

STRONGER by DEGREES



MEETING AGENDA

Budget Development Work Group
Tuesday, October 17, 2017
Conference Room A

The Council on Postsecondary Education is Kentucky's statewide postsecondary and adult education coordinating agency charged with leading the reform efforts envisioned by state policy leaders in the *Kentucky Postsecondary Education Improvement Act of 1997*. The Council does not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or the provision of services, and provides, upon request, reasonable accommodation, including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

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AGENDA

Budget Development Work Group

Council on Postsecondary Education

Tuesday, October 17, 2017

10:00 AM

Conference Room A

-
1. Opening Remarks
 2. Draft 2018-20 Biennial Budget Recommendation 3
 - a. Postsecondary Institutions
 - b. Council on Postsecondary Education
 3. Update on Current Year Agency Budget
 4. Consensus Forecasting Group 43
 - a. Current Year Revenue Estimate
 - b. Preliminary 2018-20 Revenue Estimate
 5. Other Business 52
 6. Adjournment



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Draft 2018-20 Biennial Budget Recommendation

Budget Development Work Group Meeting
October 17, 2017

Overview

1) Postsecondary Institutions

- a) Operating Funds
- b) Trust Funds
- c) Special Initiatives
- d) Capital Projects

2) Council on Postsecondary Education

- a) Operating Funds
- b) Special Initiatives
- c) Capital Projects



Postsecondary Institution Funding Components

Operating Funds

Table 1 - Draft Operating Funds Request
(Dollars in Millions)

Category	2018-19	2019-20
Performance Funding	\$ TBD	\$ TBD
Increase on FY18 Base (\$886.9 M)	TBD%	TBD%



Request Features

→ Performance Funding

- Additional appropriations that reward institutions for student success and course completion outcomes
- If authorized, funding would be appropriated to the Postsecondary Education Performance Fund (PEPF)
- The funding model will be run in the spring each year of the biennium to determine the distribution of appropriated funds



Rationale for Request

→ Performance Funding

- Requested funds will relieve pressure on institutional budgets and lessen magnitude of tuition increases
- Provide resources necessary for institutions to make progress toward attainment of HB 1 goals
- Facilitate transition to the new funding model
- Move funding toward equilibrium allowing smaller institutions to compete more effectively
- Reduce potential reallocation of General Fund base when hold harmless and stop loss provisions end

Trust Funds

Table 2 - Draft Trust Funds Request
(Dollars in Millions)

Category	State Bond Funds	Annual Debt Service
⁶ Bucks for Brains	\$ 90.0	\$ 8.2 ⁽¹⁾

⁽¹⁾ Assumes taxable debt, amortized over a 20-year repayment period at 6.25% interest.

Request Features

→ Bucks for Brains

- Funding that supports growth in endowments, endowed chairs and professorships, and research expenditures at public universities
- If authorized, funding will be housed in trust funds until matched by the institutions (RCTF, CUETF)
- State funds will be matched dollar-for-dollar with institutional funds from external sources
- Both state and campus matching funds will be endowed with investment proceeds available for expenditure (or expended on capital)

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Request Features (Cont'd)

→ Bucks for Brains

- Requested funds will be allocated in accordance with RCTF and CUETF requirements:

UK	\$50 M
UofL	25 M
Comps	<u>15 M</u>
Total	\$90 M

- Funding for the comprehensive universities will be allocated based on net General Fund share
- Investment proceeds may be used to fund endowed chairs and professorships, research staffs and infrastructure, and student scholarships



Rationale for Request

→ Bucks for Brains

- Highly successful program that encourages private investment in higher education research activities
- Matching feature essentially doubles state investment in postsecondary research
- Four rounds of state funding totaling \$410 million with another \$410 million in matching funds
- The program helps attract faculty with established research agendas to Kentucky

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Rationale for Request (Cont'd)

→ Bucks for Brains

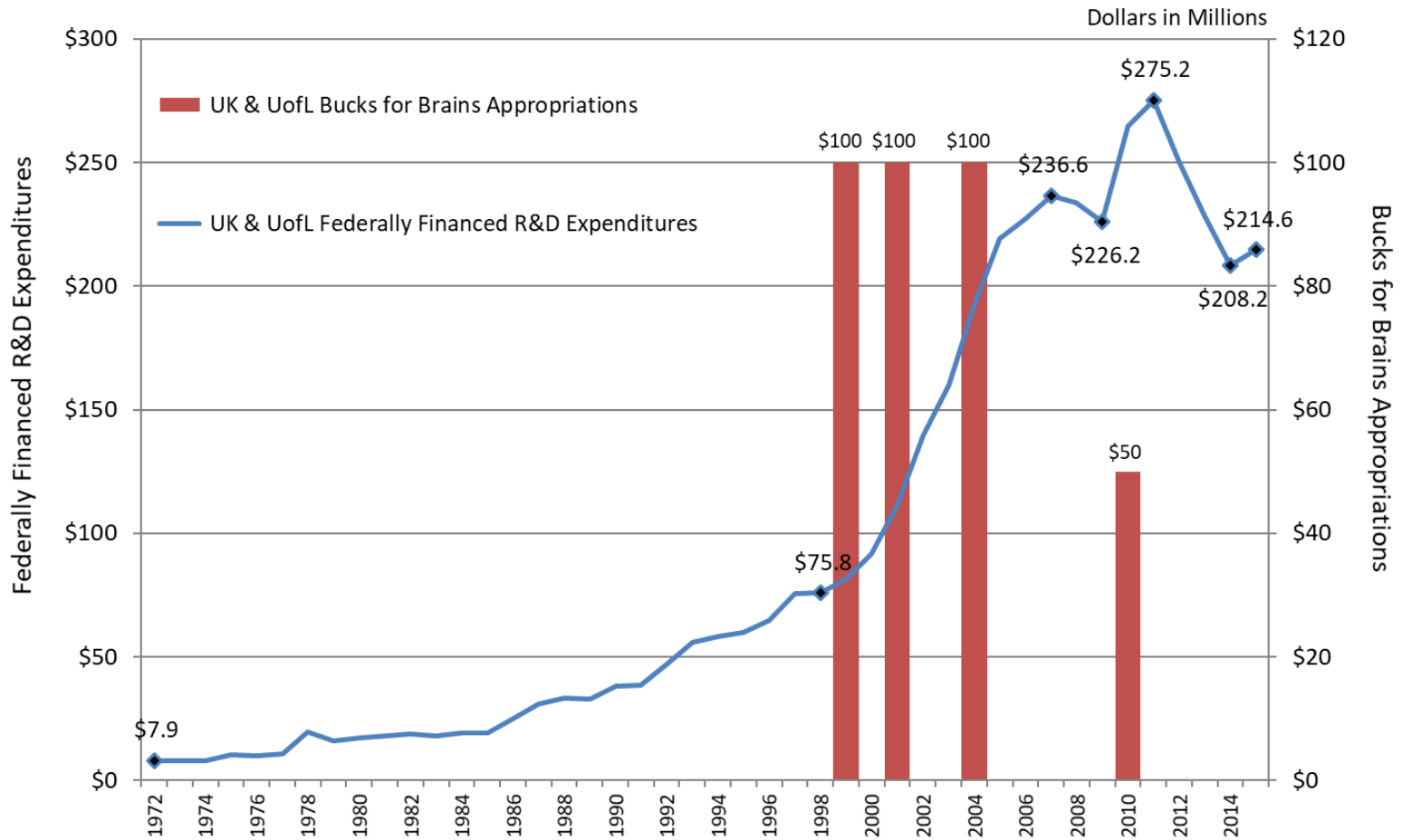
- At UK and UofL combined:
 - Annual giving has more than tripled
 - Market value of endowment assets has more than doubled
 - Number of endowed chairs has more than tripled
 - Federally financed R&D expenditures have nearly tripled

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Federal R&D Expenditures

Bucks for Brains Appropriations and
 Federally Financed Research and Development (R&D) Expenditures
 1972 - 2015



Special Initiatives

Table 3 - Draft Special Initiatives Request
(Dollars in Millions)

Category	2018-19	2019-20
KERS Increases ⁽¹⁾	\$47.2	\$47.2
Competitive Workforce Initiative	3.6	5.9
Total Request	\$50.8	\$53.1

⁽¹⁾ The required employer contribution rate for KERS employees in non-hazardous positions is expected to increase from 49.5% in 2017-18 to 84.1% in 2018-19. Figures shown above are Office of State Budget Director staff estimates as of September 2017.



Request Features

→ KERS Increases

- If authorized, these funds will be used to offset increases in employer paid retirement contributions
- KERS rate for personnel in non-hazardous positions is expected to increase from 49.5% in 2017-18 to 84.1% in 2018-19
- These funds will be allocated among comprehensive universities and KCTCS based on costs incurred
- Any funding received by an institution to offset KERS cost increases will be excluded from funding model

Rationale for Request

→ KERS Increases

- Absent requested funding, KERS cost increases are equivalent to an 8.8% cut, which will strain campus budgets and could result in higher tuition and fees
- Failure to fund these costs would cut institutions in a way that is neither across the board, nor consistent with the new funding model
- State agencies typically receive additional funding to offset KERS cost increases
- If authorized, these funds will help institutions to maintain affordability and access

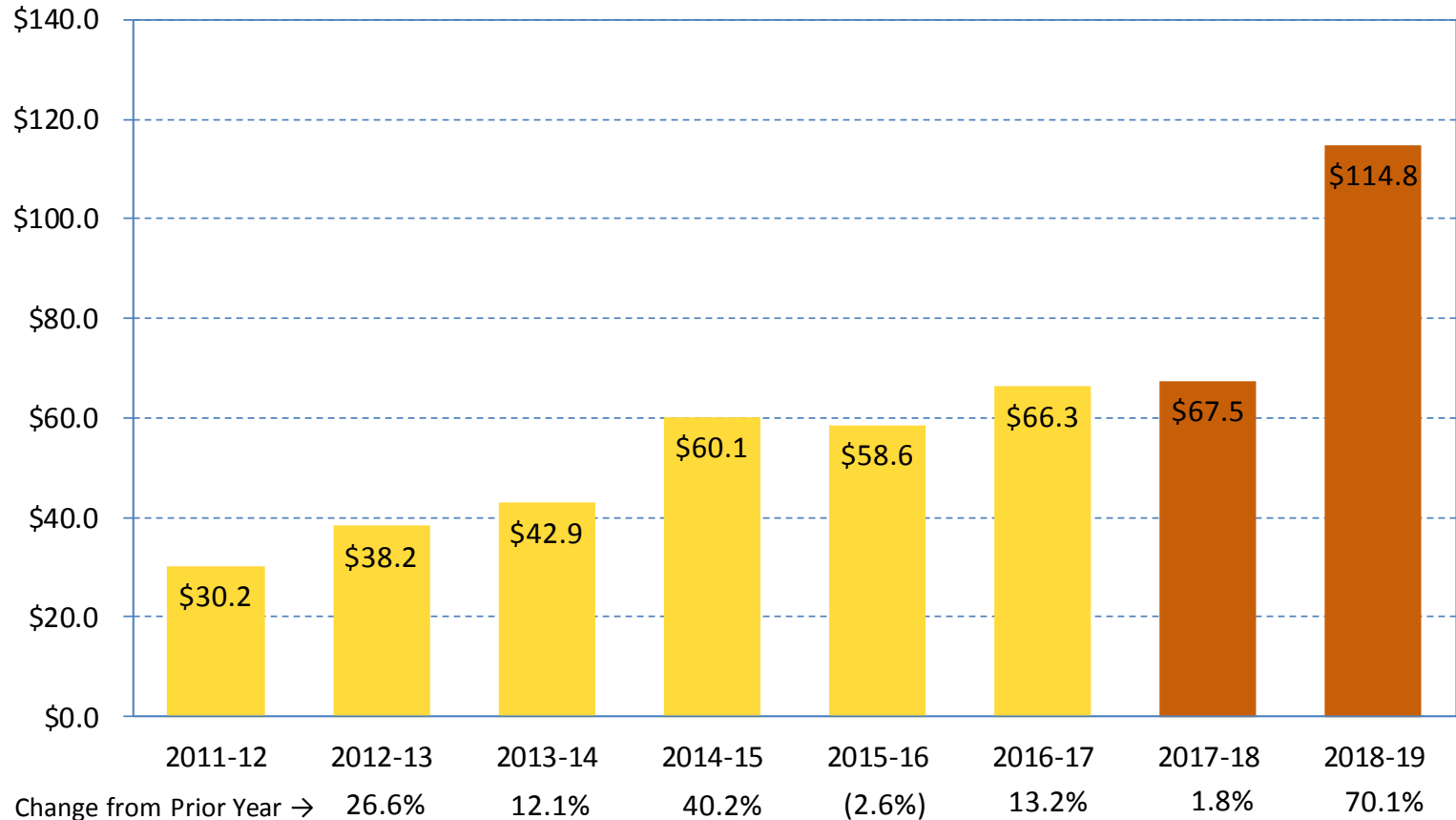
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KERS Contributions

Public Comprehensive University and KCTCS Institution
 Kentucky Employees Retirement System (KERS) Employer Contributions
 Fiscal Years 2011-12 through 2018-19

Dollars
 (In Millions)



■ Kentucky Employees Retirement System Data

■ Office of State Budget Director Estimates

Sources: Kentucky Retirement System; Office of State Budget Director.



Request Features

→ Competitive Workforce Initiative

- Funding to expand workforce education and training in high-wage high-demand fields at KCTCS
- Expansion of existing programs in fields where labor shortages currently exist and are expected to grow
- To avoid unnecessary duplication, colleges will collaborate on programming versus having stand alone programs at each college
- Each one of four designated regions in the state will focus expansion on two targeted industry sectors

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Request Features (Cont'd)

→ Competitive Workforce Initiative (Cont'd)

- If funding is authorized, KCTCS will increase student enrollment in four targeted industry sectors:

<u>Industry Sector</u>	<u>Projected Increase</u>
1) Advanced Manufacturing	665
2) Construction/Trades	161
3) Health Care	1,083
4) Transportation and Logistics	<u>338</u>
Total	2,247

- Tuition revenue is expected to cover about 66% of expansion costs (i.e., \$11.5 million of \$17.5 million total)

Rationale for Request

→ Competitive Workforce Initiative

- Kentucky's workforce participation rate lags behind national average/there are shortages of skilled labor
- The state needs to add 165,000 people to the workforce to close the gap
- KCTCS is statutorily mandated to provide workforce education and training
- If authorized, these funds would make Kentucky's workforce more competitive and help attract, retain, and grow business and industry in the state

Capital Projects

Table 4 - Draft Capital Projects Request
(Dollars in Millions)

Category	State Bond Funds	Annual Debt Service
Asset Preservation	\$600.0	\$ 50.9 ⁽¹⁾
New and Expanded Space	0.0	0.0
Total Request	\$600.0	\$ 50.9
Institutionally Funded Project Authorization		TBD

(1) Assumes tax-exempt debt, amortized over a 20-year repayment period at 5.35% interest.



