COUNCIL ON POSTSECONDARY EDUCATION
FINANCE COMMITTEE MEETING

December 15, 2020 – 3:00 p.m. EST
ZOOM link:
https://zoom.us/j/98736221782?pwd=eXczY0JKUmNUenNHcmphMlVLdkpxQT09

TITLE: Interim Capital Project – MuSU Lovett Auditorium HVAC System

DESCRIPTION: Murray State University requests Finance Committee approval for a proposed $2,000,000 interim capital project to make significant upgrades and repairs to the Lovett Auditorium HVAC system. This project was approved by Murray State's Board on December 4, 2020 and is scheduled to go before the Capital Planning and Bond Oversight Committee on December 16, 2020. Due to the timing of the Murray State's Board meeting, the Council delegated approval authority for this project to the Finance Committee at their November 13, 2020 meeting.

PRESENTERS: Shaun McKiernan, Director of Budget and Finance, CPE

COUNCIL DELEGATION

The Council on Postsecondary Education moved to delegate final approval authority on this matter to the Finance Committee at its November 13, 2020 meeting.

SUPPORTING INFORMATION

Murray State University (MuSU) officials plan to request authorization for an interim capital project to replace the HVAC System and repair ductwork in the Lovett Auditorium. Ductwork in the attic space above the auditorium has damaged insulation causing it to sweat. The duct cannot be easily reinsulated or replaced. This project will robotically clean and seal the ductwork from the inside in the auditorium's attic and repair the damaged plaster ceiling. The air handlers on the stage will be replaced with a new one in the basement and new supply ductwork routed through the crawl space. New boilers will be installed in order to remove the building from the central steam system. The old ductwork in the attic will be repurposed as the return duct for the new HVAC system. The old electrical transformers and switchgear for the building will also be replaced as part of the project. These replacements and repairs will also improve the efficiency of the building's HVAC system.

The total scope of the Lovett Auditorium project is anticipated to be $2,000,000. The project is expected to use $600,000 of revenue from the institution's asset preservation fee as support. The remaining financing will come from other agency funds.

This project was approved at MuSU's Board meeting on December 4, 2020 and is scheduled to go before the Capital Planning and Bond Oversight Committee on December 16, 2020. See attachments for more details.

House Bill 592 (2018) created a new provision in KRS 164A.575, which allows public postsecondary institutions to authorize capital projects not specifically listed in the state budget as long as the projects are funded with non-general fund appropriations, do not jeopardize funding for existing programs, and are reported by the institution to the Capital Projects and Bond Oversight Committee.

The pertinent section of KRS 164A.575 is provided below:

> (15) Notwithstanding KRS 45.760, the governing board may authorize a capital construction project or a major item of equipment even though it is not specifically listed in any branch budget bill, subject to the following conditions and procedures:
> (a) The full cost shall be funded solely by non-general fund appropriations;
> (b) Moneys specifically budgeted and appropriated by the General Assembly for another purpose shall not be allotted or re-allotted for expenditure on the project or major item of equipment. Moneys utilized shall not jeopardize any existing program and shall not require the use of any current general funds specifically dedicated to existing programs; and
> (c) The institution's president, or designee, shall submit the project or major item of equipment to the Capital Projects and Bond Oversight Committee for review as provided by KRS 45.800.

The approval process for a capital project that exceeds $1,000,000 is as follows:

- The project must be approved by an institution's board of trustees or regents;
- The project must be submitted to the Council on Postsecondary Education for review and action;
- If approved by the Council, projects at KCTCS and KSU are submitted to the Secretary of the Finance and Administration Cabinet for review and action, and subsequently submitted by the Secretary to the Capital Projects and Bond Oversight Committee for review;
- If approved by the Council, projects at EKU, MoSU, MuSU, NKU, UK, UofL, and WKU are submitted by the requesting institution to the Capital Projects and Bond

Oversight Committee for review, and a copy is provided to the Finance and Administration Cabinet as information; and
- Following review and action by the appropriate agencies, the project may be initiated by the requesting institution.

Because this project was not authorized in the enacted 2020-21 budget (HB 352), Council approval is now required to authorize this project. MuSU will not be debt financing any portion of this project; therefore, provisions of KRS 45.763 do not apply.

NEXT STEPS

Following Council action, staff will notify the campus president, the Secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee of the Council's recommendation concerning this project.

