)	6.8%	11.7%
<hr/>		
Commonwealth College (Operating Funds) ¹	\$2.4	\$2.4

¹ If authorized and funded, Commonwealth College will be added as a major expenditure category for 2016-18.

Making Kentucky **STRONGER BY DEGREES**



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**Presentation to Kentucky Council on Postsecondary Education
Bill Payne, Scott Boelscher, and Shaun McKiernan
November 13, 2015**

A GUIDE TO KENTUCKY'S PROPOSED HIGHER EDUCATION PERFORMANCE FUNDING MODEL

DISTRIBUTION OF ALLOCABLE FUNDING

35% Student Success

Based on

- Degrees and credentials awarded
- Degrees per 100 full-time enrollments
- STEM+H degrees
- Degrees earned by minority and low-income students
- Student progression



35% Course Completion

Based on each institution's share of sector total student credit hours earned, weighted to account for cost differences by degree level and academic discipline.

10% Maintenance & Operations

Based on each institution's share of square footage dedicated to student learning.

10% Institutional Support

Based on each institution's share of sector total instruction and student services spending.

10% Academic Support

Based on each institution's share of sector total full-time enrollment.

- ✓ **RATIONAL**
Well-aligned with campus missions and state goals for higher education.
- ✓ **COMPREHENSIVE**
Capable of distributing any proportion of base funding (up to 100%).
- ✓ **DYNAMIC**
Reacts to changes in campus productivity and changes in levels of state support.
- ✓ **FAIR**
Provides like funding for like activities.

GOALS

- Increase retention and progression of students.
- Increase the number of degrees and credentials earned by all types of students.
- Grow the number of degrees and credentials that garner higher salaries upon graduation: STEM+H fields, high-wage, high-demand fields.
- Close achievement gaps by increasing the number of degrees and credentials earned by low-income, minority and underprepared students.



STATE BENEFITS

- An overall rise in the number of graduates maximizes taxpayers' return on investment in higher education.
- More degrees translates to a more highly-skilled workforce that will help strengthen Kentucky's economy.
- An emphasis upon on-time graduation helps reduce costs to students and their families.
- A better educated citizenry helps meet current workforce demand, as well as attracts new industries.



DEVELOPED BY

- Key legislators
- State Budget Office leadership
- Presidents of Kentucky's public institutions
- President of the Council on Postsecondary Education

Council on Postsecondary Education
 Funding Model for the Public Universities
 Table 1 - Distribution of Outcomes Based and Operational Support Components
 Fiscal Year 2017-18

June 6, 2017

Institution	(A - B)			Outcomes Based Components (@ 70%)				Operational Support Components (@ 30%)					(D - C)	(E ÷ A)		
	A	B	C	Success Share ²	Student Success	Credit Hour Share ³	Course Completion	Square Feet Share ⁴	Maintenance & Operations	Direct Cost Share ⁵	Institutional Support	FTE Student Share ⁶	Academic Support	D	E	F
	2017-18 Adjusted Net General Fund	Small School Adjustment ¹	Allocable Resources											Formula Totals	Dollar Difference	Base Change
UK	\$181,186,200	(\$18,118,600)	\$163,067,600	31.2%	\$58,694,800	29.7%	\$55,890,500	33.4%	\$17,938,900	27.0%	\$14,519,200	31.7%	\$17,046,600	\$164,090,000	\$1,022,400	0.6%
UofL	132,016,400	(13,201,600)	118,814,800	21.2%	39,964,000	22.7%	42,768,300	19.1%	10,249,400	25.4%	13,669,000	20.7%	11,141,700	117,792,400	(1,022,400)	-0.8%
EKU	62,645,200	(4,731,200)	57,914,000	11.1%	20,954,700	11.7%	22,006,400	10.5%	5,631,100	10.3%	5,561,400	10.8%	5,819,200	59,972,800	2,058,800	3.3%
KSU	19,993,600	(4,731,200)	15,262,400	1.7%	3,149,900	1.0%	1,876,400	3.3%	1,755,500	1.6%	874,600	1.3%	724,000	8,380,400	(6,882,000)	-34.4%
MoSU	38,562,600	(4,731,200)	33,831,400	5.3%	9,992,200	5.7%	10,791,200	6.2%	3,313,900	5.7%	3,068,000	5.8%	3,126,400	30,291,700	(3,539,700)	-9.2%
MuSU	43,314,700	(4,731,200)	38,583,500	7.3%	13,655,900	6.9%	12,998,900	9.2%	4,939,100	7.4%	3,989,000	7.2%	3,844,300	39,427,200	843,700	1.9%
NKU	50,297,200	(4,731,200)	45,566,000	9.6%	17,989,700	9.3%	17,414,400	8.6%	4,625,100	9.2%	4,963,000	9.7%	5,205,500	50,197,700	4,631,700	9.2%
WKU	69,059,200	(4,731,200)	64,328,000	12.6%	23,677,400	12.9%	24,332,700	9.8%	5,283,700	13.2%	7,092,500	12.7%	6,829,200	67,215,500	2,887,500	4.2%
Sector	\$597,075,100	(\$59,707,400)	\$537,367,700	100.0%	\$188,078,600	100.0%	\$188,078,800	100.0%	\$53,736,700	100.0%	\$53,736,700	100.0%	\$53,736,900	\$537,367,700	\$0	0.0%
			Allocated Dollars:		\$188,078,700		\$188,078,700		\$53,736,800		\$53,736,800		\$53,736,800	\$537,367,800	} Math Check	
			Percent of Total:		35.0%		35.0%		10.0%		10.0%		10.0%	100.0%		

¹ Small School Adjustment defined as fixed base amount that remains constant when sector total appropriation increases or stays the same, but may be reduced if there is a budget cut.
² Student Success component distributed based on each institution's share of weighted student success outcomes produced (i.e., bachelor's degrees; STEM+H, URM, and low-income bachelor's degrees; and student progression at 30, 60, and 90 credit hour thresholds).
³ Course Completion distributed based on each institution's share of weighted student credit hours earned. Weights reflect differences in costs by course level and discipline, as well as, differences in cost structures and mission between sectors. Credit hours earned by out-of-state students are counted at 50% of similar credit hours earned by in-state students.
⁴ Funding for maintenance and operation (M&O) of facilities distributed based on each institution's share of Category I and Category II square feet, net of research, non-class laboratory, and open laboratory space.
⁵ Institutional Support component distributed based on each institution's share of sector total instruction and student services spending (i.e., share of direct instructional costs).
⁶ Academic Support distributed based on each institution's share of total FTE student enrollment, weighted for differences in cost structures and mission between sectors.