Request Features

→ Asset Preservation

- State funds will be matched dollar for dollar with institutional funds, providing \$1.2 billion total to address one-fifth of the identified need (VFA, 2013)
- State funds will be allocated to institutions based on VFA-identified need at each campus
- Institutions will choose from among E&G Asset Preservation projects in the enacted budget or fund projects below the \$1.0 M capital threshold with CPE approval

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Rationale for Request

→ Asset Preservation

- Campuses have a significant need for asset preservation funding, which has not been addressed with state funds
- Over five biennia, state has appropriated \$262 M for asset preservation projects versus a \$7.0 billion need
- Addressing a need of this magnitude requires a partnership on the part of the state, institutions, and students and families

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State Investment in Facilities

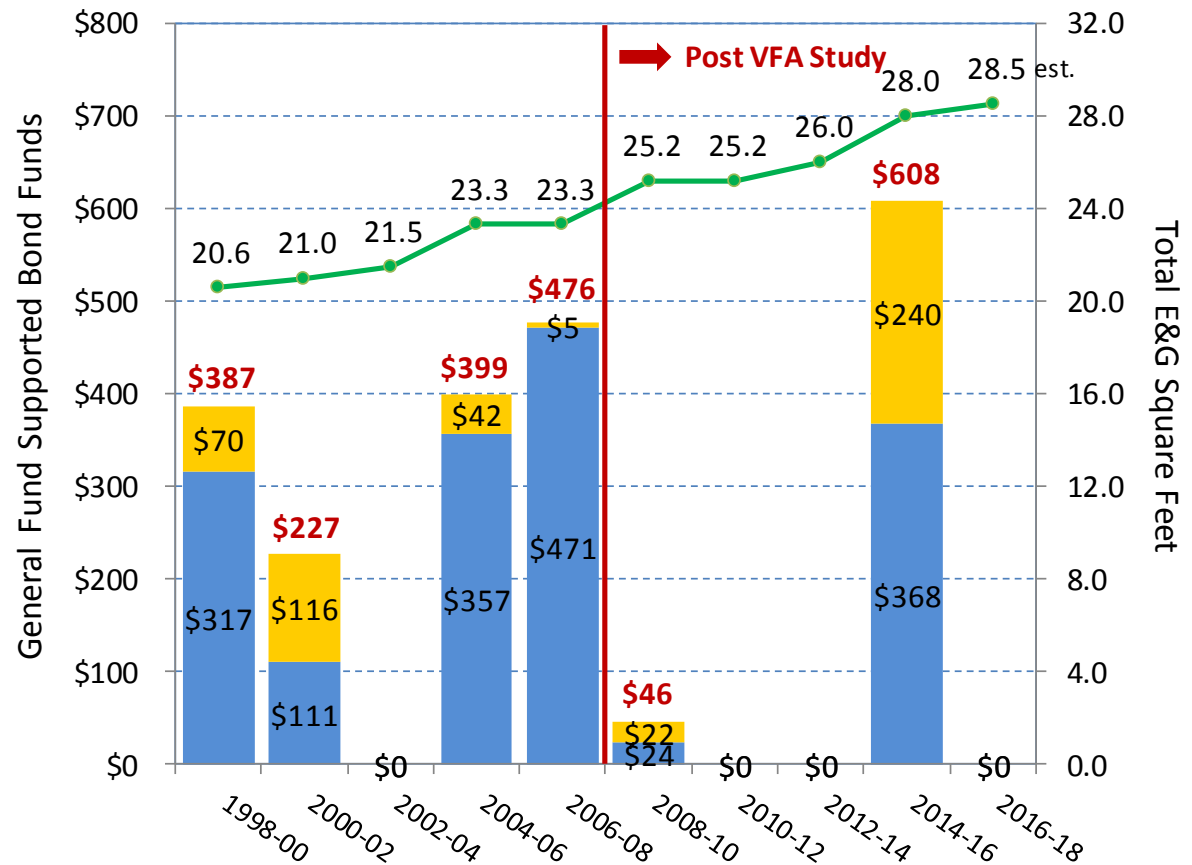
State Investment in Education and General (E&G) Facilities

Biennia 1998-00 through 2016-18

(Dollars and Square Feet in Millions)

Over Past 10 Biennia

- \$1.6 billion in new or expanded state funded E&G facilities
- \$495 million in state funded asset preservation
- Ratio of new construction to asset preservation = 3.3 to 1



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■ New & Expanded Space

■ Asset Preservation & Renovation

● E&G Square Feet

Need versus State Investment

Projected Asset Preservation Need versus State Investment
Fiscal Years 2007 through 2021

VFA Study Projections:

<u>Time Period</u>	<u>Projected Asset Preservation Need ¹</u>
2007-2011	\$5.1 billion
2012-2016	6.3 billion
2017-2021	\$7.3 billion

¹ Cumulative need

State Investment:

<u>Biennium</u>	<u>Appropriations for Asset Preservation</u>
2008-10	\$22.0 million
2010-12	0.0
2012-14	0.0
2014-16	240.0 million
2016-18	0.0
	<u>\$262.0 million</u>

- During the past five biennia, the state has funded about 3.6% of an estimated total \$7.3 billion asset preservation need





Council on Postsecondary Education Funding Components

Operating Funds

Table 5 - Draft Agency Operations Request (CPE)

Category	2018-19	2019-20
Defined Calculations	TBD	TBD
Contract Spaces	698,200	698,200
Total Request	\$TBD	\$TBD
Increase on FY18 Base (\$23.9 M)	TBD	TBD

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Request Features

→ Defined Calculations

- Additional appropriations to offset mandated KERS cost increases and provide a 1.0% salary increment
- Requests required by Branch Budget Guidelines

→ Contract Spaces

- Additional appropriations to cover tuition and fee increases in two Contract Spaces programs
- If authorized, these funds will allow CPE to maintain 164 veterinary medicine and 44 optometry spaces for Kentucky students

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Rationale for Request

→ Defined Calculations

- These requests are required part of every Executive Branch agency's budget request
- Funding amounts are communicated to CPE by the state budget office

→ Contract Spaces

- This additional funding is needed to fund increases in the Contract Spaces rates, which are not established by officials in Kentucky

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Operating Funds (Cont'd)

Table 6 - Draft Adult Education Request (CPE)

Category	2018-19	2019-20
Kentucky Adult Education ⁽¹⁾	\$352,800	\$705,600
Increase on FY18 Base (\$17.6 M)	2.0%	4.0%

⁽¹⁾ Additional appropriations for Kentucky Adult Education local program providers.

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Request Features

→ Kentucky Adult Education

- The Council's request for Adult Education typically mirrors the percent increase for postsecondary institutions
- The 2.0% increases requested each year of the biennium are consistent with the average increase in HEPI over the past decade
- This increase will support local program providers in all 120 counties in Kentucky and will be distributed based on performance

Rationale for Request

→ Kentucky Adult Education

- 345,000 working-age Kentuckians have no high school diploma or equivalent/ 128,000 of these residents are Medicaid recipients
- Investments in this “most in need” population can provide significant savings in state expenditures
- General Fund support for Kentucky Adult Education has been reduced by 29.5% since 2008
- New Medicaid requirements are expected to increase the number of students served

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Special Initiatives

Table 7 - Draft Special Initiatives Request (CPE)

Category	2018-19	2019-20
Military Student Initiative	\$ 260,000	\$ 260,000
Adult Learner Initiative	2,000,000	2,000,000
Total Request	\$2,260,000	\$2,260,000

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Request Features

→ Military Student Initiative

- Operational funds will support two staff to coordinate efforts to transition members of the military, veterans, and their families to postsecondary institutions and the workforce

→ Adult Learner Initiative

- Operational funds will support the start-up infrastructure and implementation costs, faculty professional development, technology marketing and outreach efforts and strategic partnerships

Rationale for Request

→ Military Student Initiative

- This initiative will attract service members, veterans and their families to Kentucky and to state colleges and universities
- Credit for prior learning and military experience will help these students progress
- Staff is needed to coordinate this important initiative to assist members of the military, veterans and their families in transitioning to postsecondary education and the civilian workforce in Kentucky

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Rationale for Request (Cont'd)

→ Adult Learner Initiative

- There are not enough K-12 students graduating to meet the state's projected workforce needs. In order to meet state goals, the state must find a way to reach the large number of working age adults without a college degree

Capital Projects

Table 8 - Draft Capital Projects Request (CPE)

Category	State Bond Funds	Annual Debt Service ⁽²⁾
Military Student Initiative	\$ 2,000,000	\$ 348,000
Adult Learner Initiative ⁽¹⁾	4,000,000	690,000
Regional Optical Network	1,000,000	177,000
Total Request	\$ 7,000,000	\$1,215,000

⁽¹⁾ These funds would be necessary only if the state chose the Commonwealth College option, as opposed to Western Governor's University.

⁽²⁾ Tax-exempt debt, amortized over a seven-year repayment period at 4.20% interest.



Request Features

→ Military Student Initiative

- This capital project will create an online portal to articulate competencies acquired through military training and experiences into college credit. It will require a centralized catalog of programs and modules to facilitate degree program comparisons

→ Adult Learner Initiative

- This capital project will create a centralized catalog of programs and modules and will seamlessly integrate the one-stop homepage and help desk with the education-delivering institutions' sites

Request Features (Cont'd)

→ Regional Optical Network

- Capital project to provide networking equipment to support the integration of Internet2 applications into the teaching and learning environment on the KentuckyWired fiber optic network
- Costs of connecting each campus to KentuckyWired will likely be passed on to institutions if this project is not funded

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Draft 2018-20 Biennial Budget Recommendation

Budget Development Work Group Meeting
October 17, 2017

Council on Postsecondary Education
 2018-20 Biennial Budget Development Process
 Table 1 - Alternative Performance Funding Request Scenarios

Scenario 1: Minimum to Achieve Equilibrium in Combination with Hold Harmless

Funding Model Sector	Fiscal Year 2018-19	Fiscal Year 2019-20
Public Universities ¹	\$11,444,100	\$21,042,200
KCTCS Institutions ²	3,248,900	5,973,700
Postsecondary System	\$14,693,000	\$27,015,900
Percent Increase on FY18 Base (\$886.9)	1.66%	3.05%

Scenario 2: Amount Required to Bring UofL Hold Harmless Allocation to Zero

Funding Model Sector	Fiscal Year 2018-19	Fiscal Year 2019-20
Public Universities ³	\$14,750,100	\$28,438,700
KCTCS Institutions ²	4,187,400	8,073,500
Postsecondary System	\$18,937,500	\$36,512,200
Percent Increase on FY18 Base (\$886.9)	2.14%	4.12%

¹ Minimum amount of funding required to achieve equilibrium in the first year through a combination of additional appropriations and hold harmless allocations in equal proportions, doubled in the second year.

² Requested additional appropriations to be distributed using the KCTCS performance funding model, calculated to maintain the two-year college proportion of system total adjusted net General Fund appropriations, relative to the public universities.

³ Amount required to bring UofL's hold harmless allocation to zero in the first year through a combination of additional appropriations and hold harmless allocations in unequal proportions, doubled in the second year.

CONSENSUS FORECASTING GROUP

- Current Year Revenue Estimate
- Preliminary 2018-20 Revenue Estimate



Office of State Budget Director
284 Capitol Annex, 702 Capitol Avenue
Frankfort, Kentucky 40601

Matthew G. Bevin
Governor

(502) 564-7300
Internet: osbd.ky.gov

John E. Chilton
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

September 29, 2017

Dr. Frank O'Conner
Chairman, Consensus Forecasting Group
113 Whispering Woods Drive
Richmond, KY 40475

Dear Chairman O'Conner:

It is my understanding that the Consensus Forecasting Group (CFG) will meet on Friday, October 13, 2017 in accordance with KRS 48.120 (2) to provide preliminary revenue estimates for the current and next two fiscal years.

Pursuant to the discretion vested to me in KRS 48.115 (2), I am asking for an official revision to the official revenue estimate for the current fiscal year, FY18, during your normal October meeting referenced above. I realize that the new FY18 official estimate will be supplanted by the estimates adopted in December pursuant to KRS 48.120 (3) – the official revenue estimates that govern appropriations enacted for each branch of government. Notwithstanding this short shelf life, it remains imperative to have the maximum amount of time to face the current-year budgetary challenges in the Commonwealth should a shortfall occur.

Thank you for your continued service to Kentucky through participation in the CFG process. Your time and talents are very much appreciated.

Sincerely,

John E. Chilton
State Budget Director

c: Governor Matthew G. Bevin
Consensus Forecasting Group



Office of State Budget Director
284 Capitol Annex, 702 Capitol Avenue
Frankfort, Kentucky 40601

Matthew G. Bevin
Governor

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John E. Chilton
State Budget Director

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

October 11, 2017

Dr. Frank O'Conner
Chairman, Consensus Forecasting Group
113 Whispering Woods Drive
Richmond, KY 40475

Dear Chairman O'Conner:

I sent you a letter dated September 29, 2017, asking for an official revision to the official revenue estimate for the current fiscal year, FY18, during your October meeting. It occurs to me that I should have been more specific in my request. In particular, my request for an official revision applies only to the General Fund, not the Road Fund or MSA Tobacco Fund. Neither of the other two funds require immediate attention as they are running much closer to the official estimates.

I look forward to seeing you on Friday. If you have any questions please feel free to call me or we can talk Friday morning before the meeting if that is more convenient.

Sincerely,

John E. Chilton
State Budget Director

c: Governor Matthew G. Bevin
Consensus Forecasting Group

48.115 Planning report, preliminary revenue estimates, and official revenue estimates required by KRS 48.120 to be developed by consensus forecasting group -- Revision of official revenue estimates -- Threshold for implementation of enacted budget reduction plan.

- (1) The revenue estimates for the general fund and the road fund required by KRS 48.120 shall be based on a consensus revenue forecast. The planning report, preliminary revenue estimates, and official revenue estimates required by KRS 48.120 shall be developed by the consensus forecasting group. The members of the consensus forecasting group shall be jointly selected by the state budget director and the Legislative Research Commission. The members shall be knowledgeable about the state and national economy and the revenue and financial conditions of the Commonwealth.
- (2) If the Legislative Research Commission or state budget director determines that a revision to the official revenue estimates is needed, the Legislative Research Commission or state budget director shall request a revision from the consensus forecasting group. The revised revenue estimates shall become the official revenue estimates.
- (3) The enacted budget reduction plan required by KRS 48.130 shall be implemented only:
 - (a) Upon the issuance of an official revenue estimate from the consensus forecasting group reflecting a revenue shortfall of five percent (5%) or less; or
 - (b) At the end of a fiscal year, upon the existence of an actual revenue shortfall of five percent (5%) or less, as determined by the Office of State Budget Director.
- (4) The state budget director shall coordinate with the Department of Revenue and the Transportation Cabinet to ensure that the financial and revenue data required for the forecasting process is made available to the consensus forecasting group.
- (5) Staff for the consensus forecasting group shall be provided by the Legislative Research Commission.

Effective: June 25, 2009

History: Amended 2009 Ky. Acts ch. 78, sec. 4, effective June 25, 2009. -- Amended 2005 Ky. Acts ch. 85, sec. 77, effective June 20, 2005. -- Amended 2003 Ky. Acts ch. 151, sec. 1, effective June 24, 2003. -- Amended 2000 Ky. Acts ch. 46, sec. 14, effective July 14, 2000. -- Created 1996 Ky. Acts ch. 14, sec. 1, effective July 15, 1996.

48.120 Budget planning report and preliminary and official revenue estimates to be provided by Office of State Budget Director -- Appropriations to be based on official revenue estimates.

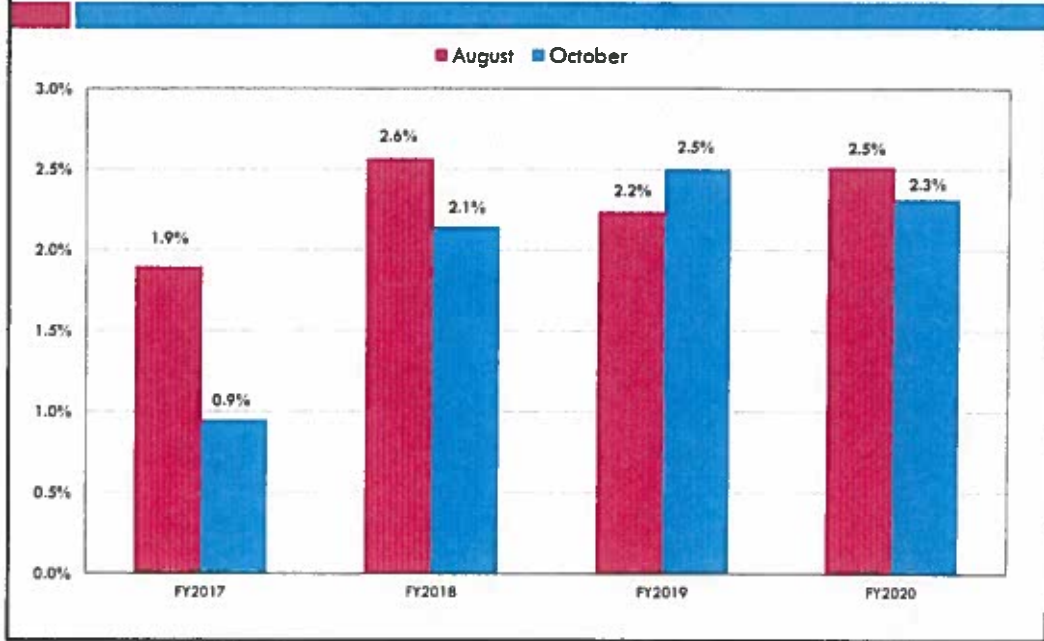
- (1) By August 15 of each odd-numbered year, the Office of State Budget Director, in conjunction with the consensus forecasting group, shall provide to each branch of government a budget planning report. The budget planning report shall include:
 - (a) A baseline analysis and projections of economic conditions and outlook;
 - (b) Any potential consequences of the analysis and projections for the Commonwealth's fiscal condition;
 - (c) The revenue estimates and implications for the general fund and road fund for the current fiscal year and next four (4) fiscal years; and
 - (d) Projections of personal income, employment, and economic indicators that reflect economic conditions.
- (2) By October 15 of each odd-numbered year, the Office of State Budget Director shall provide to each branch of government preliminary revenue estimates made by the consensus forecast group for the general fund and road fund for the current and next two (2) fiscal years, including explanatory statements, and a comparative record of the actual revenues of these funds for each of the last two (2) years concluded.
- (3) On or before the fifteenth legislative day, the Office of State Budget Director shall certify and present to the General Assembly the official revenue estimates made by the consensus forecasting group for the general fund and road fund for the current and next two (2) fiscal years.
- (4) Appropriations made in the branch budget bills enacted for each branch of government shall be based upon the official revenue estimates presented to the General Assembly by the Office of State Budget Director under subsection (3) of this section, as modified by the General Assembly.
- (5) The enacted estimates shall become the official revenue estimates of the Commonwealth upon the branch budget bills becoming law, and shall remain the official revenue estimates of the Commonwealth until revised by the consensus forecasting group as provided in KRS 48.115.