BOARD OF REGENTS: 12.04.20

Agenda Item: 10.D.2.

TOPIC: **Buildings and Grounds Committee – Lovett Auditorium HVAC and Electrical Systems Renovations Program Statement***

STAFF CONTACTS: Jackie Dudley – Vice President for Finance and Administrative Services
Jason Youngblood – Director of Facilities Management

BACKGROUND:

Per the Delegation of Authority Item #13, the Board is to approve any "Program Statement" that may be prepared for a capital construction project requiring approval by the Kentucky General Assembly prior to implementation of the Program Statement. The project identified as "Capital Renewal and Building Modernization" was initially included in the University's *2020-26 Six-Year Capital Plan* as described below:

> **Brief Description/Justification**:
>
> Project includes asset preservation renovations and building system upgrades to education and general buildings. This is for a pool of deferred maintenance projects.

As part of the Capital Plan initiative, Murray State University partnered with RossTarrant Architects and Marcum Engineering to scope the planned work on Lovett Auditorium. During this process, the HVAC and electrical system modifications were identified as immediate needs. During the summer, the failing of duct work insulation created a need to expand this project and made it more of an immediate need.

Items to be addressed will be moisture remediation, attic duct cleaning and sealing to prevent further damage to the plaster ceiling, plaster repair, new hot water boilers, new air handlers to be installed in the basement, crawl space ductwork for supply air, BAS controls, new electrical transformer, switch gear and electrical distribution panels and natural gas supply system for the boilers. This work will result in the removal of Lovett Auditorium from the central steam system and its retention on the central chilled water system.

The estimated cost for phase one of the project is $2 million. A funding request will also be made to the Board of Regents Finance Committee later today.

Once approved by the Board of Regents, the University will seek any necessary approvals from the Council on Postsecondary Education and the Capital Projects and Bond Oversight Committee for the project.

RECOMMENDATION:

That the Board of Regents, upon the recommendation of the President of the University, approve the attached Program Statement for the Lovett Auditorium HVAC and Electrical Systems Renovations Project.

RECOMMEND APPROVAL: **Robert L Jackson, President**

COMMITTEE ACTION: Approved, Buildings and Grounds Committee.

BOARD ACTION: Approved.

BOARD OF REGENTS: 12.04.20

Agenda Item: 10.F.3.

TOPIC: **Finance Committee – Lovett Auditorium HVAC and Electrical System Renovations Project Funding***

STAFF CONTACT: Jackie Dudley – Vice President for Finance and Administrative Services

BACKGROUND:

In the development of the 2020-26 Capital Plan, Murray State identified a series of asset preservation project requests. Some of the requested asset preservation funding was designated for historic buildings, with Lovett Auditorium as the priority. Due to strains on the state budget and COVID-19, this project was not authorized in the enacted 2020-21 budget (House Bill 352). However, the HVAC issues in Lovett Auditorium must be addressed in order to preserve the building for future use.

The total scope of the Lovett Auditorium project is anticipated to be $2,000,000. The proposed funding to be utilized would be $600,000 of Fiscal Year 2020-21 revenue from the Asset Preservation Fee, with the remaining $1.4 million to be taken from emergency deferred maintenance funding held in the Plant Fund.

Once approved by the Board of Regents, the University will seek any necessary approvals from the Council on Postsecondary Education and the Capital Projects and Bond Oversight Committee for the $2 million necessary for the project.

RECOMMENDATION:

That the Board of Regents, upon the recommendation of the President of the University, approve funding of $600,000 from Fiscal Year 2020-21 Asset Preservation Fee revenue and $1.4 million from emergency deferred maintenance funds in order to complete the Lovett Auditorium HVAC and electrical system renovations as stipulated in the Program Statement presented to the Buildings and Grounds Committee.

RECOMMEND APPROVAL: **Robert L Jackson, President**

COMMITTEE ACTION: **Approved, Finance Committee.**

BOARD ACTION: **Approved.**

MURRAY STATE
UNIVERSITY

Office of the President

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November 18, 2020

Senator Rick Girdler, Co-Chair
Representative Walker Thomas, Co-Chair
Capital Projects and Bond Oversight Committee
Legislative Research Commission
Capital Annex, Room 34
Frankfort, KY 40601

RE: Interim Authorization Request-Lovett Auditorium, HVAC and Electrical Repairs

Dear Senator Girdler and Representative Thomas:

Pursuant to Kentucky Revised Statute (KRS) 165A.575(15), Murray State University is requesting review by the Capital Projects and Bond Oversight Committee for interim authorization for repairs to Lovett Auditorium. The cost estimate for this project is $2,000,000.