Council on Postsecondary Education
 Funding Model for the Public Universities
 Table 2 - Distribution of Student Success Component

June 6, 2017

Fiscal Year 2017-18

Campus	(A x B)			Bachelor's Degrees (Normalized) ¹			STEM+H Bachelor's Degrees			URM Bachelor's Degrees			Low Income Bachelor's Degrees		
	A Allocable Resources	B Contribution Percentage	C Contribution Totals	Weighted Bachelor's Degrees	Percent Share	Formula Amount	Weighted STEM+H Degrees	Percent Share	Formula Amount	Weighted URM Degrees	Percent Share	Formula Amount	Weighted Low Income Degrees	Percent Share	Formula Amount
UK	\$163,067,600	35.0%	\$57,073,700	6,921.7	31.0%	\$15,002,000	2,256.6	33.8%	\$9,094,500	574.1	25.7%	\$4,147,200	3,182.0	27.9%	\$4,502,700
UofL	118,814,800	35.0%	41,585,200	4,783.3	21.4%	10,367,400	1,240.5	18.6%	4,999,600	596.5	26.7%	4,309,200	2,794.0	24.5%	3,953,700
EKU	57,914,000	35.0%	20,269,900	2,697.5	12.1%	5,846,700	702.7	10.5%	2,831,900	218.7	9.8%	1,579,600	1,364.3	12.0%	1,930,600
KSU	15,262,400	35.0%	5,341,800	246.5	1.1%	534,300	57.3	0.9%	231,100	157.0	7.0%	1,134,200	203.3	1.8%	287,700
MoSU	33,831,400	35.0%	11,841,000	1,110.7	5.0%	2,407,200	311.7	4.7%	1,256,100	61.0	2.7%	440,700	728.3	6.4%	1,030,600
MuSU	38,583,500	35.0%	13,504,200	1,571.5	7.0%	3,406,000	649.3	9.7%	2,616,900	136.3	6.1%	984,900	722.3	6.3%	1,022,200
NKU	45,566,000	35.0%	15,948,100	2,258.2	10.1%	4,894,500	635.7	9.5%	2,561,800	192.3	8.6%	1,389,400	1,023.3	9.0%	1,448,100
WKU	64,328,000	35.0%	22,514,800	2,724.4	12.2%	5,905,000	813.0	12.2%	3,276,500	295.7	13.2%	2,135,900	1,374.7	12.1%	1,945,300
Sector	\$537,367,700		\$188,078,700	22,313.9	100.0%	\$48,363,100	6,666.8	100.0%	\$26,868,400	2,231.6	100.0%	\$16,121,100	11,392.3	100.0%	\$16,120,900
			Allocated Dollars:			\$48,363,100			\$26,868,400			\$16,121,000			\$16,121,000
			Percent of Total:			9.0%			5.0%			3.0%			3.0%

¹ Bachelor's degree figures have been normalized using degrees per 100 full-time equivalent students for each institution indexed to the public university average.

Council on Postsecondary Education
 Funding Model for the Public Universities
 Table 2 - Distribution of Student Success Component

June 6, 2017

Fiscal Year 2017-18

Campus	Student Progression (@ 30, 60, & 90 Credit Hours)									D	(D - C)	(E ÷ C)	(D ÷ ΣD)
	Weighted Progression @ 30 Hours	Percent Share	Formula Amount	Weighted Progression @ 60 Hours	Percent Share	Formula Amount	Weighted Progression @ 90 Hours	Percent Share	Formula Amount	Formula Totals	Dollar Difference	Percent Difference	Percent Share
UK	5,566.1	33.2%	\$5,354,400	5,589.0	32.2%	\$8,639,300	6,716.0	31.8%	\$11,954,600	\$58,694,700	\$1,621,000	2.8%	31.2%
UofL	3,224.7	19.2%	3,102,100	3,528.9	20.3%	5,454,800	4,369.1	20.7%	7,777,100	39,963,900	(1,621,300)	-3.9%	21.2%
EKU	1,709.7	10.2%	1,644,600	1,866.7	10.7%	2,885,400	2,379.7	11.3%	4,235,900	20,954,700	684,800	3.4%	11.1%
KSU	192.0	1.1%	184,700	210.0	1.2%	324,600	254.7	1.2%	453,300	3,149,900	(2,191,900)	-41.0%	1.7%
MoSU	1,086.7	6.5%	1,045,300	1,068.7	6.1%	1,651,900	1,213.7	5.7%	2,160,400	9,992,200	(1,848,800)	-15.6%	5.3%
MuSU	1,064.7	6.4%	1,024,200	1,186.3	6.8%	1,833,800	1,555.0	7.4%	2,767,900	13,655,900	151,700	1.1%	7.3%
NKU	1,624.3	9.7%	1,562,500	1,669.0	9.6%	2,579,900	1,996.3	9.4%	3,553,500	17,989,700	2,041,600	12.8%	9.6%
WKU	2,290.3	13.7%	2,203,200	2,263.3	13.0%	3,498,600	2,647.7	12.5%	4,712,900	23,677,400	1,162,600	5.2%	12.6%
Sector	16,758.5	100.0%	\$16,121,000	17,381.9	100.0%	\$26,868,300	21,132.0	100.0%	\$37,615,600	ΣD = \$188,078,400	(\$300)	0.0%	100.0%
			\$16,121,000 3.0%			\$26,868,400 5.0%			\$37,615,700 7.0%	\$188,078,600 35.0%	} Math Check		

1 AN ACT relating to postsecondary funding, making an appropriation therefor, and
2 declaring an emergency.

3 *Be it enacted by the General Assembly of the Commonwealth of Kentucky:*

4 ➔SECTION 1. A NEW SECTION OF KRS CHAPTER 164 IS CREATED TO
5 READ AS FOLLOWS:

6 *(1) For purposes of this section:*

7 *(a) "Category I and Category II square feet" means square footage that falls*
8 *under space categories as defined by the Postsecondary Education Facilities*
9 *Inventory and Classification Manual published by the United States*
10 *Department of Education;*

11 *(b) "Comprehensive university" has the same meaning as in KRS 164.001;*

12 *(c) "Council" means the Council on Postsecondary Education;*

13 *(d) "Equilibrium" means a condition in which every institution has an*
14 *appropriately proportionate level of resources as determined by the*
15 *performance funding model established in this section given each*
16 *institution's level of productivity in achieving student success outcomes,*
17 *course completion outcomes, and other components included in the model;*

18 *(e) "Formula base amount" means an institution's General Fund*
19 *appropriation amount from the previous fiscal year net of debt service on*
20 *bonds, appropriations for mandated programs as determined by the council,*
21 *and any adjustments reflecting the previous fiscal year's performance*
22 *distribution;*

23 *(f) "Hold-harmless provision" means a provision included in the funding*
24 *formulas as described in subsection (9) of this section that prevents a*
25 *reduction of a designated portion of funding for an institution through*
26 *operation of the funding formula;*

27 *(g) "Institution" means a college in the Kentucky Community and Technical*

1 College System or a public university;

2 (h) "KCTCS" means the Kentucky Community and Technical College System;

3 (i) "KCTCS institution allocable resources" means the formula base amount
 4 net of any equity adjustment as described in subsection (7)(b) of this section,
 5 any amount protected by a hold-harmless provision, and any applicable
 6 increase or decrease in general fund appropriations;

7 (j) "Research universities" means the University of Kentucky and the
 8 University of Louisville;

9 (k) "Stop-loss provision" means a provision included in the funding formulas
 10 as described in subsection (9) of this section to limit reduction of an
 11 institution's funding amount to a predetermined percentage,
 12 notwithstanding the amounts calculated by operation of the formula; and

13 (l) "University allocable resources" means the formula base amount net of any
 14 small school adjustment as described in subsection (5)(c) of this section, any
 15 amount protected by a hold-harmless provision, and any applicable increase
 16 or decrease in general fund appropriations.