Effective: June 25, 2009

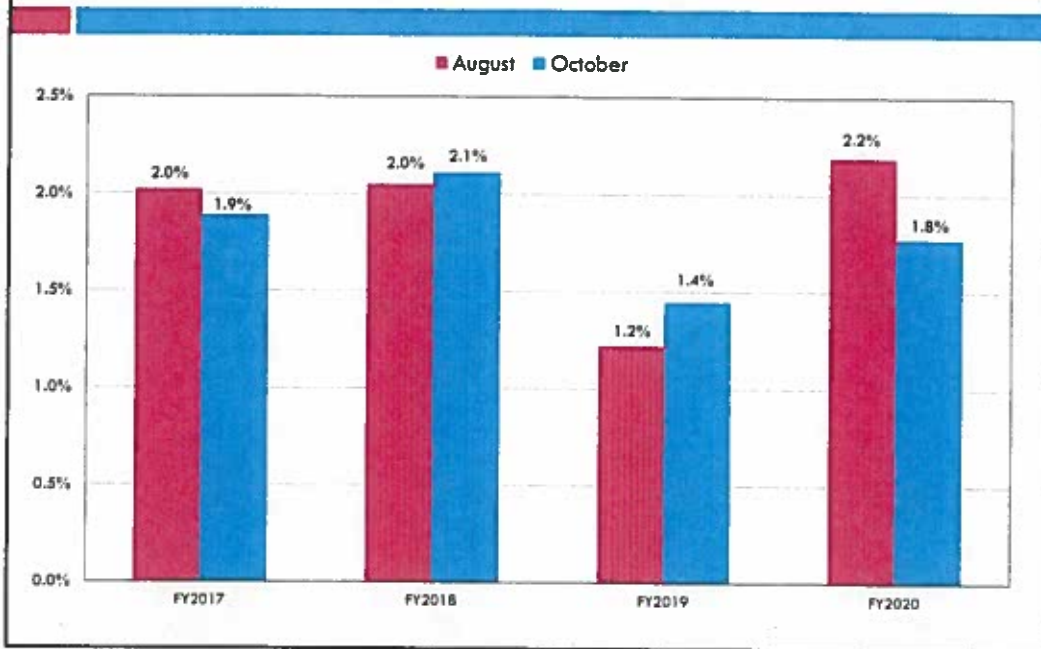
History: Amended 2009 Ky. Acts ch. 78, sec. 5, effective June 25, 2009. -- Amended 2000 Ky. Acts ch. 46, sec. 16, effective July 14, 2000. -- Amended 1996 Ky. Acts ch. 14, sec. 2, effective July 15, 1996. -- Amended 1990 Ky. Acts ch. 507, sec. 8, effective July 13, 1990. -- Amended 1988 Ky. Acts ch. 273, sec. 4, effective July 15, 1988. -- Created 1982 Ky. Acts ch. 450, sec. 12, effective July 1, 1983.

2016-2018 Budget Reference. See State/Executive Branch Budget, 2016 Ky. Acts ch. 149, Pt. III, 33 at 1133.

Real Personal Income - Pessimistic Forecast (Global Insight Forecast, Annual Growth Rates)



Real GDP – Pessimistic Forecast (Global Insight Forecast, Annual Growth Rates)



10/13/2017

FY 2018 - 2020 GENERAL FUND REVENUE FORECAST ANALYSIS
(in millions)

August 2017 FY 2018 CFG Planning Estimate	October 2017 FY 2018 CFG Preliminary Estimate	Difference
\$10,668.2	\$10,718.8	\$50.6

August 2017 FY 2019 CFG Planning Estimate	October 2017 FY 2019 CFG Preliminary Estimate	Difference
\$10,952.9	\$11,011.1	\$58.2

August 2017 FY 2020 CFG Planning Estimate	October 2017 FY 2020 CFG Preliminary Estimate	Difference
\$11,267.9	\$11,306.3	\$38.4

General Fund
GOEA Pessimistic Forecast FY18 - FY20
(Millions of Dollars)
October 2017

<u>Pessimistic Scenario</u>	<u>FY17</u>		<u>FY18</u>		<u>FY18</u>		<u>FY19</u>		<u>FY20</u>	
	Actual	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg	Estimate	%Chg
Individual Income	4,393.9	2.6	4,587.9	4.4	4,587.9	4.4	4,722.5	2.9	4,836.2	2.4
Sales and Use	3,485.2	0.7	3,528.7	1.2	3,528.7	1.2	3,602.6	2.1	3,680.3	2.2
Property	602.1	4.3	607.9	1.0	607.9	1.0	620.7	2.1	635.1	2.3
Corporation Income	497.5	-5.5	560.8	12.7	560.8	12.7	610.4	8.8	677.0	10.9
LLET	245.6	21.0	186.9	-23.9	186.9	-23.9	203.5	8.9	225.7	10.9
Coal Severance	100.5	-16.7	92.4	-8.0	92.4	-8.0	92.1	-0.3	79.1	-14.1
Cigarette	221.4	-1.3	217.3	-1.9	217.3	-1.9	214.5	-1.3	211.2	-1.5
Lottery	241.6	-0.1	243.0	0.6	243.0	0.6	249.0	2.5	256.0	2.8
Other	690.1	-2.6	693.9	0.6	693.9	0.6	695.8	0.3	705.7	1.4
Total General Fund	10,477.8	1.7	10,718.8	2.3	10,718.8	2.3	11,011.1	2.7	11,306.3	2.7

<u>Compared to</u>	<u>FY17</u>		<u>FY18</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
	Official	%Chg	Official	Aug-Pess	Aug-Pess	Aug-Pess
Individual Income	4,411.1	3.0	4,588.6	4,554.7	4,672.9	4,796.8
Sales and Use	3,539.8	4.3	3,638.4	3,507.8	3,601.5	3,691.7
Property	585.2	0.2	598.7	600.8	612.6	625.9
Corporation Income	579.4	11.2	553.1	559.8	610.9	675.7
LLET	223.7	12.3	221.6	186.6	203.6	225.2
Coal Severance	120.7	0.1	107.6	101.0	87.0	72.9
Cigarette	222.5	-3.2	220.5	219.2	218.0	216.5
Lottery	236.0	0.9	241.0	243.0	249.0	256.0
Other	698.0	-1.0	704.9	695.4	697.4	707.1
Total General Fund	10,616.4	2.7	10,874.4	10,668.2	10,952.9	11,267.9

<u>Difference</u>	<u>FY17</u>	<u>FY18</u>			
Individual Income	(17.2)	(0.7)	33.2	49.6	39.4
Sales and Use	(54.6)	(109.7)	20.9	1.1	(11.4)
Property	16.9	9.2	7.1	8.1	9.2
Corporation Income	(81.9)	7.7	1.0	(0.5)	1.3
LLET	21.9	(34.7)	0.3	(0.1)	0.5
Coal Severance	(20.2)	(15.2)	(8.6)	5.1	6.2
Cigarette	(1.1)	(3.2)	(1.9)	(3.5)	(5.3)
Lottery	5.6	2.0	-	-	-
Other	(7.9)	(11.0)	(1.5)	(1.6)	(1.4)
Total General Fund	(138.5)	(155.6)	50.6	58.2	38.4



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Factors Influencing College Affordability in Kentucky

Aaron Thompson, Executive Vice President
Kentucky Council on Postsecondary Education
October 17, 2017

Overview

- What are some of the major challenges to maintaining college affordability in Kentucky?
- How are policymakers and the postsecondary education community addressing these issues?
- How are we doing? What is the current status of college affordability in Kentucky?

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Challenges to College Affordability

Major Challenges

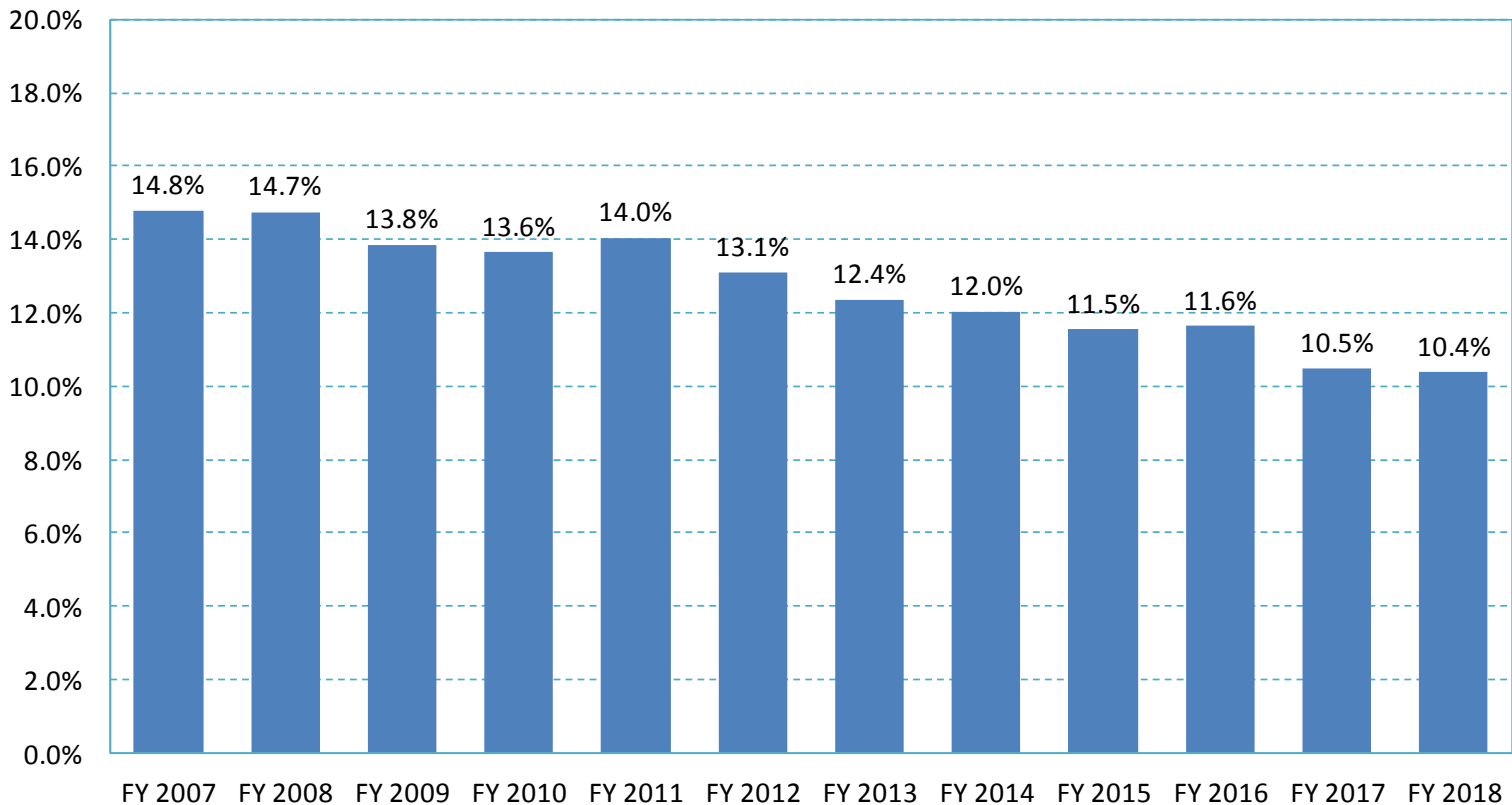
- Over time postsecondary education has become less of a priority in state budgets
- Public colleges and universities have sustained a decade of funding cuts, with no reinvestment in sight
- There has been a shifting of responsibility for M&O and other costs from the state to institutions
- Mandated rate increases have more than doubled KERS employer paid retirement contributions
- The gap between eligible applicant need and funding for state need-based aid programs has widened

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Declining Share of State Budgets

Commonwealth of Kentucky
Postsecondary Education's Share of State General Fund Budgets
Fiscal Years 2006-07 through 2017-18



Note: Postsecondary education includes regular appropriations for KHEAA, CPE, and public postsecondary institutions.

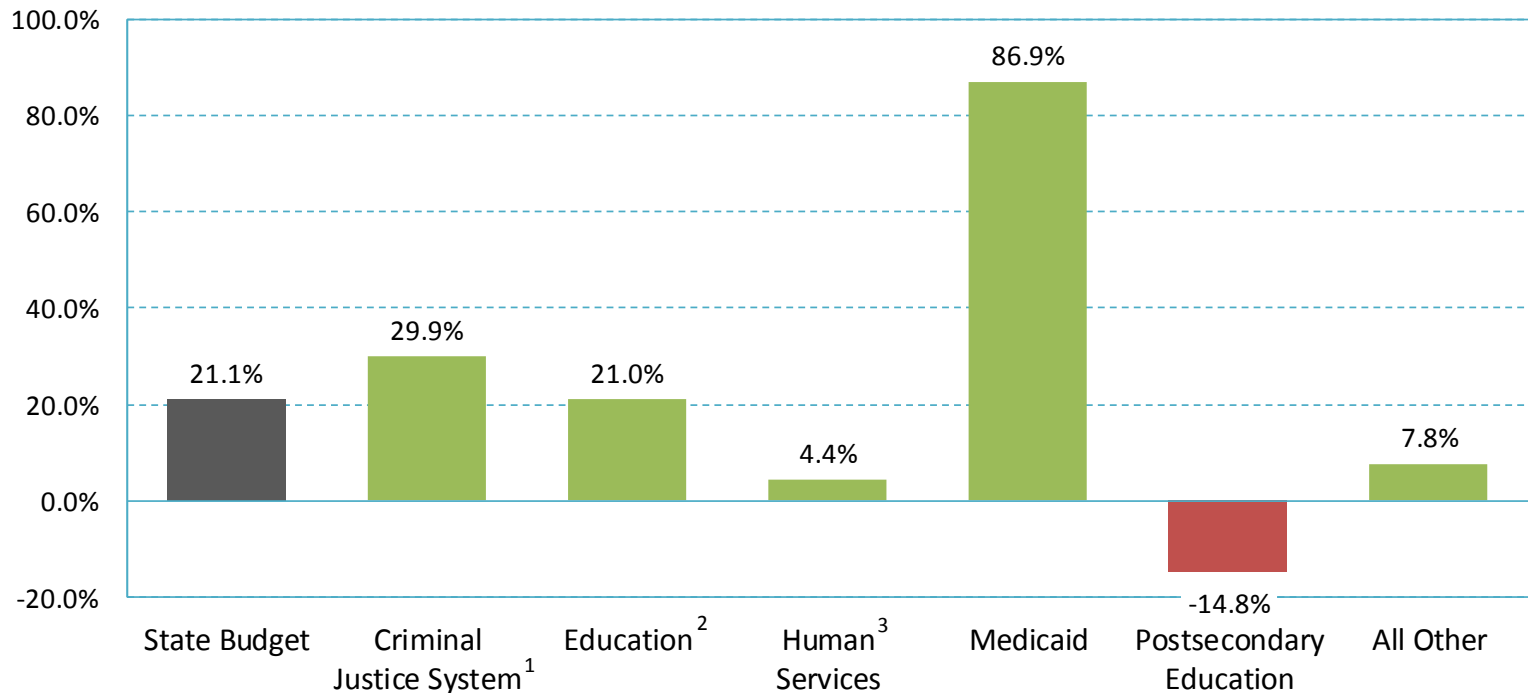
Source: Kentucky Budgets of the Commonwealth, various years.