Lovett Auditorium was constructed in 1926 to serve as the auditorium for the Murray State Normal and Teachers College. It is one of the four original buildings on campus and serves as the only performing arts hall for Murray State. The auditorium area remains much the same as it was nearly 100 years ago with the original seating and lighting. Significant signs of degradation to the HVAC system have surfaced. Repair/replacement of that system and electrical panels will be the focus of this project.

The Murray State University Board of Regents is expected to approve this project on December 4, 2020, and the Council on Postsecondary Education Finance Committee is expected to approve this project on December 15, 2020. This request is being submitted now in hopes that it can be added to the agenda for the December 16 meeting of the Capital Planning and Bond Oversight Committee (CPBOC). Documentation to support the approvals of these two bodies will be sent to the Legislative Research Commission as soon as it is received.

This project will not use any current general funds or any funds appropriated for another purpose.

Should you or members of the Committee have any questions, please feel free to contact me at (270) 809-3763 or rjackson@murraystate.edu. Murray State University representatives plan to attend the CPBOC's scheduled meeting on December 16, 2020, via remote access.

Sincerely,

Robert L Jackson, Ed.D.
President

cc: Jackie Dudley – Murray State University
Jordan Smith – Murray State University
Shawn McKiernan – Council on Postsecondary Education
Carla Wright – Office of the State Budget Director

TITLE: 2021-22 Postsecondary Education Budget Priorities

DESCRIPTION: Summary of public postsecondary institution and CPE agency budget priorities for fiscal year 2021-22 developed by campus presidents, Chief Budget Officers, and CPE senior staff.

PRESENTERS: Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Director of Finance and Budget, CPE

At its October 31, 2019 meeting, the Council approved a *Postsecondary Education Budget Recommendation* for the 2020-22 biennium that included funding requests for Performance Funding and Asset Preservation for the public postsecondary institutions and requests for Contract Spaces and SREB Doctoral Scholars funding for CPE's agency budget. In terms of funding amounts, the Council recommended additional appropriations of $52.5 million in 2020-21 and $75.0 million in 2021-22 for Performance Funding and $8.2 million in 2020-21 and $24.7 million in 2021-22 to pay debt service on a $400.0 million bond issue to finance renovation and renewal capital projects (i.e., Asset Preservation) on college and university campuses.

On April 15, 2020, the General Assembly enacted a one-year state budget (HB 352), rather than the typical biennial budget, due to uncertainty surrounding the potential revenue impact of the COVID-19 pandemic. That budget contained no new funding for the postsecondary institutions for either Performance Funding or Asset Preservation, but it did provide $497,400 in 2019-20 (i.e., a current-year appropriation) and $497,400 in 2020-21 to meet a federal matching requirement on KSU's land-grant program. It also appropriated $317,000 in debt service to support capital projects at Eastern Kentucky University.

During the upcoming 2021 short session of the Kentucky General Assembly, which is scheduled to begin on January 5, 2021, policymakers will engage in deliberations and are expected to enact another one-year budget, this time for fiscal year 2021-22. As the Governor, legislators, and their respective staffs formulate and discuss various budget components and funding amounts, it is important for stakeholders in the postsecondary education community to remind policymakers of higher education budget priorities for the upcoming fiscal year. For this reason, CPE senior staff worked collaboratively with campus presidents and Chief Budget Officers to develop the attached *Postsecondary*

Education Budget Priorities for Fiscal Year 2021-22 that, once endorsed by members of the Finance Committee, can be shared with policymakers and used to advocate for the resources necessary for institutions and students to continue making progress toward the state's 60x30 college attainment goal.

As can be seen in Attachment A, additional appropriations for Performance Funding and Asset Preservation are still the main priorities for the postsecondary institutions in fiscal year 2021-22. In terms of Institutional Operating Funds, staff is recommending that the committee endorse a $37.5 million request for Performance Funding, which represents half of the $75.0 million amount requested in the second year of the Council's original biennial budget recommendation. In the area of Capital Investment, staff recommends debt service to support a $200.0 million bond issue for campus Asset Preservation projects, again half of the original $400.0 million biennial request.