17 (2) The General Assembly hereby finds that improving opportunity for the
 18 Commonwealth's citizens and building a stronger economy can be achieved by its
 19 public college and university system focusing its efforts and resources on the
 20 goals of:

21 (a) Increasing the retention and progression of students toward timely
 22 credential or degree completion;

23 (b) Increasing the number and types of credentials and degrees earned by all
 24 types of students;

25 (c) Increasing the number of credentials and degrees that garner higher
 26 salaries upon graduation, such as science, technology, engineering, math,
 27 and health, and in areas of industry demand;

- 1 (d) Closing achievement gaps by increasing the number of credentials and
2 degrees earned by low-income students, underprepared students, and
3 underrepresented minority students; and
- 4 (e) Facilitating credit hour accumulation and transfer of students from KCTCS
5 to four (4) year postsecondary institutions.
- 6 (3) The General Assembly hereby declares these goals can best be accomplished by
7 implementing a comprehensive funding model for the allocation of state general
8 fund appropriations for postsecondary institution operations that aligns the
9 Commonwealth's investments in postsecondary education with the
10 Commonwealth's postsecondary education policy goals and objectives.
- 11 (4) This section establishes a comprehensive funding model for the public
12 postsecondary education system to be implemented by the Council on
13 Postsecondary Education. The funding model shall include a public university
14 sector formula and a KCTCS sector formula.
- 15 (5) The funding formula for the public university sector shall:
- 16 (a) Recognize differences in missions and cost structures between research
17 universities and comprehensive universities to ensure that neither are
18 advantaged or disadvantaged during the first full year of implementation;
- 19 (b) Distribute one hundred percent (100%) of the university allocable resources
20 for all universities in the sector, based on rational criteria, including
21 student success, course completion, and operational support components,
22 regardless of whether state funding for postsecondary institution operations
23 increases, decreases, or remains stable;
- 24 (c) Include an adjustment to minimize impact on smaller campuses as
25 determined by the council; and
- 26 (d) Be constructed to achieve equilibrium, at which point the funding formula
27 rewards rates of improvement above the sector average rate.

1 (6) Funding for the public university sector shall be distributed as follows:

2 (a) Thirty-five percent (35%) of total university allocable resources shall be
3 distributed based on each university's share of total student success
4 outcomes produced, including but not limited to:

5 1. Bachelor's degree production;

6 2. Bachelor's degrees awarded per one hundred (100) undergraduate
7 full-time equivalent students;

8 3. Numbers of students progressing beyond thirty (30), sixty (60), and
9 ninety (90) credit hour thresholds;

10 4. Science, technology, engineering, math, and health bachelor's degree
11 production; and

12 5. Bachelor's degrees earned by low-income students and
13 underrepresented minority students;

14 (b) Thirty-five percent (35%) of total university allocable resources shall be
15 distributed based on each university's share of sector total student credit
16 hours earned, excluding dual credit enrollment, weighted to account for
17 cost differences by academic discipline and course level, such as lower and
18 upper division baccalaureate, master's, doctoral research, and doctoral
19 professional; and

20 (c) Thirty percent (30%) of total university allocable resources shall be
21 distributed in support of vital campus operations as follows:

22 1. Ten percent (10%) shall be distributed based on each university's
23 share of Category I and Category II square feet, net of research,
24 nonclass laboratory, and open laboratory space, to support
25 maintenance and operation of campus facilities and may include a
26 space utilization factor as determined by the council in collaboration
27 with the working group established in subsection (11) of this section;

1 2. Ten percent (10%) shall be distributed based on each university's
 2 share of total instruction and student services spending, net of
 3 maintenance and operation, to support campus administrative
 4 functions; and

5 3. Ten percent (10%) shall be distributed based on each university's
 6 share of total full-time equivalent student enrollment to support
 7 academic support services such as libraries and academic computing.

8 (7) The funding formula for the KCTCS sector:

9 (a) Shall distribute one hundred percent (100%) of KCTCS institution allocable
 10 resources for all KCTCS colleges based on rational criteria, including
 11 student success, course completion, and operational support components,
 12 regardless of whether state funding for postsecondary institution operations
 13 increases, decreases, or remains stable;

14 (b) May include an adjustment to account for declining enrollment in some
 15 regions of the Commonwealth as determined by the council; and

16 (c) Shall be constructed to achieve equilibrium, at which point the funding
 17 formula rewards rates of improvement above the sector average rate.

18 (8) Funding for the KCTCS sector shall be distributed as follows:

19 (a) Thirty-five percent (35%) of total KCTCS institution allocable resources
 20 shall be distributed based on each college's share of total student success
 21 outcomes produced, including but not limited to:

22 1. Certificate, diploma, and associate degree production;

23 2. Numbers of students progressing beyond fifteen (15), thirty (30), and
 24 forty-five (45) credit hour thresholds;

25 4. Science, technology, engineering, math, and health credentials
 26 production;

27 5. Production of high-wage, high-demand, industry credentials as

- 1 determined using occupational outlook data and employment statistics
2 wage data provided by the Kentucky Office of Employment and
3 Training;
- 4 6. Production of industry credentials designated as targeted industries by
5 the Education and Workforce Development Cabinet;
- 6 7. Credentials earned by low-income students, underprepared students,
7 and underrepresented minority students; and
- 8 8. Transfers to four (4) year institutions;
- 9 (b) Thirty-five percent (35%) of total KCTCS institution allocable resources
10 shall be distributed based on each college's share of total student credit
11 hours earned, weighted to account for cost differences by academic
12 discipline; and
- 13 (c) Thirty percent (30%) of total KCTCS institution allocable resources shall be
14 distributed in support of vital campus operations as follows:
- 15 1. Ten percent (10%) shall be distributed based on each college's share
16 of Category I and Category II square feet, net of research, nonclass
17 laboratory, and open laboratory space, to support maintenance and
18 operation of campus facilities and may include a space utilization
19 factor as determined by the council in collaboration with the
20 postsecondary education working group established in subsection (11)
21 of this section;
- 22 2. Ten percent (10%) shall be distributed based on each college's share
23 of total instruction and student services spending, net of maintenance
24 and operation, to support campus administrative functions; and
- 25 3. Ten percent (10%) shall be distributed based on each college's share
26 of total full-time equivalent student enrollment to support academic
27 support services such as libraries and academic computing.

1 (9) (a) The funding formula for both sectors shall include:

2 1. A hold-harmless provision for fiscal year 2018-2019 preventing a
3 reduction in an institution's funding amount based solely on the
4 formula calculation, and allowing a hold-harmless amount
5 determined by the formula in fiscal year 2018-2019 to be deducted
6 from an institution's formula base amount in whole or in part in fiscal
7 years 2019-2020 and 2020-2021, as determined by the council;

8 2. A stop-loss provision for fiscal year 2019-2020 limiting the reduction
9 in funding to any institution to one percent (1%) of that institution's
10 formula base amount; and

11 3. A stop-loss provision for fiscal year 2020-2021 limiting the reduction
12 in funding to any institution to two percent (2%) of that institution's
13 formula base amount.

14 (b) For fiscal year 2021-2022 and thereafter, hold-harmless and stop-loss
15 provisions shall not be included in the funding formulas except by
16 enactment of the General Assembly.

17 (c) Paragraph (a) of this subsection shall not be construed to limit the level of a
18 budget reduction that may be enacted by the General Assembly or
19 implemented by the Governor.

20 (10) (a) By April 1, 2017, and each April 1 thereafter, the council shall certify to the
21 Office of the State Budget Director the amount to be distributed to each of
22 the public universities and KCTCS as determined by the comprehensive
23 funding model created in this section, not to exceed the available balance in
24 the postsecondary education performance fund created in subsection (13) of
25 this section.

26 (b) The Office of the State Budget Director shall distribute the appropriations
27 in the postsecondary education performance fund for that fiscal year to the

1 institutions in the amounts the council has certified. The adjusted
 2 appropriations to each institution shall be allotted as provided in KRS
 3 48.600, 48.605, 48.610, 48.620 and 48.630.

4 (c) For fiscal year 2017-2018 the Office of the State Budget Director shall
 5 distribute to the public postsecondary education institutions, except for
 6 Kentucky State University, those funds appropriated to the postsecondary
 7 education performance fund by the General Assembly in 2016 Ky. Acts ch.
 8 149, Part I, K., 12., in accordance with the comprehensive funding model
 9 created in this section.