Focus on Other Priorities

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Commonwealth of Kentucky
 Change in State General Fund Appropriations
 Between Fiscal Years 2007-08 and 2017-18



¹ Criminal Justice includes the Unified Prosecutorial System, Justice and Public Safety Cabinet, and the Judicial Branch.

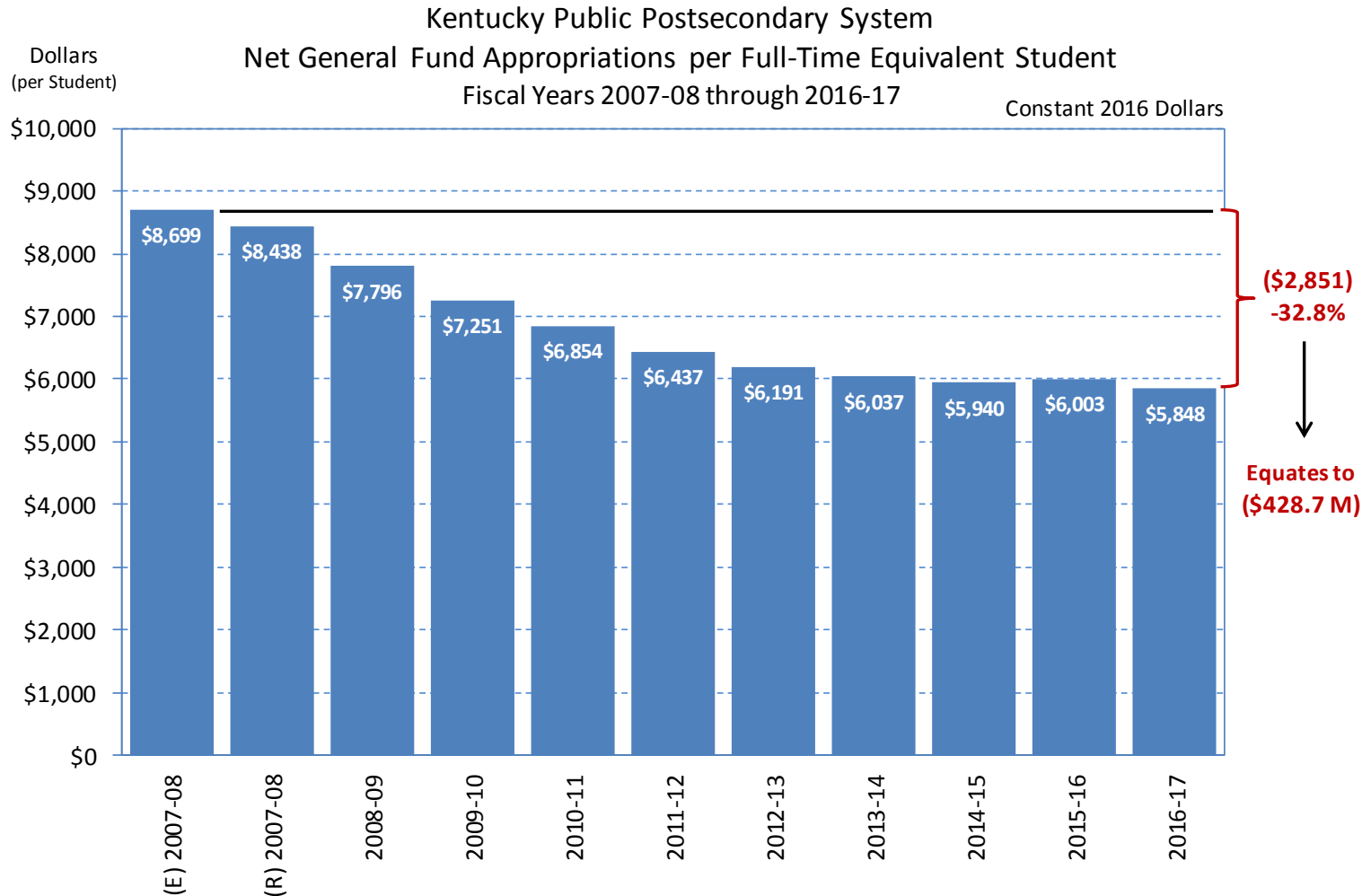
² Education includes the Department of Education, Teachers' Retirement System, School Facilities Construction Commission, and Education Professional Standards board.

³ Human Services includes the Health and Family Services Cabinet (net of Medicaid).

Source: Kentucky Budgets of the Commonwealth, various years.



Decade of Funding Cuts



05

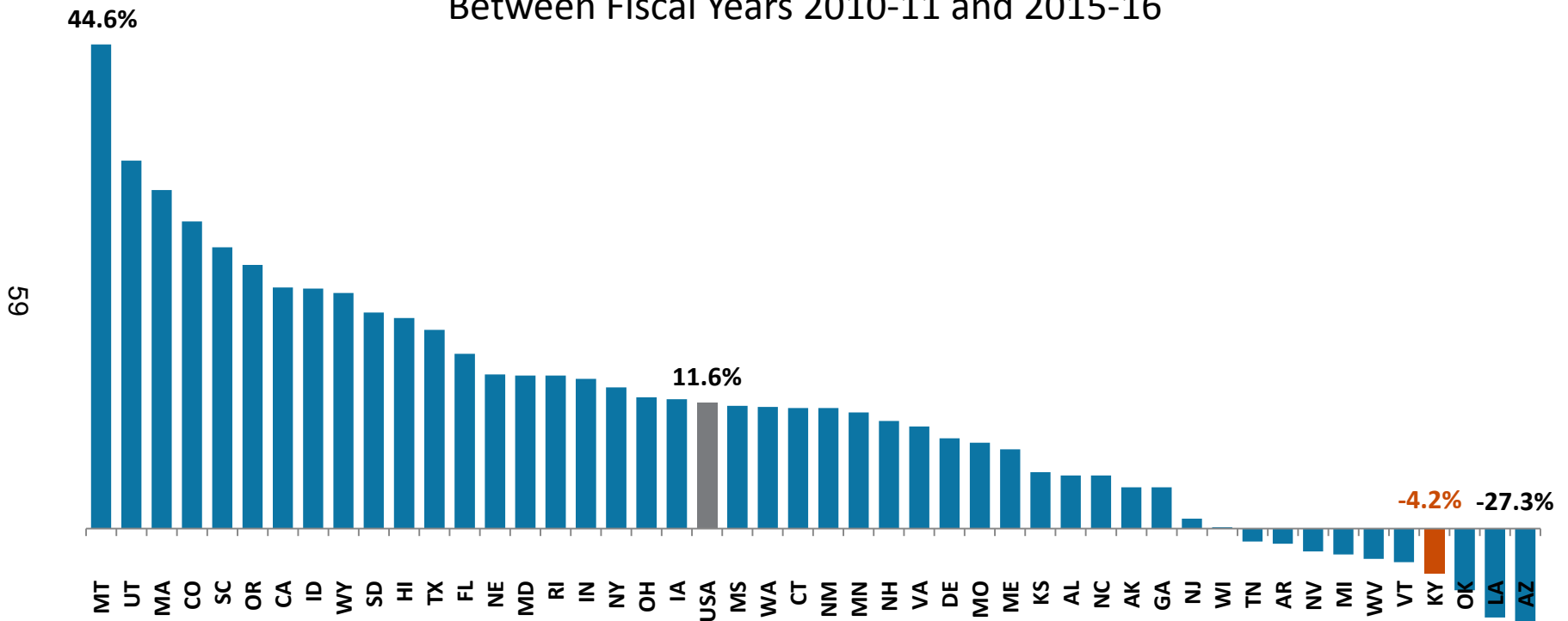


(E) = Enacted; (R) = Revised.

Sources: Kentucky Budget of the Commonwealth, multiple biennia; Commonfund Institute, HEPI; CPE, Comprehensive Database.

Most States Reinvesting

Change in State Support for Higher Education
Between Fiscal Years 2010-11 and 2015-16



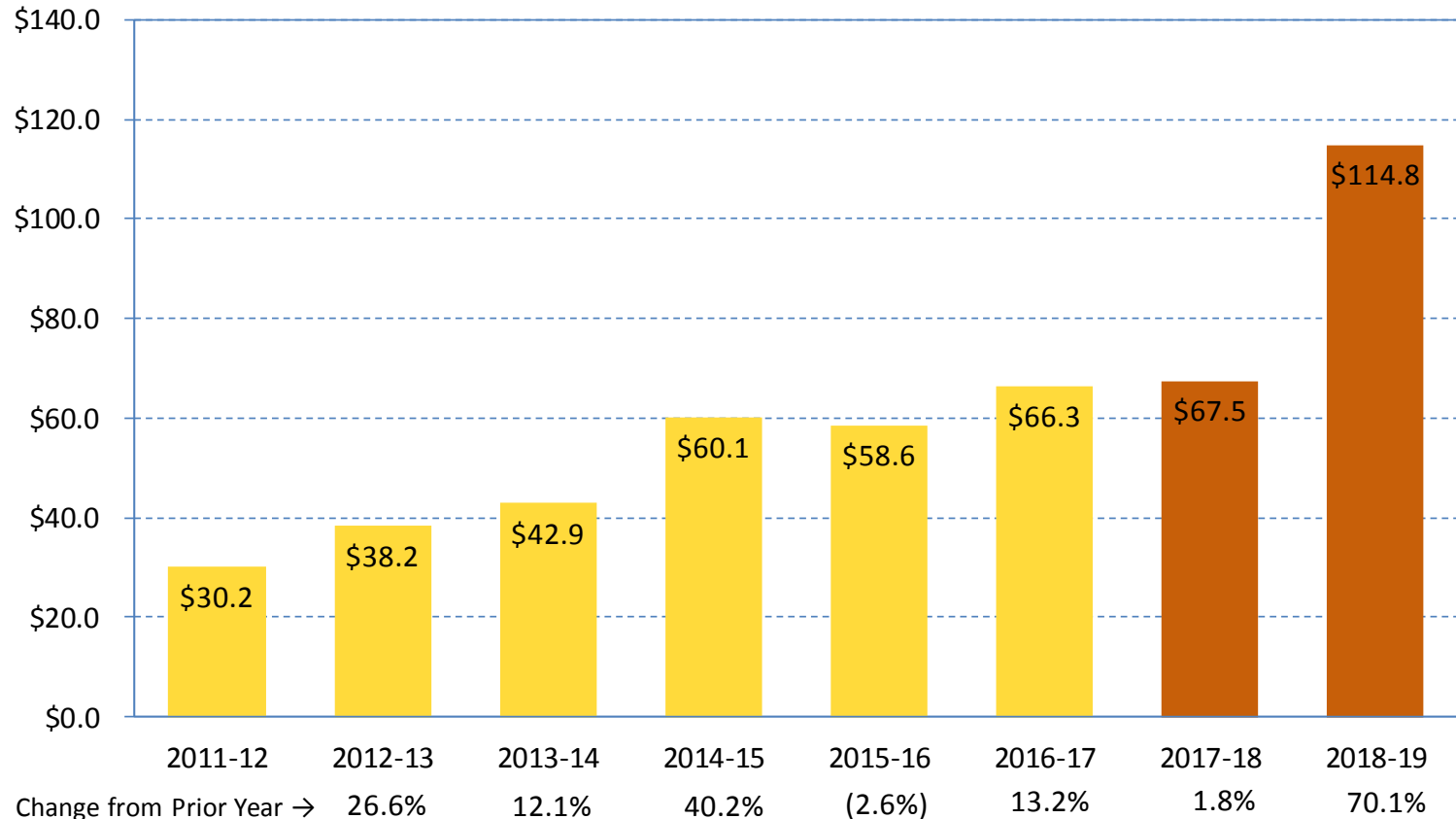
Source: "Grapevine" Report, Center for the Study of Education Policy and the Association of State Higher Education Executive Officers, 2016.



Growth in KERS Contributions

Public Comprehensive University and KCTCS Institution
 Kentucky Employees Retirement System (KERS) Employer Contributions
 Fiscal Years 2011-12 through 2018-19

Dollars
 (In Millions)



■ Kentucky Employees Retirement System Data

■ Office of State Budget Director Estimates

Sources: Kentucky Retirement System; Office of State Budget Director.



Increasing Unmet Need

Need-Based Aid Funding (CAP & KTG) FY 2006 - FY 2014



- Additional Unmet Need
- Difference between Statutory & Appropriation for CAP & KTG
- Appropriation Amount





Efforts to Maintain Affordability

Affordability Efforts

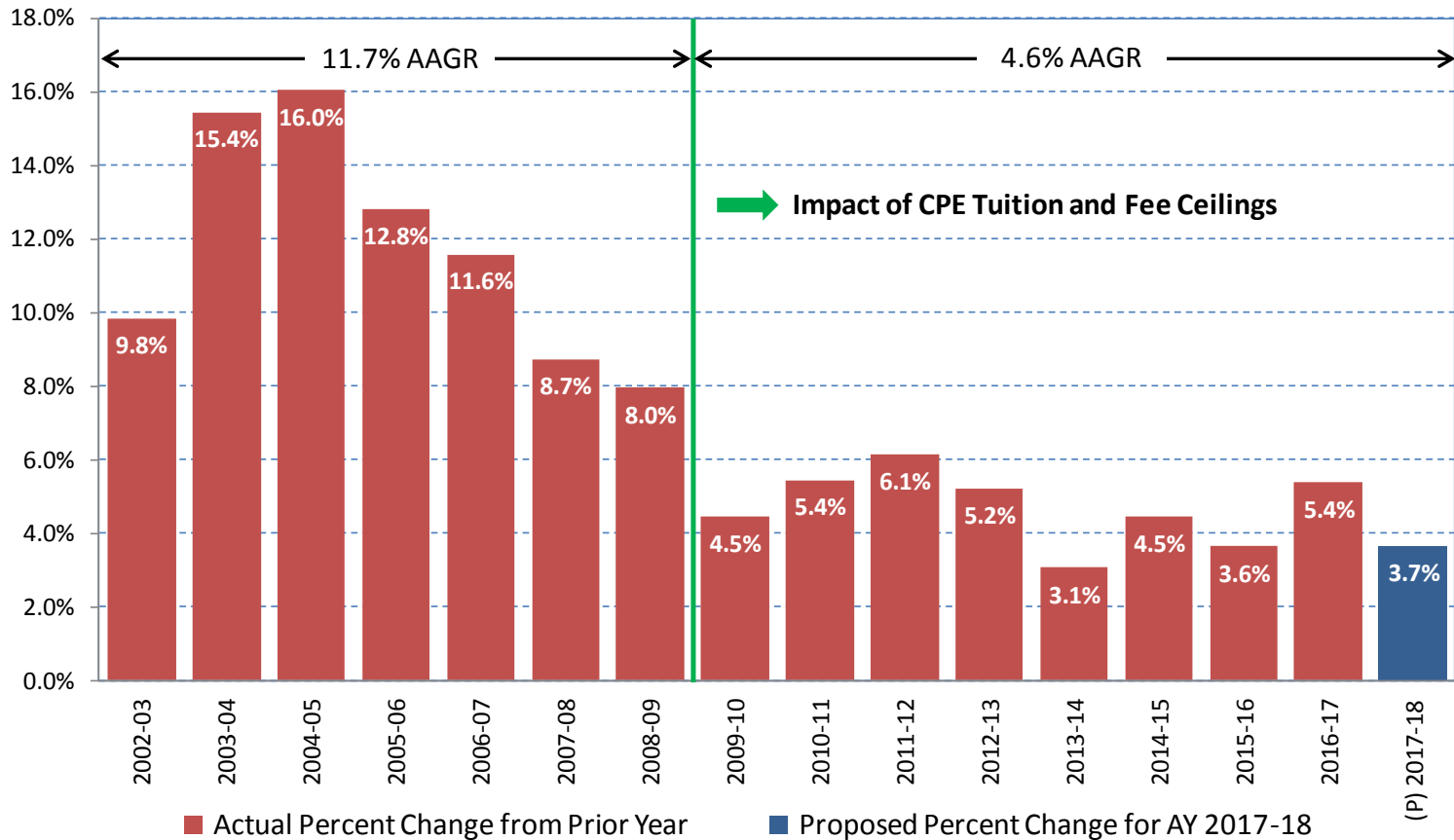
- Every year since 2009-10, the Council has adopted tuition ceilings that limit magnitude of increases
- Institutions have not been allowed to fully recover losses in state support and mandated cost increases
- Sizable state investment in student aid programs
- Institutions have increased funding for campus-based student aid programs
- Efforts to encourage timely completion, such as 15 to Finish and dual credit enrollment initiatives