The list of postsecondary institution priorities also includes requests for $1,180,100 in additional appropriations both in 2020-21 and in 2021-22 to meet a federal matching requirement for KSU's land-grant program. Finally, it asks the Governor and General Assembly to maintain pension relief for Kentucky's comprehensive universities and KCTCS institutions.

In terms of priorities for CPE's agency budget, staff is recommending that the Finance Committee endorse funding for two new initiatives. The first is a $1.5 million request to support P-20 Strategic Initiatives (i.e., of which, $800k is a request for recurring funding and $700k is a request for nonrecurring funding). If authorized, these funds will be used to strengthen the pipeline between K-12 and postsecondary education by developing coordinated outreach and advising strategies and providing tools for helping students navigate the path from college to career. The second is an $850,000 funding request for a Kentucky Education-to-Work initiative designed to improve and expand education and training that leads to quality career opportunities and provides access to short-term credential programs aligned with industry needs.

Staff recommends that members of the Council's Finance Committee endorse the attached list of *Postsecondary Education Budget Priorities for Fiscal Year 2021-22*.

Postsecondary Education Budget Priorities For Fiscal Year 2021-22

Postsecondary Institutions

- Operating Funds
  - Performance Funding → $37,500,000 in additional appropriations (represents about a 4.3% increase on the revised net General Fund appropriation base for fiscal 2020-21)
- Mandated Programs
  - KSU Land Grant Match → $1,180,100 in additional appropriations (both in current year and in 2021-22 to meet federal matching requirement for land-grant program)
- Pension Relief
  - Maintain pension relief by keeping the KERS contribution rate the same in 2021-22 that it was in 2020-21 or by providing alternative forms of relief as may be determined by the Governor and General Assembly
- Capital Investment
  - Asset Preservation → $200,000,000 in state bond funds to address an estimated $7.3 billion need for facilities renovation and renewal at Kentucky's public colleges and universities (which would also create jobs and stimulate the state economy)
  - Do <u>not</u> require an institutional match (due to COVID-19 costs and forgone revenue)

CPE Agency Budget

- Operating Funds
  - Fund Swap Restoration → $3,500,000 to restore agency base funding to the fiscal year 2019-20 level (there was a one-time reduction in CPE's 2020-21 General Fund appropriation, with a planned restoration of those funds in 2021-22)
  - P-20 Strategic Initiatives → $1,500,000 in General Fund (i.e., $800k recurring and $700k nonrecurring) to strengthen the pipeline between K-12 and postsecondary education by developing coordinated outreach and advising strategies, tools for helping students navigate the path from college to career, programs for recruiting and training a more diverse teacher corps, and high-quality dual credit and early learning opportunities
  - Kentucky Education-to-Work (E2W) Initiative → $850,000 in recurring funds to streamline, improve, and expand education and training that leads to quality jobs, credit for prior learning and work-based learning opportunities, access to short-term

credential programs aligned with industry needs, career advising and support, and small business support services

TITLE: Tuition and Mandatory Fee Policy and Tuition Setting Timeline

RECOMMENDATION: Staff recommends that the Finance Committee endorse for full Council approval the attached *Tuition and Mandatory Fee Policy*, which includes some proposed changes to the Asset Preservation Fee Exception Policy. The *Tuition and Mandatory Fee Policy* will provide a framework for establishing public postsecondary tuition and fees for academic year 2021-22. The *Preliminary 2021-22 Tuition Setting Timeline* is included for information.

PRESENTERS: Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Director of Finance and Budget, CPE
Ryan Kaffenberger, Senior Associate for Finance and Budget, CPE

SUPPORTING INFORMATION

CPE staff recommends that the Finance Committee endorse for full Council approval the attached *Tuition and Mandatory Fee Policy*. Once approved by the Council, the tuition policy will help guide the development of tuition and mandatory fee ceiling recommendations for academic year 2021-22 and will facilitate the submission and evaluation of campus tuition and fee rate proposals.

For academic year 2021-22, the *Tuition and Mandatory Fee Policy* includes proposed changes to the Asset Preservation Fee Exception Policy, which were discussed at the October 20 meeting of the Finance Committee and are described in detail below.

Based on the attached *Preliminary 2021-22 Tuition Setting Timeline*, it is anticipated that the Council will take action on recommended tuition and mandatory fee ceilings at the April 16, 2021 meeting and approve campus proposed tuition and fee rates at the June 25, 2021 meeting. The preliminary timeline does not require Council approval.