10 (11) (a) The Council on Postsecondary Education is hereby directed to establish a
 11 postsecondary education working group composed of the following:

- 12 1. The president of the council;
- 13 2. The president or designee of each public postsecondary institution,
 14 including the president of KCTCS;
- 15 3. The Governor or designee;
- 16 4. The Speaker of the House or designee; and
- 17 5. The President of the Senate or designee.

18 (b) Beginning in fiscal year 2020-2021 and every three (3) fiscal years
 19 thereafter, the postsecondary education working group shall convene to
 20 determine if the comprehensive funding model is functioning as expected,
 21 identify any unintended consequences of the model, and recommend any
 22 adjustments to the model.

23 (c) The results of the review and recommendations of the working group shall
 24 be reported by the council to the Governor, the Interim Joint Committee on
 25 Appropriations and Revenue, and the Interim Joint Committee on
 26 Education.

27 (12) The council shall promulgate administrative regulations under KRS Chapter 13A

1 to implement the provisions of this section.

2 (13) (a) The postsecondary education performance fund is hereby established as an
3 appropriation unit to support improvement in the operations of the public
4 postsecondary institutions and achievement of the Commonwealth's
5 education policy goals and workforce development priorities. General fund
6 moneys may be appropriated by the General Assembly to this fund for
7 distribution to the public postsecondary institutions in amounts determined
8 through the comprehensive funding model created in this section.

9 (b) Any balance in the postsecondary education performance fund at the close
10 of any fiscal year shall not lapse but shall be carried forward to the next
11 fiscal year and be continuously appropriated for the purposes specified in
12 this section. A general statement that all continuing appropriations are
13 repealed, discontinued, or suspended shall not operate to repeal,
14 discontinue, or suspend this fund or to repeal this action.

15 ➔Section 2. Whereas 2016 House Bill 303 directed the creation of the
16 postsecondary funding model established in this section and appropriated funds to be
17 distributed through the new model, and whereas reporting requirements for
18 implementation of the model begin on April 1, 2017, an emergency is declared to exist,
19 and this Act takes effect upon its passage and approval by the Governor or upon its
20 otherwise becoming a law.

1 COUNCIL ON POSTSECONDARY EDUCATION

2 (New Administrative Regulation)

3 13 KAR 2:120. Comprehensive funding model for the allocation of state general
4 fund appropriations to public universities.

5 RELATES TO: KRS 48.600-48.630, 164.001, 164.092

6 STATUTORY AUTHORITY: KRS 164.092(12)

7 NECESSITY, FUNCTION, AND CONFORMITY: KRS 164.092(12) requires the
8 Council on Postsecondary Education to promulgate an administrative regulation to imple-
9 ment a comprehensive funding model for the public postsecondary education system. This
10 administrative regulation establishes the formula by which general fund appropriations shall
11 be distributed in the public university sector.

12 Section 1. Definitions. (1) "Academic year" means July 1st through June 30th and all
13 terms completed therein.

14 (2) "Bachelor's Degrees" means total number of bachelor's degrees awarded during
15 the academic year. Includes degrees conferred to resident and non-resident students.

16 (3) "Comprehensive university" is defined by KRS 164.001(7).

17 (4) "Council" is defined by KRS 164.092(1)(c).

18 (5) "Formula base amount" is defined by KRS 164.092(1)(e) and includes a deduc-
19 tion for mandated programs.

20 (6) "Hold-harmless provision" is defined by KRS 164.092(1)(f).

21 (7) "Institution" means a public university.

1 (8) "Low-income students" means a student who has received a Federal Pell Grant
2 at any time since 2005-2006 at the graduating institution.

3 (9) "Mandated program" means a research or public service activity not integral to
4 the instructional mission of the institution that is:

5 (a) Funded with greater than \$450,000 of state appropriations at research universi-
6 ties and \$200,000 at comprehensive universities; and

7 (b) Directed by statute, resolution, executive branch budget bill, executive order, or
8 other legal mandate.

9 (10) "Non-resident student" means a student who does not meet the requirements
10 for Kentucky residency for purposes of tuition set forth in 13 KAR 2:045.

11 (11) "Research university" is defined by KRS 164.092(1)(j).

12 (12) "Resident student" means a student certified as a Kentucky resident for pur-
13 poses of tuition pursuant to 13 KAR 2:045 and any non-resident student attending an insti-
14 tution under a state tuition reciprocity agreement entered into by the council.

15 (13) "Small school adjustment" means a one-time calculation made using the formu-
16 la base amounts in 2017-2018 and equals:

17 (a) For a research university, ten (10) percent of the respective formula base
18 amount for each institution; and

19 (b) For a comprehensive university, ten (10) percent of the total formula base
20 amount for all comprehensive universities divided by six (6).

21 (14) "STEM+H degrees" mean degrees in the fields of science, technology, engi-
22 neering, math, and health sciences as determined by the council.

23 (15) "Stop-loss provision" is defined by KRS 164.092(1)(k).

1 (16) "Underrepresented minority students" mean students who categorize them-
2 selves as Hispanic or Latino, American Indian or Alaska Native, Black or African American,
3 Native Hawaiian or Other Pacific Islander, or two (2) or more races.

4 (17) "University allocable resources" is defined by KRS 164.092(1)(l)

5 Section 2. Allocable Resources. The council shall determine total university alloca-
6 ble resources for any given year by calculating each institution's formula base amount and
7 subtracting the small school adjustment and any amount protected by a hold harmless pro-
8 vision. These amounts shall then be combined along with any applicable increase or de-
9 crease in general fund appropriation.

10 Section 3. Metric Weighting. For purposes of Sections 5, 6 and 7, bachelor's de-
11 grees, earned credit hours, facilities square feet, instruction and student services costs,
12 and full time equivalent student enrollment shall be calculated with differential weights for
13 research and comprehensive universities in accordance with the Public University Funding
14 Model Metric Weighting Chart.

15 Section 4. Three-year Rolling Average. Each metric shall be calculated by averag-
16 ing the most recent three (3) years of finalized data.

17 Section 5. Student Success Outcomes. (1) Thirty-five (35) percent of total universi-
18 ty allocable resources shall be certified for distribution to each institution based on its share
19 of the total volume of student success outcomes related to bachelor's degree production
20 and student progression as established in KRS 164.092(6)(a)1. through 5., and in the fol-
21 lowing denominations:

22 (a) Nine (9) percent based on the normalized bachelor's degrees awarded in an ac-
23 ademic year as described in the Public University Sector Funding Model Formula Chart;

1 (b) Five (5) percent based on STEM+H bachelor's degrees awarded in an academic
2 year;

3 (c) Three (3) percent based on bachelor's degrees awarded to underrepresented
4 minority students in an academic year;

5 (d) Three (3) percent based on bachelor's degrees awarded to low-income students
6 in an academic year;

7 (e) Three (3) percent based on the number of full-time and part-time undergraduate
8 students reaching or surpassing thirty (30) cumulative earned credit hours in any term
9 completed from August 1st to July 31st;

10 (f) Five (5) percent based on the number of full-time and part-time undergraduate
11 students reaching or surpassing sixty (60) cumulative earned credit hours in any term com-
12 pleted from August 1st to July 31st; and

13 (g) Seven (7) percent based on the number of full-time and part-time undergraduate
14 students reaching or surpassing ninety (90) cumulative earned credit hours in any term
15 completed from August 1st to July 31st.

16 Section 6. Student Credit Hour Production. Thirty-five (35) percent of total universi-
17 ty allocable resources shall be certified for distribution to each institution based on its share
18 of total volume of weighted student credit hours earned during an academic year as estab-
19 lished in KRS 164.092(6)(b).