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Impact of Tuition Ceilings

Kentucky Public Postsecondary System
Annual Change in Resident Undergraduate Tuition and Fees
Academic Years 2002-03 through 2017-18 (Proposed)



64

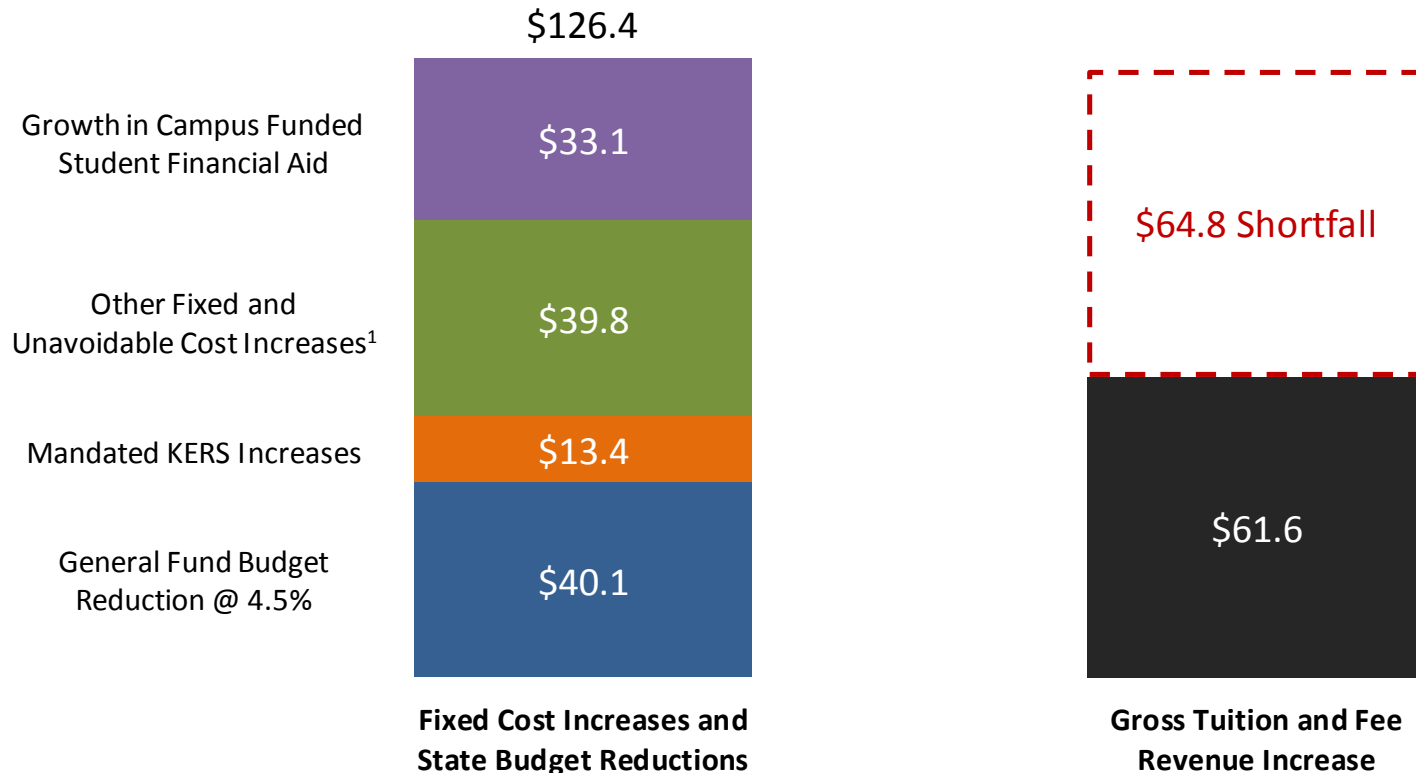


Source: Council on Postsecondary Education, Comprehensive Database.

P = Proposed
AAGR = Average Annual Growth Rate

Budgetary Shortfalls

Budget Challenges for Postsecondary Institutions Fiscal Year 2016-17 (Dollars in Millions)



¹ Includes M&O, utilities, health insurance, mandated tuition waiver, and contractual obligation cost increases.

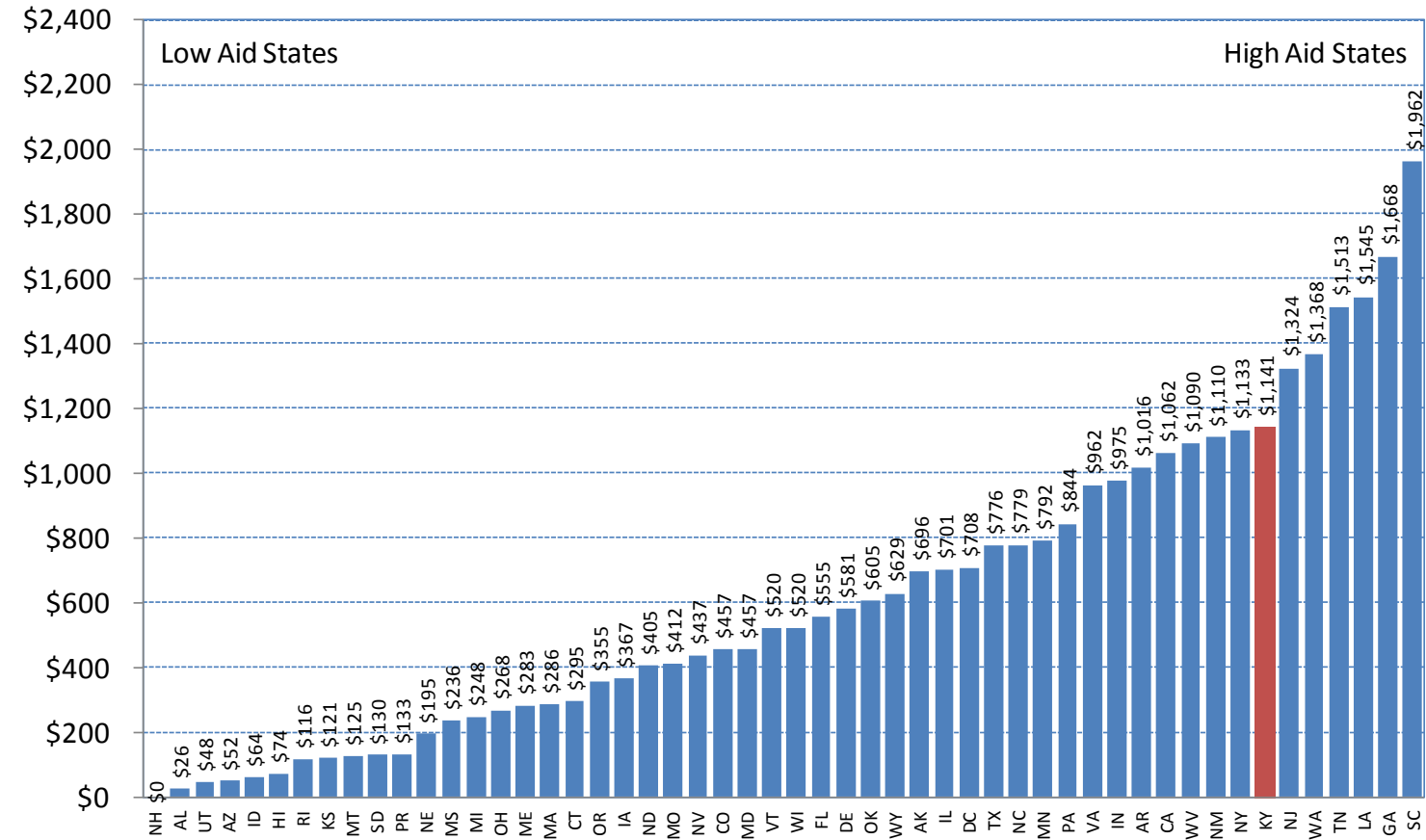
Source: Council on Postsecondary Education, Comprehensive Database.



Kentucky is "High Aid" State

State Funded Student Financial Aid Programs in the United States
Total Undergraduate Grant Dollars per Undergraduate Student Enrollment
Academic Year 2014-15

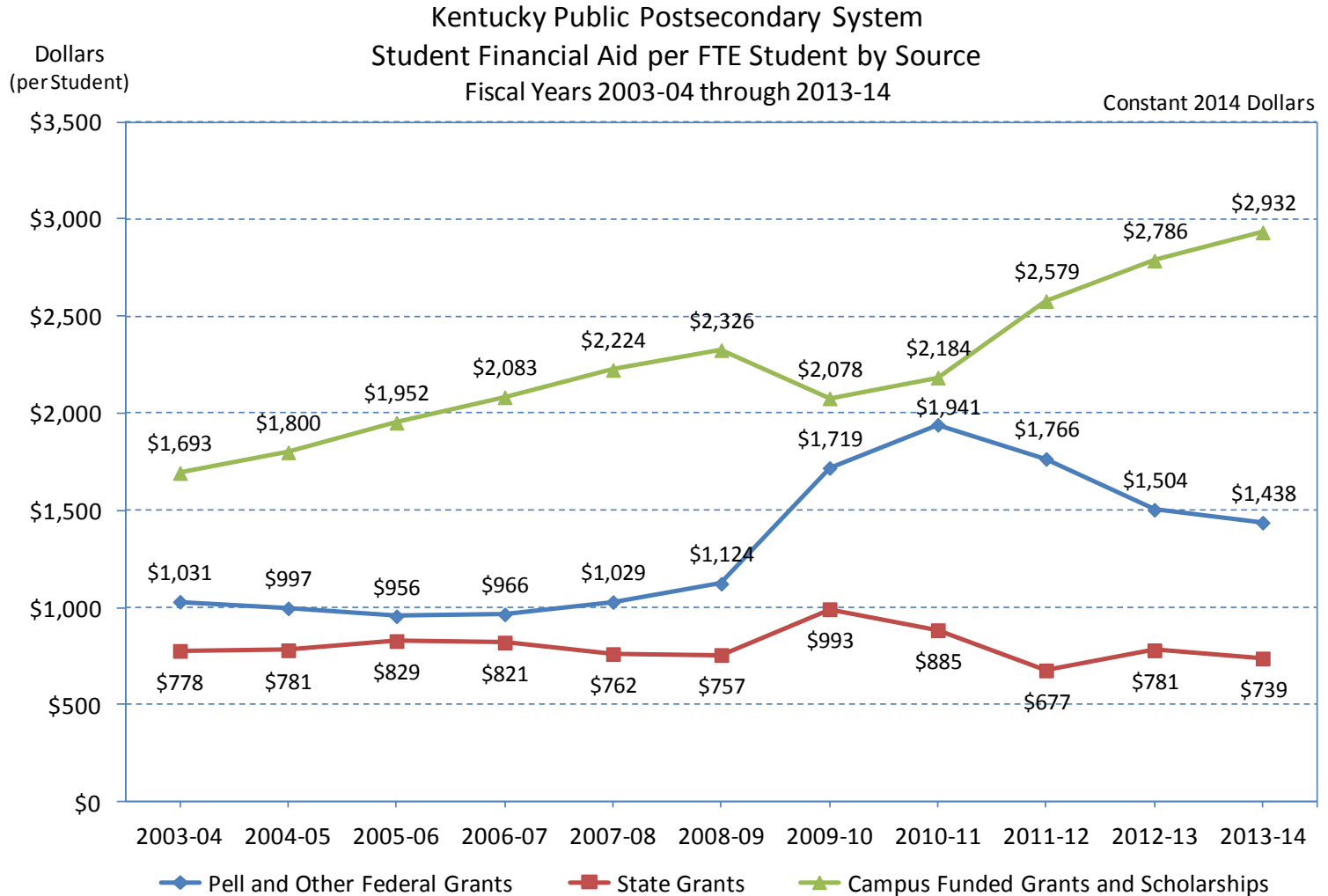
Dollars
(per Student)



Source: National Association of State Student Grant and Aid Programs (NASSGAP), 46th Annual Survey Report on State-Sponsored Student Financial Aid.



Growth in Campus-Based Aid



Source: Integrated Postsecondary Education Data System (IPEDS); Commonfund Institute, Higher Education Price Index (HEPI).





Current Status of College Affordability

Current Status

- Sticker prices at Kentucky public universities rank at or below regional and national averages
- Sticker prices at KCTCS are high regionally due to lack of local appropriations and below average state support
- The nine-year change in sticker price at KCTCS is among the lowest regionally and nationally
- The average net price at Kentucky comprehensive universities is among the lowest in our region and has not increased in recent years

69



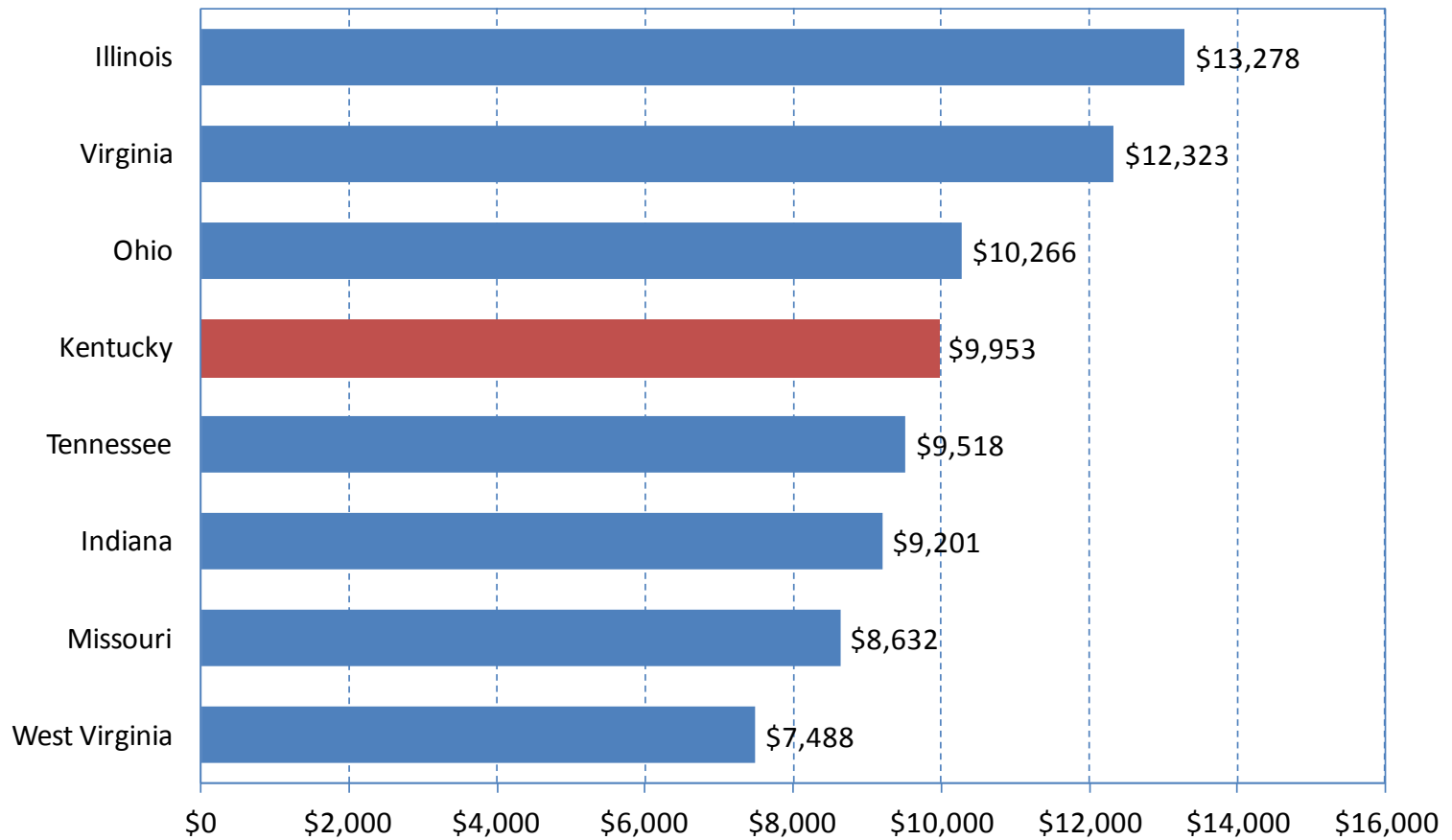
Current Status (Cont'd)

- At KCTCS, grant aid per FTE covers the cost of tuition, fees, and books for all but highest income quartiles
- Kentucky students pay a smaller percentage of family income to attend public colleges and universities than students in most SREB member states
- Since the early 2000s, responsibility for college costs has shifted from the state to students and families
- Average amounts of student loan debt have been trending upward since the graduating class of 2008