Background on the Asset Preservation Fee Exception Policy

On February 2, 2018, the Council on Postsecondary Education approved an Asset Preservation Fee Exception Policy that allows institutions to request an exemption from a Council approved tuition and fee rate ceiling for an Asset Preservation Fee that meets certain policy provisions. According to the policy:

> An asset preservation fee is a mandatory, flat-rate fee that has been approved by an institution’s governing board, the revenue from which shall either be expended upon collection on asset preservation and renovation

and fit-for-use capital projects, or used to pay debt service on agency bonds issued to finance such projects, that support the instructional mission of the institution.

The policy requires that a proposed fee and project supported by the fee be approved by an institution's governing board and the fee's impact on total tuition and fee charges be reasonable in the year in which the fee is implemented. According to Council policy, a fee that qualifies for an exemption and is approved by the Council shall not be in effect for longer than 25 years.

Institutions that have adopted asset preservation fees must provide an annual report of the fee revenue generated and asset preservation projects funded using fee revenue.

Proposed Changes

As part of the annual reporting process and in response to questions from campus officials, CPE staff reviewed the existing Asset Preservation Fee Exception Policy. As a result of that review, on October 8, 2020, staff contacted campus chief budget officers (CBOs) and requested feedback and suggestions to make the policy clearer and better suited to meet the needs of the institutions.

Campus officials provided feedback as requested and staff created a revised Asset Preservation Fee Exception Policy that reflects the proposed changes (see the red font and strikethrough in the attached policy). The proposed changes are listed below.

- Remove the requirement that the cost of a proposed asset preservation and renovation or fit-for-use project or a grouping of such projects must equal or exceed a $1.0 million threshold.
- Add language to clarify that fee revenue may be accumulated over time until it meets a specific project's scope and that fee revenue may be used to pay debt service on instruments used to finance projects other than Agency Bonds.
- Provide guidance regarding the use of fee revenue on ongoing asset preservation, renovation, and fit-for-use projects not included in the initial approval of an institution's Asset Preservation Fee.

The final proposal is attached for review and endorsement by the Finance Committee.

Council on Postsecondary Education
Tuition and Mandatory Fee Policy

Academic Year 2021-22

The Council on Postsecondary Education is vested with authority under KRS 164.020 to determine tuition at public postsecondary education institutions in the Commonwealth of Kentucky. Kentucky's goals of increasing educational attainment, promoting research, assuring academic quality, and engaging in regional stewardship must be balanced with current needs, effective use of resources, and prevailing economic conditions. For the purposes of this policy, mandatory fees are included in the definition of tuition. During periods of relative austerity, the proper alignment of the state's limited financial resources requires increased attention to the goals of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1) and the Strategic Agenda for Kentucky Postsecondary and Adult Education.

Fundamental Objectives

- Funding Adequacy

HB 1 states that Kentucky shall have a seamless, integrated system of postsecondary education, strategically planned and adequately funded to enhance economic development and quality of life. In discharging its responsibility to determine tuition, the Council, in collaboration with the institutions, seeks to balance the affordability of postsecondary education for Kentucky's citizens with the institutional funding necessary to accomplish the goals of HB 1 and the Strategic Agenda.

- Shared Benefits and Responsibility

Postsecondary education attainment benefits the public at large in the form of a strong economy and an informed citizenry, and it benefits individuals through elevated quality of life, broadened career opportunities, and increased lifetime earnings. The Council and the institutions believe that funding postsecondary education is a shared responsibility of state and federal governments, students and families, and postsecondary education institutions.

- Affordability and Access

Since broad educational attainment is essential to a vibrant state economy and to intellectual, cultural, and political vitality, the Commonwealth of Kentucky seeks to ensure that postsecondary education is broadly accessible to its citizens. The Council and the institutions are committed to ensuring that college is affordable and accessible to all academically qualified Kentuckians with particular emphasis on adult learners, part-time students, minority students, and students from low- and moderate-income backgrounds.

The Council believes that no citizen of the Commonwealth who has the drive and ability to succeed should be denied access to postsecondary education in Kentucky because of inability to pay. Access should be provided through a reasonable combination of savings, family contributions, work, and financial aid, including grants and loans.