20 (1) Credit hour weighting by course level and discipline shall be in accordance with
21 the Public University Funding Model Earned Credit Hour Production Weighting Index.
22 Credit hours earned by non-resident students shall be given half the weight of those
23 earned by resident students in comparable programs of study; and

1 (2) The calculation shall not include credit hours earned by high school students
2 taking courses for college credit.

3 Section 7. Operational Support. Thirty (30) percent of total university allocable re-
4 sources shall be certified for distribution to each institution in support of vital campus oper-
5 ations as established in KRS 164.092(6)(c)1. through 3.

6 (1) Ten (10) percent shall be allocated based on facilities square feet as reported
7 annually to the council and as established in KRS 164.092(6)(c)1.

8 (2) Ten (10) percent shall be allocated based on direct instruction and student ser-
9 vices costs as reported on each institution's annual audited financial statement and as es-
10 tablished in KRS 164.092(6)(c)2.

11 (3) Ten (10) percent shall be allocated based on total full-utime equivalent student
12 enrollment as established in KRS 164.092(6)(c)3 and using the formula established in the
13 Public University Sector Funding Model Formula Chart.

14 Section 8. Hold-harmless and Stop-loss Provisions. (1) Any final amounts certified
15 for distribution to any institution shall account for any hold-harmless or stop-loss provisions
16 established in KRS 164.092(9).

17 (2) The council shall determine hold-harmless amounts for institutions in fiscal year
18 2018-2019 through application of the formula established in this administrative regulation.

19 (a) If the formula total amount generated for an institution is less than its initial allo-
20 cable resources, the amount of that difference shall be designated as the institution's hold-
21 harmless allocation.

22 (b) If applied, an institution maintaining a hold-harmless allocation shall not receive
23 additional distributions of funding through the model until such time as the hold-harmless

1 allocation balance is brought to zero through improved institutional performance, additional
2 appropriations, or some combination thereof.

3 (c) The council shall apply these hold-harmless allocations, with any applicable
4 credit adjustments as determined annually by the formula, to all applicable institutions in
5 2018-2019, 2019-2020, 2020-2021, and in any subsequent years as directed by the Gen-
6 eral Assembly.

7 Section 9. Incorporation by Reference. (1) The following material is incorporated by
8 reference:

9 (a) Public University Funding Model Formula Chart," June 2017;

10 (b) Public University Funding Model Metric Weighting Chart," June 2017; and

11 (b) "Public University Funding Model Earned Credit Hour Production Weighting In-
12 dex," June 2017.

13 (2) This material may be inspected, copied, or obtained, subject to applicable copy-
14 right law, at the Kentucky Council on Postsecondary Education, 1024 Capital Center Drive,
15 Suite 320, Frankfort, Kentucky 40601, Monday through Friday, 8 a.m. to 4:30 p.m.

Date

Sherrill B. Zimmerman, Chair
Council on Postsecondary Education

APPROVED AS TO FORM:

Date

Travis Powell, General Counsel
Council on Postsecondary Education

PUBLIC HEARING AND PUBLIC COMMENT PERIOD: A public hearing on this administrative regulation shall be held on August 23, 2017 at 10:00 a.m. EST at the Council on Postsecondary Education, 1024 Capital Center Drive, Suite 320, Frankfort, Kentucky, 40601 in Conference Room A. Individuals interested in being heard at this hearing shall notify this agency in writing five workdays prior to the hearing of their intent to attend. If no notification to attend the hearing is received by that date, the hearing may be cancelled.

This hearing is open to the public. Any person who wishes to be heard will be given an opportunity to comment on the proposed administrative regulation. A transcript of the public hearing will not be made unless a written request for a transcript is made.

If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted until August 31, 2017.

Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to the contact person.

CONTACT PERSON: Travis Powell, General Counsel and Associate Vice President, Council on Postsecondary Education, 1024 Capital Center Dr., Suite 350, Frankfort, Kentucky 40601, Phone: 502.573.1555, Fax: 502.573.1535, Email: travis.powell@ky.gov

REGULATORY IMPACT ANALYSIS
AND TIERING STATEMENT

Administrative Regulation 13 KAR 2:120. Comprehensive funding model for the allocation of state general fund appropriations to public universities.

Contact person: Travis Powell
General Counsel and Associate Vice President
Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, KY 40601
502.573.1555
travis.powell@ky.gov
FAX: 502.573.1535

- (1) Provide a brief summary of:
 - (a) What this administrative regulation does: This regulation sets forth the comprehensive funding model for the allocation of state general fund appropriations to the Commonwealth's public universities.
 - (b) The necessity of this administrative regulation: KRS 164.092(12) requires that the Council on Postsecondary Education promulgate administrative regulations to implement the comprehensive funding model for the allocation of state general fund appropriations to public universities. KRS 164.092 provides the framework for the model and generally outlines the required elements. This regulation provides more detail related to the basis and process upon which the funding will be certified for allocation to these institutions.
 - (c) How this administrative regulation conforms to the content of the authorizing statutes: The administrative regulation conforms explicitly to the authorizing statute.
 - (d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: The administrative regulation provides the process and basis upon which funding will be allocated to public universities through the comprehensive funding model mandated in KRS 164.092.
- (2) If this is an amendment to an existing administrative regulation, provide a brief summary of:
 - (a) How the amendment will change this existing administrative regulation: N/A.

- (b) The necessity of the amendment to this administrative regulation: N/A.
 - (c) How the amendment conforms to the content of the authorizing statutes: N/A.
 - (d) How the amendment will assist in the effective administration of the statutes:
N/A.
- (3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: All eight (8) public universities in Kentucky will be affected by this regulation.
- (4) Provide an assessment of how the above group or groups will be impacted by either the implementation of this administrative regulation, if new, or by the change if it is an amendment, including:
- (a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: Institutions must continue providing the Council with data used in the identified metrics and work with Council staff to ensure the accuracy and validity of that data.
 - (b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): Compliance will incur no additional costs; however, after application of the funding model, institutions could see increases or decreases in general fund appropriations depending on institutional performance on the identified metrics as well as the overall general fund appropriation to higher education.
 - (c) As a result of compliance, what benefits will accrue to the entities identified in question (3): While general fund appropriations could decrease after application of the funding model to the detriment of an institution, funding could also increase to its benefit.
- (5) Provide an estimate of how much it will cost to implement this administrative regulation:
- (a) Initially: See 4(b) above.
 - (b) On a continuing basis: See 4(b) above.
- (6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: Any available sources of funding can be

used, most likely general operating expenses.

- (7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: N/A. This regulation does not assess fees.
- (8) State whether or not this administrative regulation establishes any fees or directly or indirectly increases any fees: N/A. This regulation does not assess fees.
- (9) TIERING: Is tiering applied? No. All regulated entities are of the same class, i.e. public universities.

FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

Regulation No. 13 KAR 2:120. Comprehensive funding model for the allocation of state general fund appropriations to public universities.

Contact person: Travis Powell
General Counsel and Associate Vice President
Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, KY 40601
502.573.1555
travis.powell@ky.gov
FAX: 502.573.1535

1. What units, parts or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? The Council on Postsecondary Education (CPE) and all public universities in Kentucky.

2. Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 164.092.

3. Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? In and of itself, this regulation will not generate any revenue, however depending on campus performance and the overall general fund appropriation to higher education, institutions could see increases in general fund revenue.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? See 3(a).

(c) How much will it cost to administer this program for the first year? Duties related to this regulation are generally assumed by CPE staff members as part of their many other responsibilities. There are no additional costs of administration.

(d) How much will it cost to administer this program for subsequent years? See 3(c).