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Sticker Price Comparison (Four-Year)

Public Four-Year Universities in Kentucky and Surrounding States
Resident Undergraduate Tuition and Fees
Academic Year 2016-17

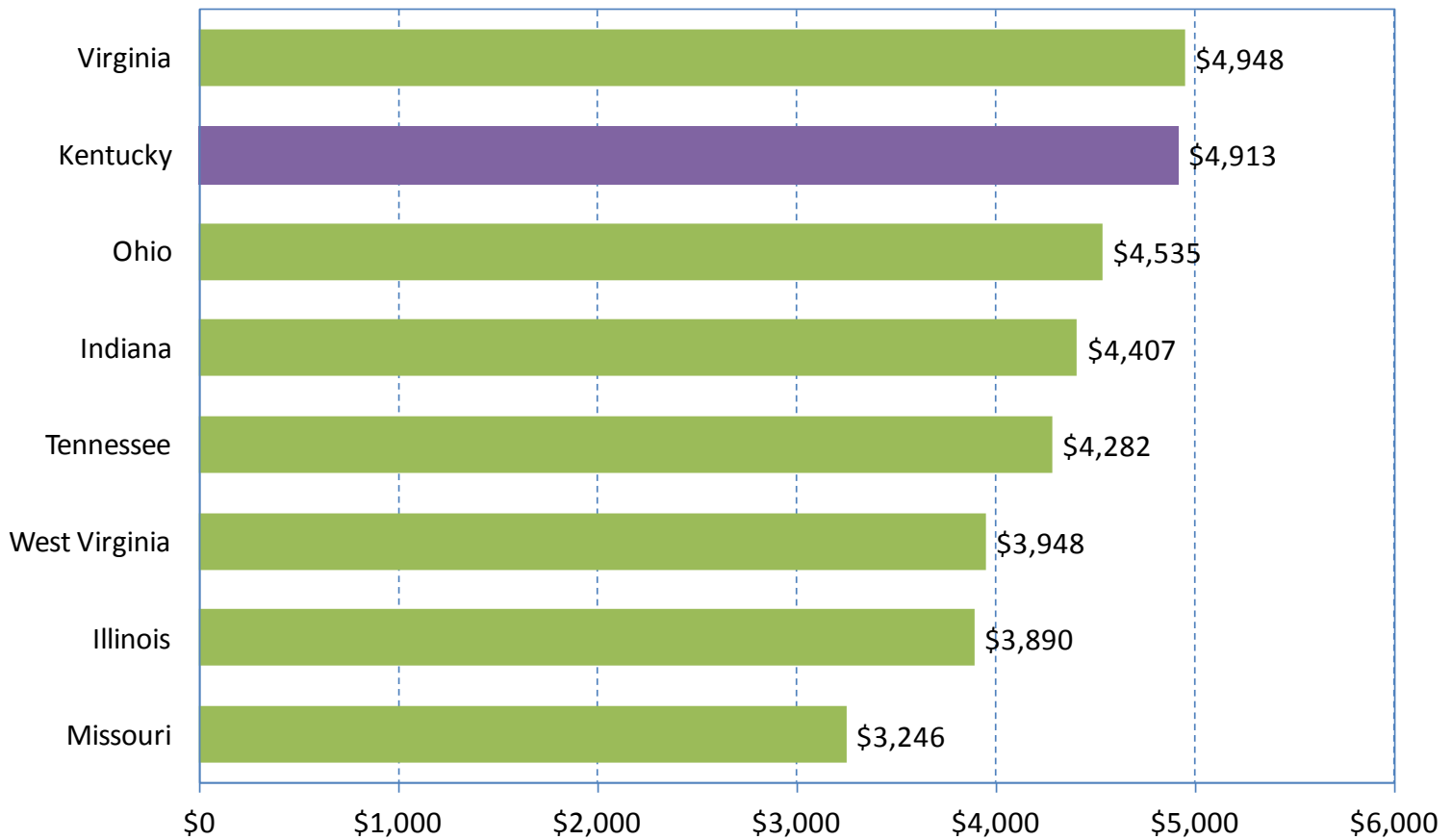


Source: College Board, Trends in College Pricing 2016.



Sticker Price Comparison (Two-Year)

Public Two-Year Colleges in Kentucky and Surrounding States
Resident In-District Tuition and Fees
Academic Year 2016-17

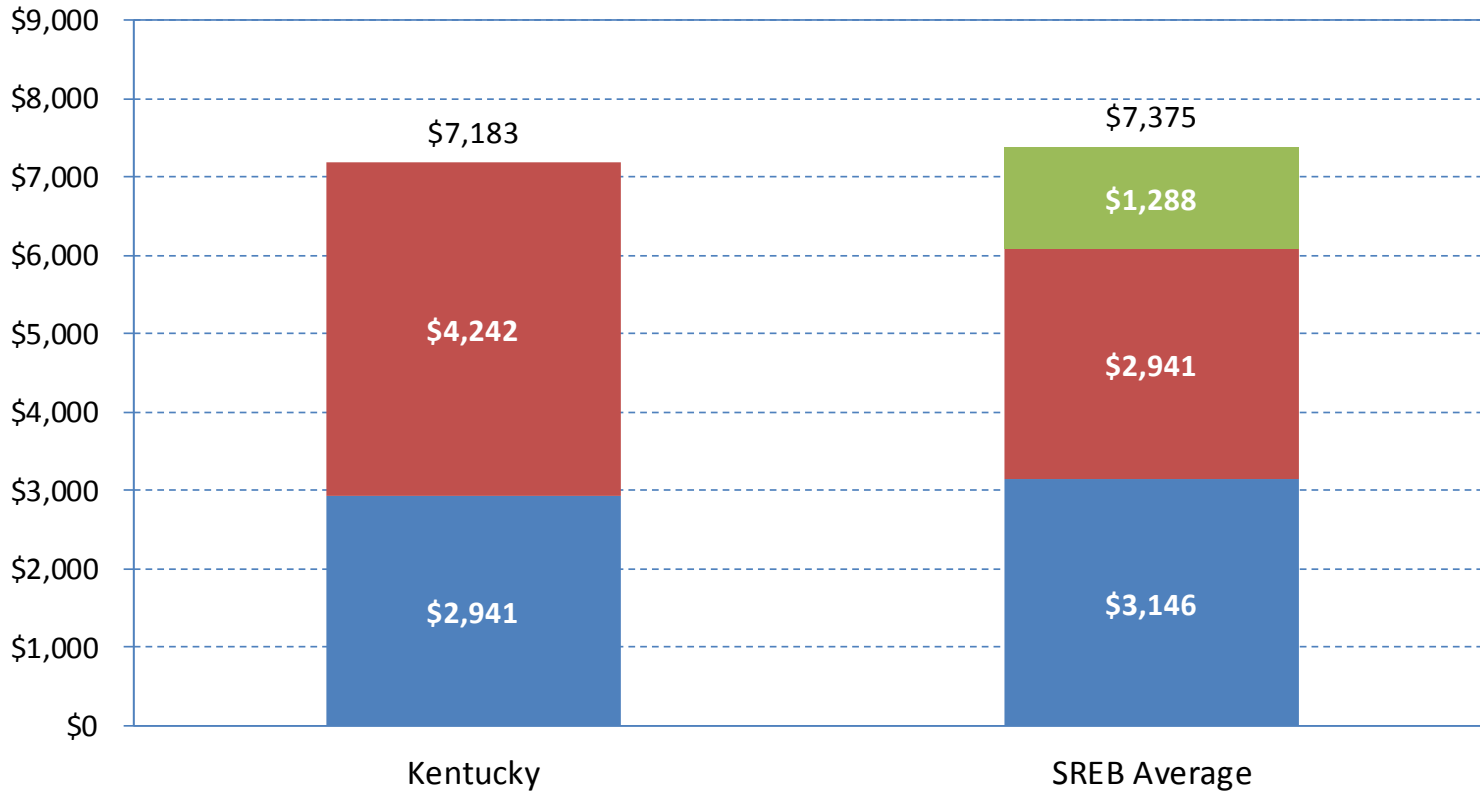


Source: College Board, Trends in College Pricing 2016.



No Local Funding (KCTCS)

Public Two-Year Colleges in Kentucky and SREB Member States
Total Public Funds per Full-Time Equivalent Student
Fiscal Year 2014-15



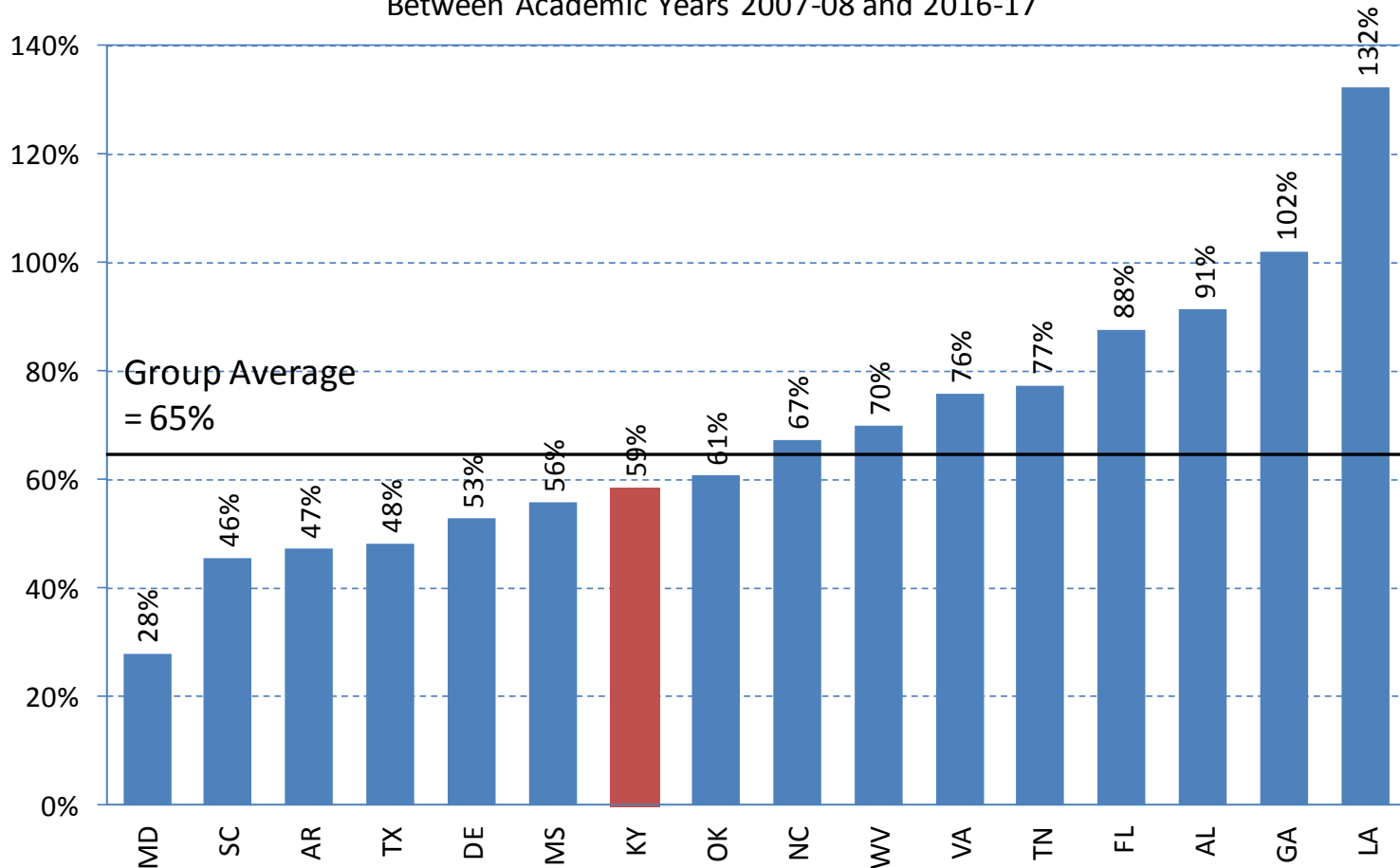
State General Purpose Funds Net Tuition and Fee Revenue Local Appropriations



Source: Southern Regional Education Board (SREB), Data Exchange.

Change in Sticker Price (Four-Year)

Public Four-Year Universities in SREB Member States
Percent Change in Resident Undergraduate Tuition and Fees
Between Academic Years 2007-08 and 2016-17

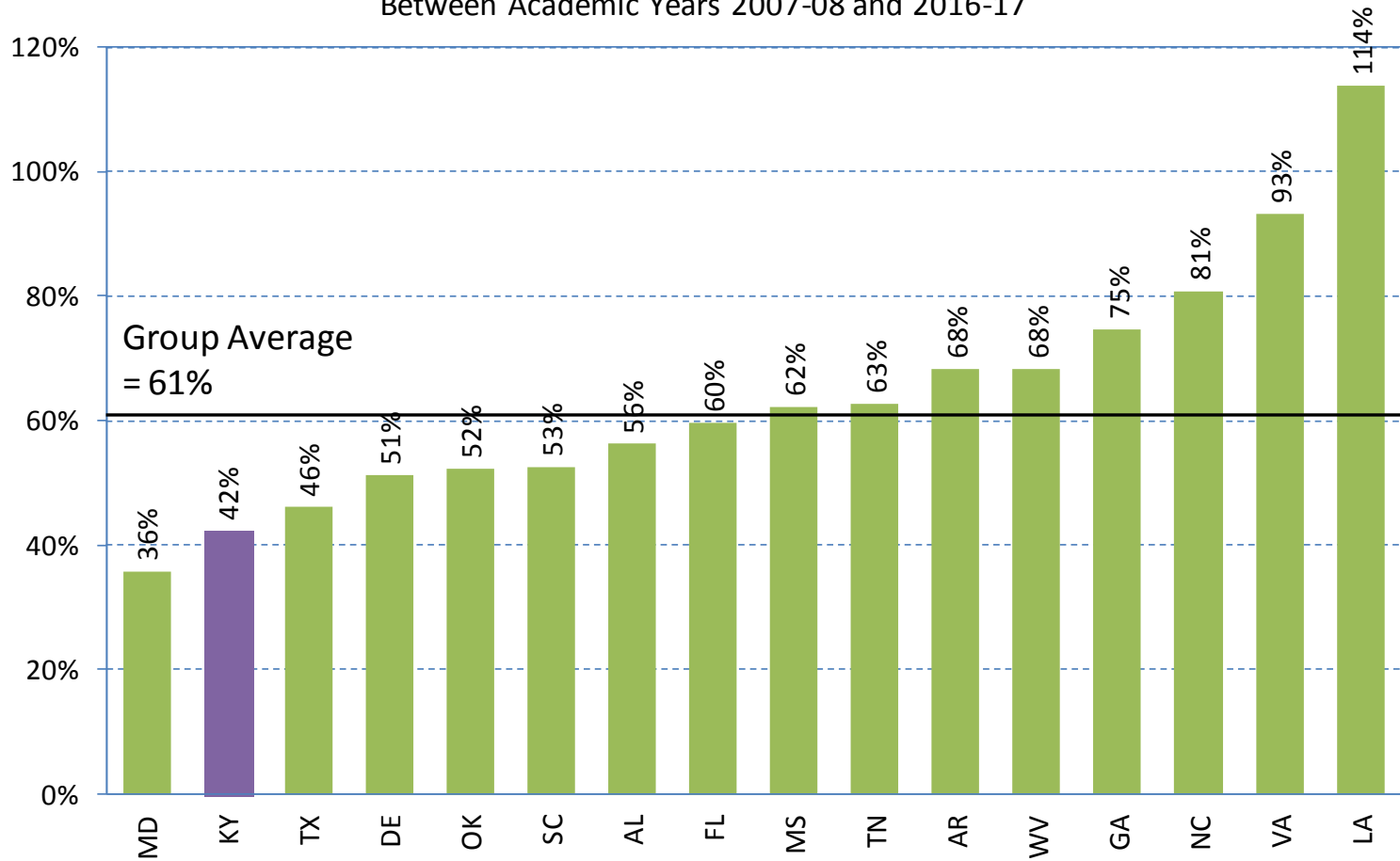


Source: College Board, Trends in College Pricing 2016.