In developing a tuition and mandatory fees recommendation, the Council and the institutions shall work collaboratively and pay careful attention to balancing the cost of attendance—including tuition and mandatory fees, room and board, books, and other direct and indirect costs—with students' ability to pay by taking into account (1) students' family and individual income; (2) federal, state, and institutional scholarships and grants; (3) students' and parents' reliance on loans; (4) access to all postsecondary education alternatives; and (5) the need to enroll and graduate more students.

- Effective Use of Resources

Kentucky's postsecondary education system is committed to using the financial resources invested in it as effectively and productively as possible to advance the goals of HB 1 and the Strategic Agenda, including undergraduate and graduate education, engagement and outreach, research, and economic development initiatives. The colleges and universities seek to ensure that every dollar available to them is invested in areas that maximize results and outcomes most beneficial to the Commonwealth and its regions. It is anticipated that enactment of Senate Bill 153, the *Postsecondary Education Performance Funding Bill,* during the 2017 legislative session will provide ongoing incentives for increased efficiency and productivity within Kentucky's public postsecondary system. The Council's Strategic Agenda and funding model metrics will be used to monitor progress toward attainment of both statewide and institutional HB 1 and Strategic Agenda goals.

- Attracting and Importing Talent to Kentucky

It is unlikely that Kentucky can reach its 2030 postsecondary education attainment goal by focusing on Kentucky residents alone. The Council and the institutions are committed to making Kentucky institutions financially attractive to nonresident students, while recognizing that nonresident undergraduate students should pay a significantly larger proportion of the cost of their education than do resident students. Tuition reciprocity agreements, which provide low-cost access to out-of-state institutions for Kentucky students that live near the borders of other states, also serve to attract students from surrounding states to Kentucky's colleges and universities.

A copy of the Council's nonresident student tuition and mandatory fee policy is contained in the paragraphs below. Going forward, Council staff will periodically review and evaluate the policy to determine its impact on attracting and retaining students that enhance diversity and the state's competitiveness.

Nonresident Student Tuition and Fees

The Council and the institutions believe that nonresident students should pay a larger share of their educational costs than do resident students. As such, published tuition and fee levels adopted for nonresident students shall be higher than the prices for resident students enrolled in comparable programs of study.

In addition, every institution shall manage its tuition and fee rate structures, price discounting, and scholarship aid for out-of-state students, such that in any given year, the average net tuition and fee revenue generated per nonresident undergraduate student equals or exceeds130% of the annual full-time tuition and fee charge assessed to resident undergraduate students (i.e., the published in-state sticker price). As part of the tuition and fee setting process, staff shall monitor and report annually to the Council regarding compliance with this requirement.

The Council acknowledges that in some instances increasing nonresident student enrollment benefits both the Commonwealth and the institution. For this reason, exceptions to the 130% threshold may be requested through a Memorandum of Understanding (MOU) process and will be evaluated on a case by case basis by the Council. The main objective of the MOU process is to clearly delineate goals and strategies embedded in enrollment management plans that advance the unique missions of requesting institutions.

Special Use Fee Exception Policy

During the 2010-11 tuition setting process, campus officials requested that the Council consider excluding student-endorsed fees from its mandatory fee definition, thus omitting consideration of such fees when assessing institutional compliance with Council approved tuition and fee rate ceilings. Based on feedback received from institutional Chief Budget Officers (CBOs) at their December 2010 meeting, it was determined that there was general interest in treating student-endorsed fees differently from other mandatory fees.

In January and February 2011, Council staff collaborated with institutional presidents, CBOs, and their staffs in developing the following Special Use Fee Exception Policy:

- To the extent that students attending a Kentucky public college or university have deliberated, voted on, and requested that their institution’s governing board implement a special use fee for the purposes of constructing and operating and maintaining a new facility, or renovating an existing facility, that supports student activities and services;
- And recognizing that absent any exemption, such student-endorsed fees, when implemented in the same year that the Council adopts tuition and fee rate ceilings, would reduce the amount of additional unrestricted tuition and fee revenue available for an institution to support its E&G operation;
- The Council may elect to award an exemption to its tuition and fee rate ceiling equivalent to all or a portion of the percentage increase resulting from imposition of the student-endorsed fee, provided said fee meets certain eligibility requirements.