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-):
Expenditures (+/-):
Other Explanation: N/A

Summary of Materials Incorporated by Reference

1. "Public University Funding Model Formula Chart ", June 2017, sets forth the detailed formulas for "Total FTE students" and "Bachelor's degrees normalized" as identified in the regulation.
2. "Public University Funding Model Metric Weighting Chart ", June 2017; sets forth the weighting for funding model metric inputs as differentiated between research and comprehensive universities.
3. "Public University Funding Model Earned Credit Hour Production Weighting Index", June 2017, sets forth the weighting for credit hours earned based on their respective course level and is differentiated by resident and nonresident students.

Public University Sector Funding Model Formula Chart

Total FTE students

Total fall semester full-time equivalent (FTE) student enrollment. Calculated as follows: (undergraduate student credit hours \div 15) + (graduate student credit hours \div 12) + (law student credit hours \div 12) + (headcount of medical, dental, and pharmacy students) + (headcount of doctoral dissertation students) + (headcount of post doctoral students) + (headcount of house staff). Includes credit hours attempted by full-time and part-time students, and resident, reciprocity, and nonresident students. Does not include credit hours attempted by high school students taking courses for college credit (i.e., dual enrollment and dual credit).

Bachelor's degrees normalized

Each institution's bachelor's degrees produced multiplied by an index of that institution's bachelor's degrees per 100 FTE students divided by the sector average bachelor's degrees per 100 FTE students.

Bachelor's degrees per 100 FTE students is defined as total bachelor's degrees awarded during the academic year divided by total fall semester undergraduate full-time equivalent (FTE) student enrollment divided by 100.

Metric Weighting Chart

Funding Model Metrics	Research Universities	Comprehensive Universities
Bachelor's Degrees (Normalized)	1.67345	1.00000
STEM+H Bachelor's Degrees	1.54105	1.00000
URM Bachelor's Degrees	1.22322	1.00000
Low Income Bachelor's Degrees	2.35120	1.00000
Student Progression (@ 30 Credit Hours)	1.49386	1.00000
Student Progression (@ 60 Credit Hours)	1.45320	1.00000
Student Progression (@ 90 Credit Hours)	1.56076	1.00000
Student Credit Hours Earned (Weighted)	1.14208	1.00000
Facilities Square Feet	1.36134	1.00000
Instruction and Student Services Costs	0.90251	1.00000
FTE Student Enrollment	1.34278	1.00000

Public University Funding Model Earned Credit Hour Production Weighting Index

Resident Student Earned Credit Hour Weights by Course Level and Discipline

Discipline	Course Level					
	Lower Division	Upper Division	Master's	Other Graduate	Doctoral I	Doctoral II
Liberal Arts, Math, Social Sciences, Languages, Other	1.07	1.48	3.27	3.27	3.81	4.34
Basic Skills	1.00	1.22	2.19	2.19	3.17	4.16
Business	1.00	1.44	2.68	2.68	5.42	8.17
Education	1.17	1.47	2.32	2.32	3.28	4.24
Service	1.06	1.22	2.19	2.19	3.17	4.16
Visual and Performing Arts	1.36	2.24	4.49	4.49	4.50	4.51
Trades and Technologies	1.45	1.97	2.95	2.95	3.62	4.30
Sciences	1.18	1.86	4.70	4.70	4.74	4.79
Law	1.52	1.25	3.33	3.33	4.47	5.61
Engineering/Architecture	1.57	2.52	4.37	4.37	4.47	4.58
Health	1.44	1.76	4.13	4.13	4.66	5.19
Nursing	1.44	1.76	4.13	4.13	4.66	5.19
Other	1.00	1.22	2.19	2.19	3.17	4.16

Nonresident Student Earned Credit Hour Weights by Course Level and Discipline

Discipline	Course Level					
	Lower Division	Upper Division	Master's	Other Graduate	Doctoral I	Doctoral II
Liberal Arts, Math, Social Sciences, Languages, Other	0.54	0.74	1.64	1.64	1.91	2.17
Basic Skills	0.50	0.61	1.10	1.10	1.59	2.08
Business	0.50	0.72	1.34	1.34	2.71	4.09
Education	0.59	0.74	1.16	1.16	1.64	2.12
Service	0.53	0.61	1.10	1.10	1.59	2.08
Visual and Performing Arts	0.68	1.12	2.25	2.25	2.25	2.26
Trades and Technologies	0.73	0.99	1.48	1.48	1.81	2.15
Sciences	0.59	0.93	2.35	2.35	2.37	2.40
Law	0.76	0.63	1.67	1.67	2.24	2.81
Engineering/Architecture	0.79	1.26	2.19	2.19	2.24	2.29
Health	0.72	0.88	2.07	2.07	2.33	2.60
Nursing	0.72	0.88	2.07	2.07	2.33	2.60
Other	0.50	0.61	1.10	1.10	1.59	2.08

Notes: (1) Doctoral I is the arithmetic mean of Master's and Doctoral II

(2) Earned student credit hours are also weighted for research or comprehensive universities in accordance with the Public University Funding Model Metric Weighting Chart.

Source: SHEO Four State Cost Study.

Council on Postsecondary Education
 Funding Model for the Public Universities
 Table 3 - Minimum Additional Appropriation Needed to Achieve Formula Equilibrium (with Hold Harmless Allocation)

Draft - For Discussion Purposes
 June 6, 2017

Fiscal Year 2018-19

Institution	A 2017-18 Adjusted Net General Fund	B Additional Appropriations	(A + B)		(C - D - E)		Outcomes Based Components (@ 70%)				Operational Support Components (@ 30%)				G Formula Totals	(G - F) Dollar Difference	(H ÷ C) Base Change		
			C 2018-19 Adjusted Net General Fund	D Small School Adjustment ⁽¹⁾	E Hold Harmless Allocation	F Allocable Resources	Success Share ²	Student Success	Credit Hour Share ³	Course Completion	Square Feet Share ⁴	Maintenance & Operations	Direct Cost Share ⁵	Institutional Support				FTE Student Share ⁶	Academic Support
UK	\$181,186,200	\$1,022,400	\$182,208,600	(\$18,118,600)	\$0	\$164,090,000	31.2%	\$58,694,800	29.7%	\$55,890,500	33.4%	\$17,938,900	27.0%	\$14,519,200	31.7%	\$17,046,600	\$164,090,000	\$0	0.0%
UofL	132,016,400	0	132,016,400	(13,201,600)	(1,022,400)	117,792,400	21.2%	39,964,000	22.7%	42,768,300	19.1%	10,249,400	25.4%	13,669,000	20.7%	11,141,700	117,792,400	0	0.0%
EKU	62,645,200	2,058,800	64,704,000	(4,731,200)	0	59,972,800	11.1%	20,954,700	11.7%	22,006,400	10.5%	5,631,100	10.3%	5,561,400	10.8%	5,819,200	59,972,800	0	0.0%
KSU	19,993,600	0	19,993,600	(4,731,200)	(6,882,000)	8,380,400	1.7%	3,149,900	1.0%	1,876,400	3.3%	1,755,500	1.6%	874,600	1.3%	724,000	8,380,400	0	0.0%
MoSU	38,562,600	0	38,562,600	(4,731,200)	(3,539,700)	30,291,700	5.3%	9,992,200	5.7%	10,791,200	6.2%	3,313,900	5.7%	3,068,000	5.8%	3,126,400	30,291,700	0	0.0%
MuSU	43,314,700	843,700	44,158,400	(4,731,200)	0	39,427,200	7.3%	13,655,900	6.9%	12,998,900	9.2%	4,939,100	7.4%	3,989,000	7.2%	3,844,300	39,427,200	0	0.0%
NKU	50,297,200	4,631,700	54,928,900	(4,731,200)	0	50,197,700	9.6%	17,989,700	9.3%	17,414,400	8.6%	4,625,100	9.2%	4,963,000	9.7%	5,205,500	50,197,700	0	0.0%
WKU	69,059,200	2,887,500	71,946,700	(4,731,200)	0	67,215,500	12.6%	23,677,400	12.9%	24,332,700	9.8%	5,283,700	13.2%	7,092,500	12.7%	6,829,200	67,215,500	0	0.0%
Sector	\$597,075,100	\$11,444,100	\$608,519,200	(\$59,707,400)	(\$11,444,100)	\$537,367,700	100.0%	\$188,078,600	100.0%	\$188,078,800	100.0%	\$53,736,700	100.0%	\$53,736,700	100.0%	\$53,736,900	\$537,367,700	\$0	0.0%
		1.92%	Increase on 2017-18 Adjusted Net General Fund			Allocated Dollars: Percent of Total:		\$188,078,700 35.0%		\$188,078,700 35.0%		\$53,736,800 10.0%		\$53,736,800 10.0%		\$53,736,800 10.0%	\$537,367,800 100.0%	Math Check	