Change in Sticker Price (Two-Year)

Public Two-Year Colleges in SREB Member States
Percent Change in Resident In-District Tuition and Fees
Between Academic Years 2007-08 and 2016-17

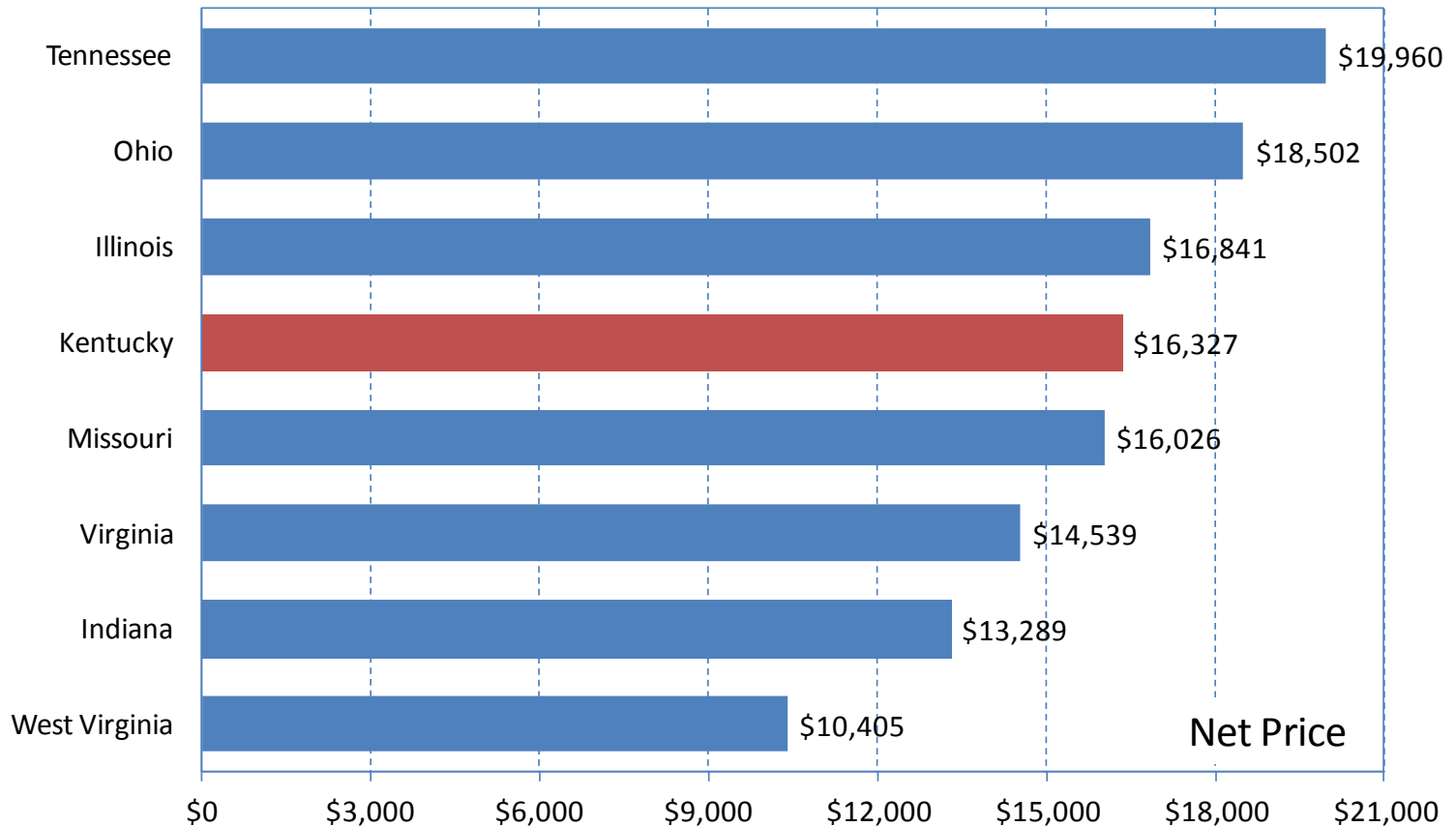


Source: College Board, Trends in College Pricing 2016.



Net Price Comparison (Research)

Research Universities in Kentucky and Surrounding States
Average Net Price of First-Time Full-Time Resident Undergraduate Students
Academic Year 2014-15

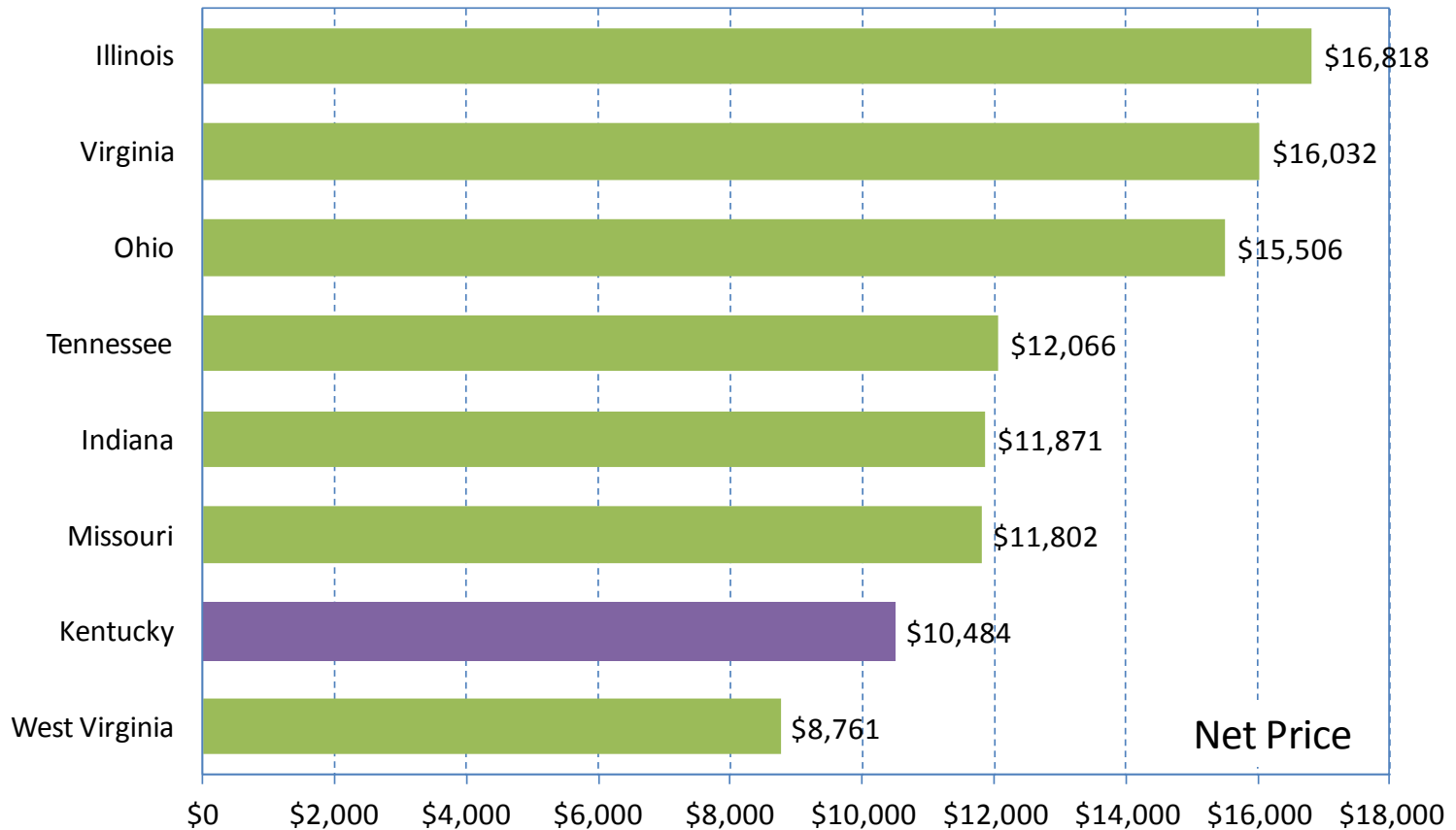


Source: Integrated Postsecondary Education Data System (IPEDS).



Net Price Comparison (Comprehensive)

Comprehensive Universities in Kentucky and Surrounding States
Average Net Price of First-Time Full-Time Resident Undergraduate Students
Academic Year 2014-15

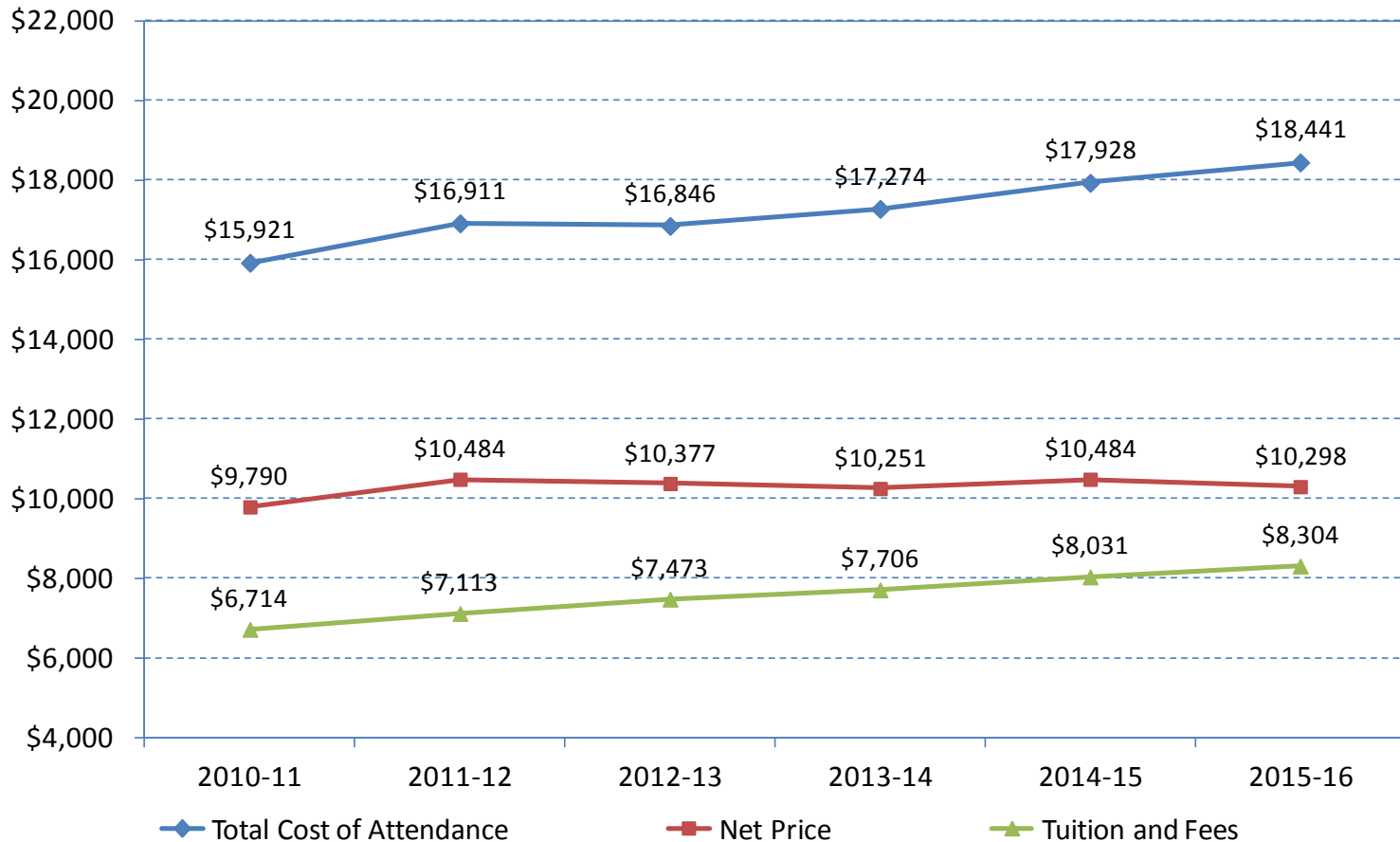


Source: Integrated Postsecondary Education Data System (IPEDS).



Trend in Net Price (Comprehensive)

Kentucky Public Comprehensive University
 Cost of Attendance, Net Price, and Tuition and Fees of Resident Undergraduates
 Academic Years 2010-11 through 2015-16

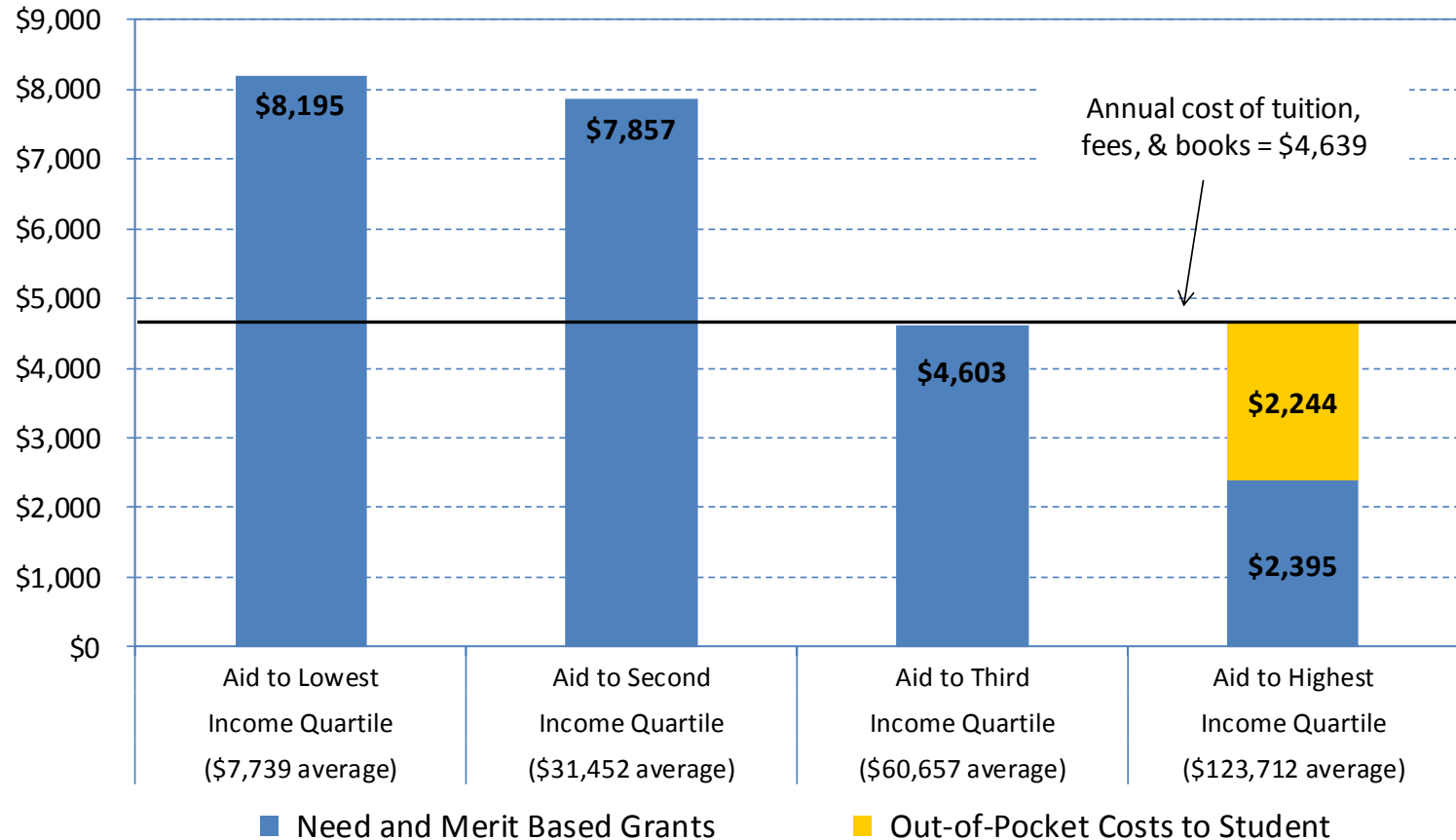


Source: Council on Postsecondary Education, Kentucky Postsecondary Education Data System (KPEDS).