<u>Definitions</u>

A student-endorsed fee is a mandatory flat-rate fee that has been broadly discussed, voted on, and requested by students and adopted by an institution’s governing board, the revenue from which may be used to pay debt service and operations and maintenance expenses on new facilities, or capital renewal and replacement costs on existing facilities and equipment that support student activities and services, such as student unions, fitness centers, recreation complexes, health clinics, and/or tutoring centers.

Maintenance and Operations (M&O) expenses are costs incurred for the administration, supervision, operation, maintenance, preservation, and protection of a facility. Examples of M&O expenses include janitorial services, utilities, care of grounds, security, environmental safety, routine repair, maintenance, replacement of furniture and equipment, and property and facility planning and management.

Eligibility Criteria

A student-endorsed fee will continue to be a mandatory fee within the context of the Council's current mandatory fee definition and may qualify for an exemption from Council approved tuition and fee rate ceilings. Campus officials and students requesting an exemption under this policy must be able to demonstrate that:

- All enrolled students have been afforded ample opportunity to be informed, voice their opinions, and participate in the decision to endorse a proposed fee. Specifically, it must be shown that fee details have been widely disseminated, broadly discussed, voted on while school is in session, and requested by students.
- For purposes of this policy, voted on means attaining:
  a) a simple majority vote via campus-wide referendum, with a minimum of one-quarter of currently enrolled students casting ballots;
  b) a three-quarters vote of elected student government representatives; or
  c) a simple majority vote via campus-wide referendum, conducted in conjunction and coinciding with the general election of a student government president or student representative to a campus board of regents or board of trustees.
- The proposed fee and intended exemption request have been presented to, and adopted by, the requesting institution's governing board. It is anticipated that elected student government representatives will actively participate in board presentations.
- Revenue from such fees will be used to pay debt service and M&O expenses on new facilities, or capital renewal and replacement costs on existing facilities and equipment that support student activities and services, such as student unions, fitness centers, recreation complexes, health clinics, and/or tutoring centers. The Council expects these uses to be fully explained to students prior to any votes endorsing a fee.
- In any given year, the impact of a student-endorsed fee on the overall increase in tuition and mandatory fees for students and their families will be reasonable. It may be appropriate to phase in the exemption over multiple years to maintain affordability and access.
- Requests for student-endorsed exemptions are infrequent events. The Council does not expect requests for exemptions under this policy to occur with undue frequency from any single institution and reserves the right to deny requests that by their sheer number are deemed excessive.

- A plan is in place for the eventual reduction or elimination of the fee upon debt retirement, and details of that plan have been shared with students. The Council does not expect a fee that qualifies for an exemption under this policy to be assessed at full rate in perpetuity. Such fees should either terminate upon completion of the debt or, in the case of new facilities, may continue at a reduced rate to defray ongoing M&O costs. In either case, to qualify for an exemption, students should be fully aware of the extent of their obligation prior to any votes endorsing a fee.

Exemption Process

Requests for an exemption under this policy will be evaluated on a case-by-case basis. To initiate the process:

- The requesting institution will notify Council staff of any pending discussions, open forums, referendums, or student government actions pertaining to a proposed special use fee and discuss fee details with Council staff as needed.
- After a fee has been endorsed by student referendum or through student government action and approved by the institution's governing board, campus officials and students will submit a written exemption request to the Council for its consideration.
- Council staff will review the request, assess whether or not the proposed fee qualifies for an exemption, and make a recommendation to the Council.

To facilitate the exemption request process, requesting institutions and students are required to provide the Council with the following information:

- Documents certifying that the specific project and proposed fee details have been widely disseminated, broadly discussed, voted on, and requested by students, as well as adopted by the institution's governing board.
- Documents specifying the fee amount, revenue estimates, uses of revenue, impact on tuition and fees during the year imposed (i.e., percentage points above the ceiling), and number of years the fee will be in place.
- Documents identifying the project's scope, time frame for completion, debt payment schedule, and plan for the eventual reduction or elimination of the fee upon debt retirement.

Asset Preservation Fee Exception Policy

During the 2017-18 tuition setting process, campus officials asked if the Council would consider allowing institutions to assess a new student fee, dedicated to supporting expenditures for asset preservation and renovation projects, that would be treated as being outside the tuition and fee caps set annually by the Council. Staff responded that it was too late in the process to allow for a full vetting of a proposed change to the Council's Tuition and Mandatory Fee Policy prior to the Council adopting tuition ceilings at the March 31, 2017 meeting. In addition, staff wanted to explore the possibility of adopting a system-wide asset preservation fee that would benefit and address asset preservation needs at every public postsecondary institution.