¹ Small School Adjustment defined as fixed base amount that remains constant when sector total appropriation increases or stays the same, but may be reduced if there is a budget cut.

² Student Success component distributed based on each institution's share of weighted student success outcomes produced (i.e., bachelor's degrees; STEM+H, URM, and low-income bachelor's degrees; and student progression at 30, 60, and 90 credit hour thresholds).

³ Course Completion distributed based on each institution's share of weighted student credit hours earned. Weights reflect differences in costs by course level and discipline, as well as, differences in cost structures and mission between sectors. Credit hours earned by out-of-state students are counted at 50% of similar credit hours earned by in-state students.

⁴ Funding for maintenance and operation (M&O) of facilities distributed based on each institution's share of Category I and Category II square feet, net of research, non-class laboratory, and open laboratory space.

⁵ Institutional Support component distributed based on each institution's share of sector total instruction and student services spending (i.e., share of direct instructional costs).

⁶ Academic Support distributed based on each institution's share of total FTE student enrollment, weighted for differences in cost structures and mission between sectors.

Council on Postsecondary Education
2018-20 Biennial Budget Development Process

Draft - For Discussion Purposes
June 6, 2017

Table 4 - Additional Appropriation Needed to Fund Public University Inflationary Cost Increases (@ 45% State Share)

Fiscal Year 2015-16 Expenditure Data

Spending Category	UK	UofL	EKU	KSU	MoSU	MuSU	NKU	WKU	Total
Direct Costs of Educating Students									
Instruction	\$301,463,000	\$286,693,000	\$94,619,751	\$9,460,901	\$46,762,383	\$68,688,820	\$73,211,000	\$110,706,132	\$991,604,987
Student Services	44,570,000	30,625,000	20,914,604	5,317,646	15,606,236	16,678,323	28,019,000	33,231,140	194,961,949
Total	\$346,033,000	\$317,318,000	\$115,534,355	\$14,778,547	\$62,368,619	\$85,367,143	\$101,230,000	\$143,937,272	\$1,186,566,936
Mission Related (Dollars)									
Instruction + Student Services	\$346,033,000	\$317,318,000	\$115,534,355	\$14,778,547	\$62,368,619	\$85,367,143	\$101,230,000	\$143,937,272	\$1,186,566,936
Research	256,021,000	144,197,000	850,676	6,461,012	2,067,977	1,995,122	1,574,000	7,299,227	420,466,014
Public Service	184,214,000	121,720,000	44,082,183	7,514,740	7,871,431	7,737,975	13,848,000	14,774,737	401,763,066
Total Mission Related	\$786,268,000	\$583,235,000	\$160,467,214	\$28,754,299	\$72,308,027	\$95,100,240	\$116,652,000	\$166,011,236	\$2,008,796,016
Mission Related (Percent)									
Instruction + Student Services	44.0%	54.4%	72.0%	51.4%	86.3%	89.8%	86.8%	86.7%	NA
Research	32.6%	24.7%	0.5%	22.5%	2.9%	2.1%	1.3%	4.4%	NA
Public Service	23.4%	20.9%	27.5%	26.1%	10.9%	8.1%	11.9%	8.9%	NA
Total Mission Related	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	NA
Operational Support									
Academic Support	\$74,600,000	\$134,842,000	\$21,301,922	\$2,859,099	\$10,858,492	\$7,373,974	\$18,148,000	\$19,024,604	\$289,008,091
Institutional Support	58,643,000	69,720,000	31,959,358	10,749,748	17,700,622	22,369,649	29,175,000	43,041,450	283,358,827
Operation and Maintenance	83,420,000	47,746,000	22,091,352	4,627,724	12,607,268	15,711,777	18,820,000	30,443,008	235,467,129
Libraries	22,198,000	0	4,368,699	0	3,581,845	3,833,459	6,006,000	5,894,086	45,882,089
Total Indirect	\$238,861,000	\$252,308,000	\$79,721,331	\$18,236,571	\$44,748,227	\$49,288,859	\$72,149,000	\$98,403,148	\$853,716,136
E&R Spending Calculation									
Instruction	\$301,463,000	\$286,693,000	\$94,619,751	\$9,460,901	\$46,762,383	\$68,688,820	\$73,211,000	\$110,706,132	\$991,604,987
Student Services	44,570,000	30,625,000	20,914,604	5,317,646	15,606,236	16,678,323	28,019,000	33,231,140	194,961,949
Indirect Cost Allocation	105,121,600	137,272,100	57,398,300	9,372,900	38,597,200	44,244,400	62,610,500	85,318,800	539,935,800
Total E&R Spending	\$451,154,600	\$454,590,100	\$172,932,655	\$24,151,447	\$100,965,819	\$129,611,543	\$163,840,500	\$229,256,072	\$1,726,502,736
X Inflation Factor	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Estimated One-Year Cost Increase	\$9,023,100	\$9,091,800	\$3,458,700	\$483,000	\$2,019,300	\$2,592,200	\$3,276,800	\$4,585,100	\$34,530,100

E&R = Education and Related

Note: Over the past 10 years the average annual growth rate in HEPI has been 2.0%.

Assumed Inflation Factor: 2.0%

State Appropriations @ 45.0% → \$15,538,500
Net Tuition and Fee Revenue @ 55.0% → 18,991,600

Source: Kentucky Public Universities, Audited Financial Statements.

\$34,530,100

Council on Postsecondary Education
2018-20 Biennial Budget Development Process

Draft - For Discussion Purposes
June 6, 2017

Table 5 - Additional Appropriation Needed to Fund Growth in Student Outcomes (Public University Example)

Fiscal Year 2019-20

	A	B	(A ÷ B) C	D	B x (1 + D) E	(E - B) F	(C x F) G
Metric Category	Fiscal 2017-18 Formula Amounts	Spring 2017 Outcome Levels	Average Subsidy per Outcome	Assumed 2-Year Growth Factor	Spring 2019 Outcome Levels	Change in Outcomes	Additional Budget Request
Bachelor's Degrees	\$48,363,200	22,314	\$2,167	3.50%	23,095	781	\$1,692,427
STEM+H Degrees	26,868,400	6,667	4,030	3.50%	6,900	233	938,990
URM Degrees	16,121,000	2,232	7,223	3.50%	2,310	78	563,394
Low Income Degrees	16,121,000	11,392	1,415	3.50%	11,791	399	564,585
Progression @ 30	16,121,000	16,759	962	3.50%	17,346	587	564,694
Progression @ 60	26,868,400	17,382	1,546	3.50%	17,990	608	939,968
Progression @ 90	37,615,600	21,132	1,780	3.50%	21,872	740	1,317,200
Earned Credit Hours	188,078,600	4,337,293	\$43	3.50%	4,489,098	151,805	6,527,615
Total Student Outcomes	\$376,157,200						\$13,108,873
			Assumed Annual Growth Factor:	1.75%			

Note: Outcomes have been weighted to reflect differences in cost structures and mission between research and comprehensive universities.