Grant Aid versus Costs (KCTCS)

Kentucky Community and Technical College System
 Average Need and Merit Based Grant Aid per Full-Time Resident Undergraduate Student
 Dollars (per Student)
 Academic Year 2015-16

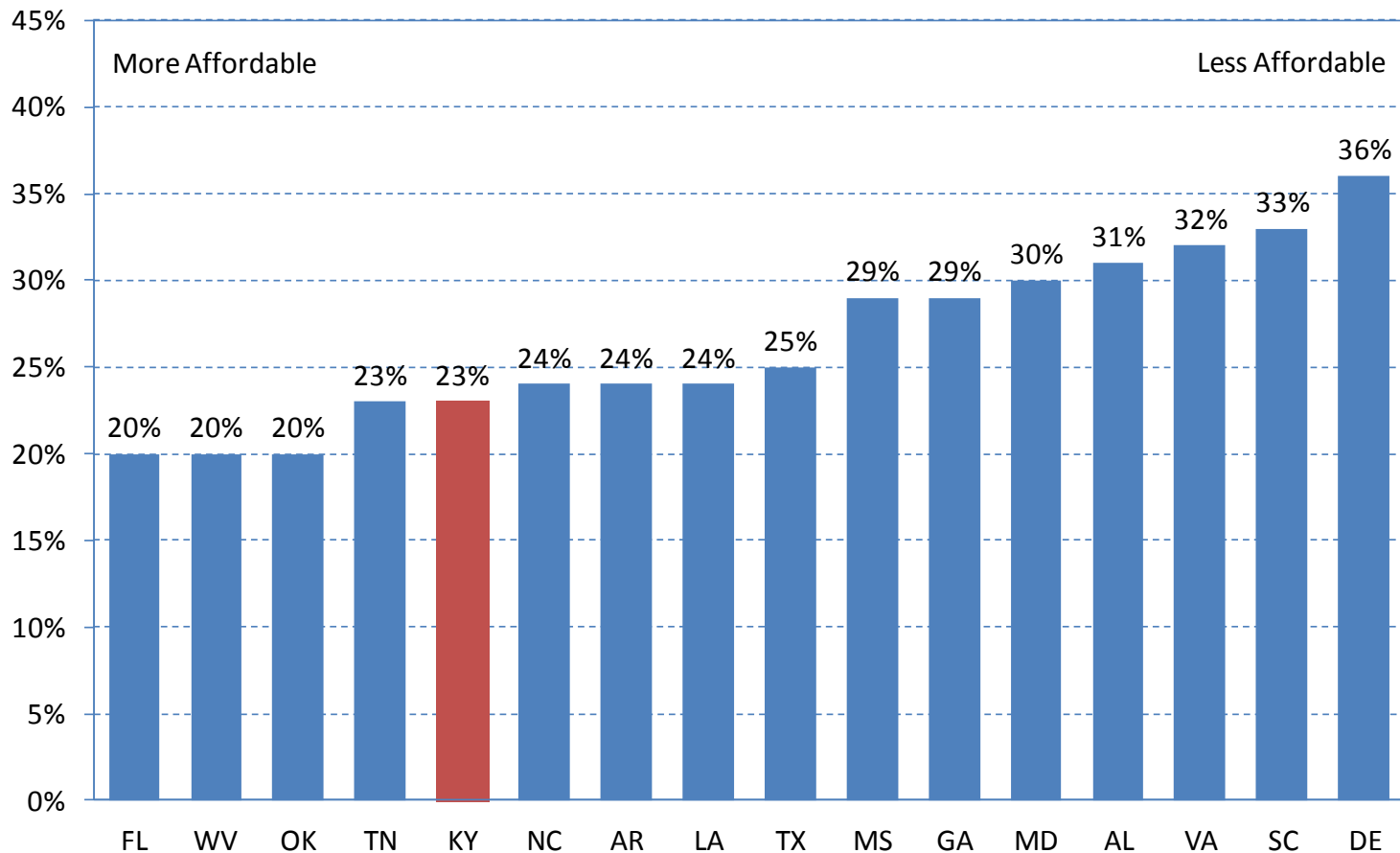


Sources: CPE Comprehensive Database; Integrated Postsecondary Data System.



Net Price % of Income (Four-Year)

Public Four-Year Colleges in SREB Member States
Average Net Price as a Percent of Median Family Income
Academic Year 2013-14

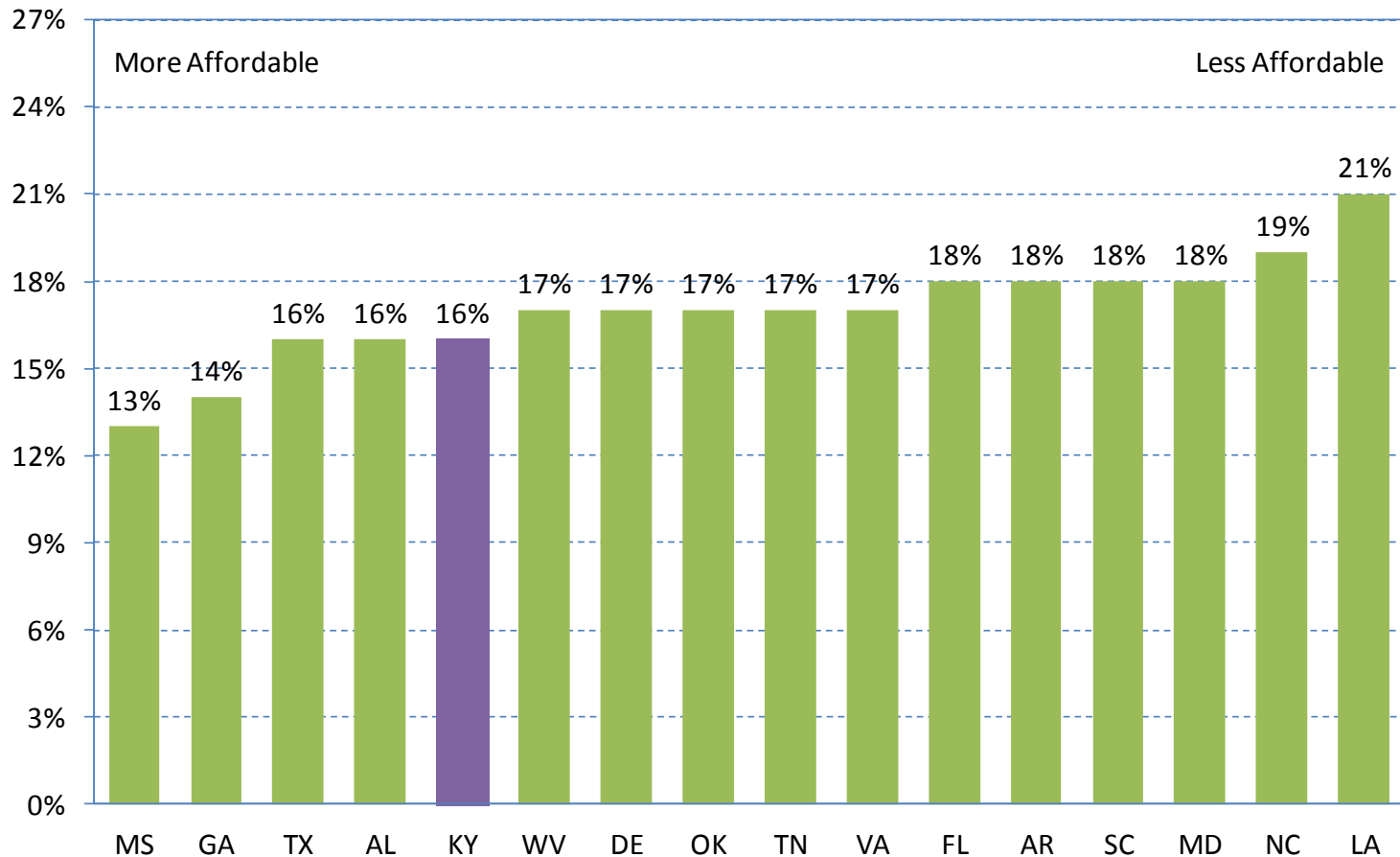


Source: Penn Graduate School of Education, Institute for Research on Higher Education, 2016 College Affordability Diagnosis.



Net Price % of Income (Two-Year)

Public Two-Year Colleges in SREB Member States
Average Net Price as a Percent of Median Family Income
Academic Year 2013-14



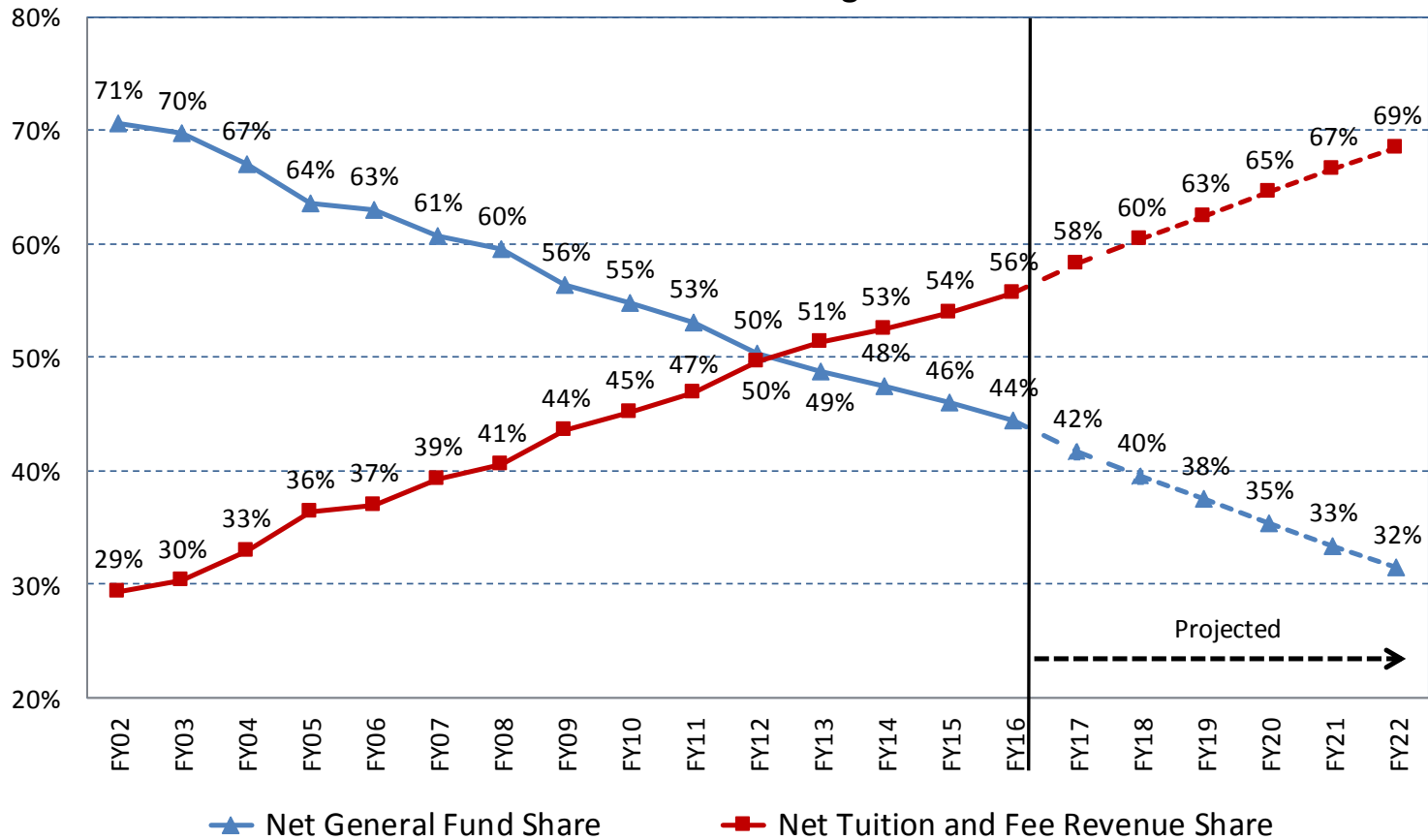
81



Source: Penn Graduate School of Education, Institute for Research on Higher Education, 2016 College Affordability Diagnosis.

Shifting of Responsibility (Who Pays)

Kentucky Public Postsecondary System
 Change in State and Student Shares of Total Public Funds
 Fiscal Years 2001-02 through 2021-22

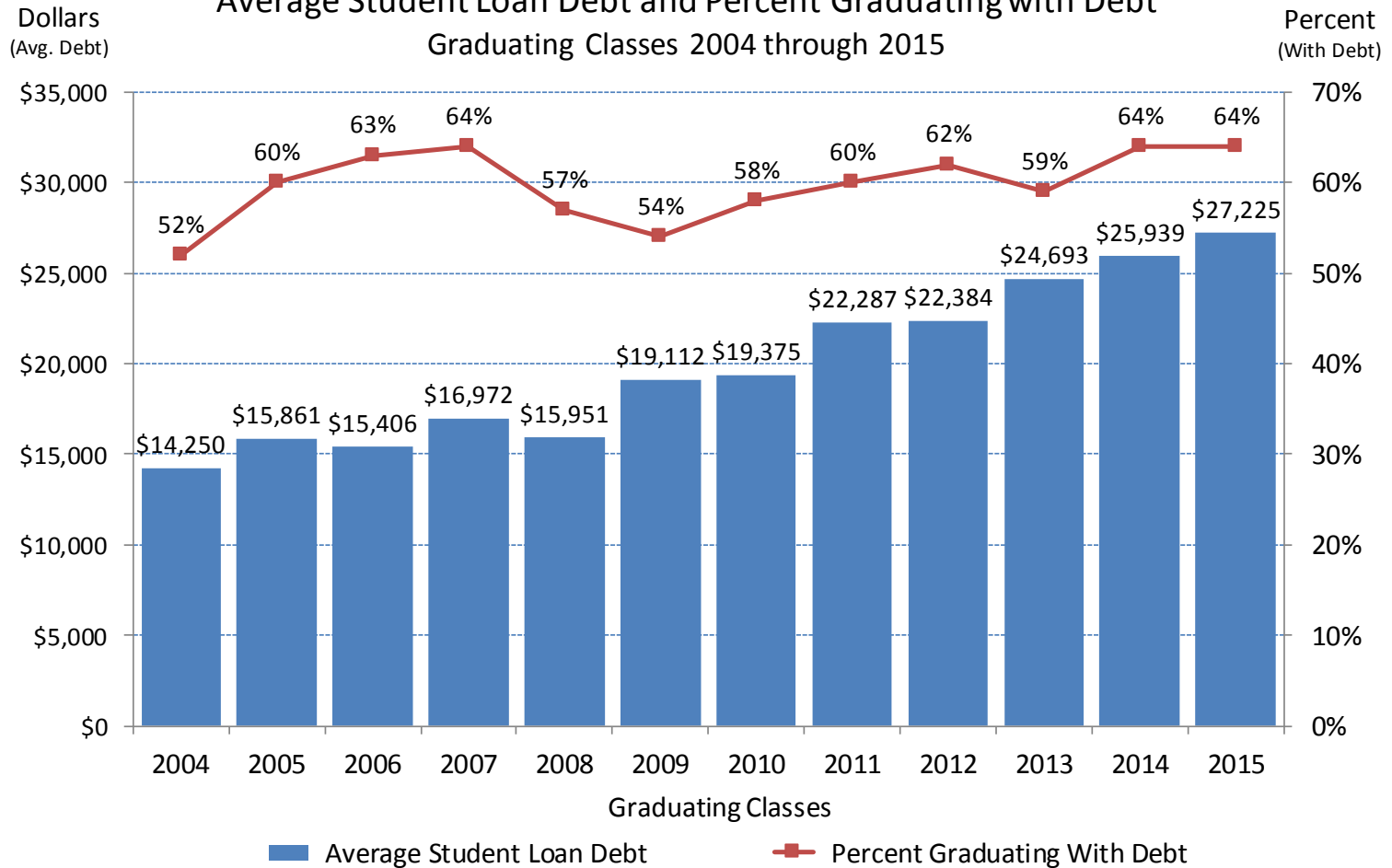


Sources: Kentucky Budget of the Commonwealth; CPE Comprehensive Database.



Growing Student Loan Debt

Kentucky Public and Private Four-Year Universities
Average Student Loan Debt and Percent Graduating with Debt
Graduating Classes 2004 through 2015



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Source: The Project on Student Debt, Student Debt and the Class of 2015, October 2016.

In Summary

- A convergence of factors has strained campus budgets and placed upward pressure on tuition and fees
- Although funding cuts in Kentucky ranked among the worst nationally, tuition increases were near average
- Average net price at Kentucky colleges and universities compares favorably both regionally and nationally
- Council adopted tuition ceilings and growth in campus student aid funding have helped maintain affordability
- Students and families are paying a larger share of college costs than was the case a decade ago

In Summary (Cont'd)

- The upward trend in student loan debt is an indicator that college has become less affordable for some Kentucky students and families
- A major challenge to affordability for low income Kentuckians is insufficient funding for CAP and KTG
- Additional reductions in state support will continue to make college less affordable and move the state toward a privatized system of higher education

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