Postsecondary Capital Investment

VFA Study Projected Need versus State Investment 2007 through 2021

(Dollars in Billions)

VFA Study Projections:			Constant 2013 Dollars
Year	Asset Preservation	New Construction	Total
2007-11	\$5.090	\$1.660	\$6.750
2012-16	\$6.300	\$4.310	\$10.610
2017-21	\$7.250	\$7.560	\$14.810

State Investment in E&G Facilities:			Nominal Dollars
Year	Asset Preservation	New Construction	Total
Since 2007	\$0.267	\$0.863	\$1.130

State Investment in Education and General (E&G) Facilities

Biennia 1998-00 through 2016-18

(Dollars and Square Feet in Millions)

66

Over Past 10 Biennia

- \$1.648 billion in new or expanded state funded facilities
- \$495 million in state funded asset preservation
- Ratio of new construction to asset preservation = 3.3 to 1

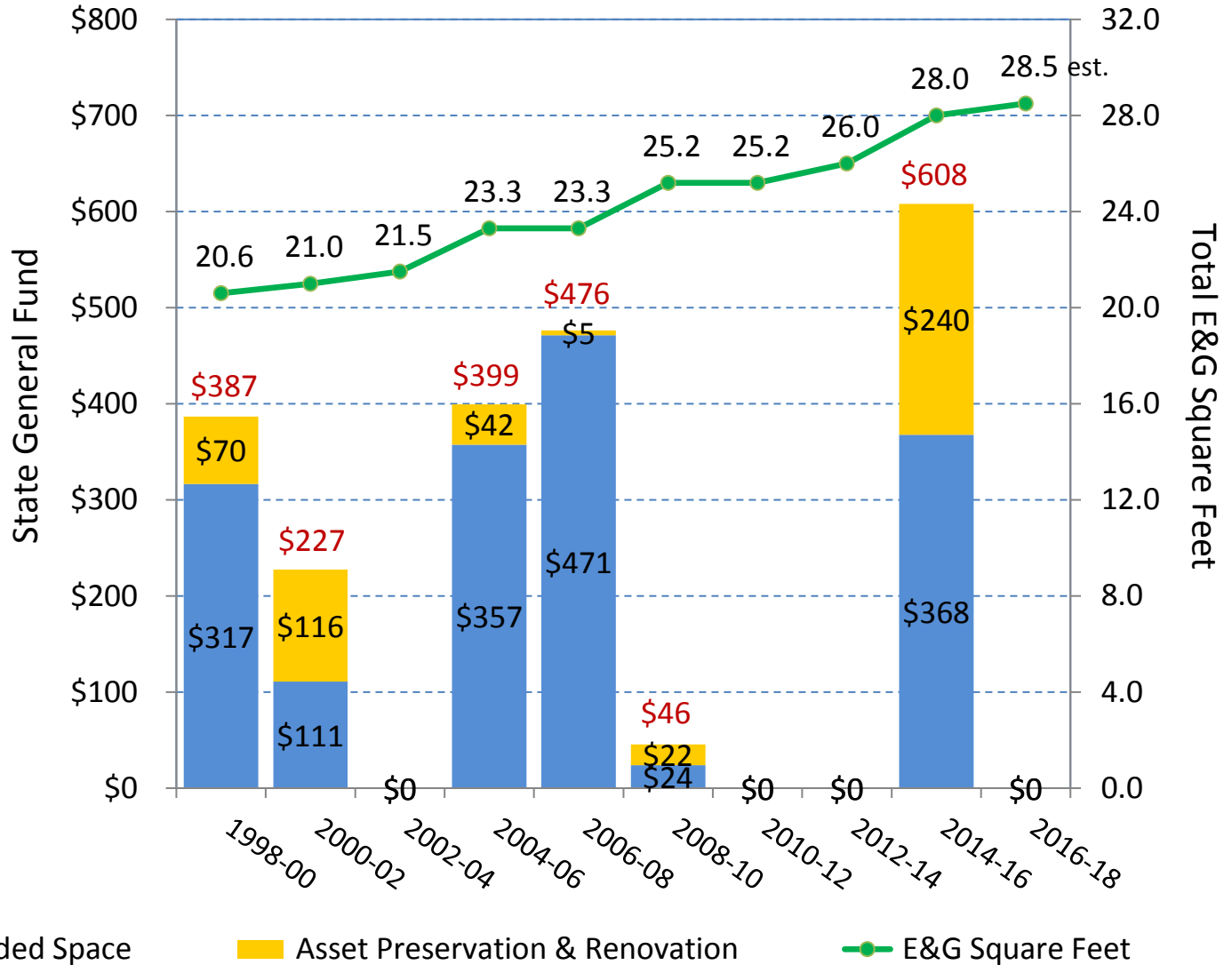


Table 6 - Possible Option for Funding Asset Preservation Projects (Public University Example)

Institution	2015-16 Credit Hours Attempted	Per Credit Hour Fee ⁽¹⁾	Estimated Annual Fee Revenue ⁽²⁾	Percent of Total	Funding Components			Funds for Asset Preservation
					Fee Supported Agency Bonds ⁽³⁾	Postsecondary Institution Match	General Fund Supported Bonds	
UK	708,724	\$10.00	\$7,087,240	26.2%	\$78,672,100	\$78,672,100	\$157,344,200	\$314,688,400
UofL	479,586	10.00	4,795,860	17.7%	53,236,700	53,236,700	106,473,400	212,946,800
EKU	356,747	10.00	3,567,470	13.2%	39,600,900	39,600,900	79,201,800	158,403,600
KSU	37,959	10.00	379,590	1.4%	4,213,700	4,213,700	8,427,400	16,854,800
MoSU	180,383	10.00	1,803,830	6.7%	20,023,500	20,023,500	40,047,000	80,094,000
MuSU	225,403	10.00	2,254,030	8.3%	25,021,000	25,021,000	50,042,000	100,084,000
NKU	304,145	10.00	3,041,450	11.3%	33,761,800	33,761,800	67,523,600	135,047,200
WKU	409,622	\$10.00	4,096,220	15.2%	45,470,300	45,470,300	90,940,600	181,881,200
Sector	2,702,569		\$27,025,690	100.0%	\$300,000,000	\$300,000,000	\$600,000,000	\$1,200,000,000
	Assumed Fee:	\$10.00	Component Percentages:		25.0%	25.0%	50.0%	100.0%
	Annual Cost @ 30 Hours:	\$300.00	Agency Bond Target:		\$300,000,000 ⁽⁴⁾			

⁽¹⁾ System wide per credit hour fee assessed outside of Council tuition and fee ceilings, the revenue from which will be restricted to pay debt service on agency bonds issued to finance asset preservation projects.

⁽²⁾ Fee revenue figures shown are overstated because they do not reflect the fee being capped at 15 credit hours per semester for a full-time undergraduate student.

⁽³⁾ For ease of calculation, the agency bond target amount of \$300,000 is distributed among institutions based on share of total fee revenue generated.

⁽⁴⁾ Annual fee revenue of about \$25.6 million would be required to finance a \$300.0 million agency bond issue at a 5.75% interest rate over 20 years.