In August 2017, staff determined that there was general interest among campus officials to pursue a change in tuition policy that would allow each institution the option to implement a student fee for asset preservation, if its administrators and governing board chose to do so, that would be exempted from Council approved tuition and fee ceilings. In September and October, Council staff worked with campus presidents, chief budget officers, and Budget Development Work Group members to develop the Asset Preservation Fee Exception Policy described below.

- Given that in 2007, Council and postsecondary institution staffs contracted with Vanderweil Facilities Advisors, Inc. (VFA) and Paulien and Associates to conduct a comprehensive assessment of Kentucky's public postsecondary education facilities to determine both system and individual campus needs for new and expanded space, asset preservation and renovation, and fit-for-use capital projects;

- Given that in 2013, VFA adjusted the data from its 2007 study to account for continuing aging of postsecondary facilities and rising construction costs, and projected that the cumulative need for asset preservation and fit-for-use expenditure would grow to $7.3 billion within the 2017 to 2021 timeframe;

- Given that over the past five biennia, 2008-10 through 2016-18, the Commonwealth of Kentucky has appropriated a total of $262.0 million for its public colleges and universities to address asset preservation and renovation and fit-for-use projects, representing about 3.6% of the total cumulative need identified by VFA;

- Given that in late summer 2017, the Council and postsecondary institutions concluded that one reasonable course of action to begin to address the overwhelming asset preservation and renovation and fit-for-use needs was through sizable and sustained investment in existing postsecondary facilities, which could be accomplished through a cost sharing arrangement involving the state, postsecondary institutions, and students and families;

- Given that the best way to ensure the ongoing commitment and participation of students and families in a cost-sharing partnership to address asset preservation and renovation needs is through the implementation of an optional dedicated student fee;

- Given that such an asset preservation fee, when implemented in the same year that the Council adopts a tuition and fee rate ceiling, would reduce the amount of additional unrestricted tuition and fee revenue available for an institution to support its E&G operation;

- The Council may elect to award an exemption to its tuition and fee rate ceiling of up to $10.00 per credit hour at the public universities, capped at 15 credit hours per semester for undergraduate students, for a dedicated student fee that supports asset preservation and renovation projects related to the instructional mission of the institution;

- The Council may elect to award an exemption to its tuition and fee rate ceiling of up to $5.00 per credit hour at KCTCS institutions, capped at 15 credit hours per semester, for a dedicated student fee that supports asset preservation and renovation projects related to the instructional mission of the institution.

Definition

An asset preservation fee is a mandatory, flat-rate fee that has been approved by an institution's governing board, the revenue from which shall either be expended upon collection on asset preservation and renovation and fit-for-use capital projects, or used to pay debt service on agency bonds issued to finance such projects, that support the instructional mission of the institution. Thus, by definition, fee revenue and bond proceeds derived from such fees shall be restricted funds for the purposes of financing asset preservation and renovation projects. As a mandatory fee, an asset preservation fee may be assessed to students regardless of degree level or program or full-time or part-time status.

Eligibility Criteria

An asset preservation fee may qualify for an exemption from Council approved tuition and fee rate ceilings, provided the following criteria are met:

- The proposed asset preservation project(s) and related fee shall be approved by the requesting institution's governing board.

- ~~The cost of a given asset preservation and renovation or fit-for-use project shall equal or exceed $1.0 million; however, several smaller asset preservation projects may be bundled to meet the threshold requirement.~~

- Revenue from the fee may either be expended upon collection on asset preservation and renovation or fit-for-use projects, accumulated to meet a specific project's scope, or used to pay debt service on agency bonds or other instruments used ~~issued~~ to finance such projects.

- Both the direct expenditure of fee revenue and the expenditure of agency bond funds generated by the fee may be used to meet matching requirements on state bond funds issued for asset preservation projects. In previous biennia, state leaders have required a dollar-for-dollar institutional match on state-funded asset preservation pools.

- In any given academic year, the impact of implementing an asset preservation fee, when combined with a tuition and fee increase supporting campus operations, will be reasonable for Kentucky students and families. For the purposes of this policy exemption, the Council shall determine whether a proposed asset preservation fee, in combination with a tuition and fee increase allowed under a Council-approved tuition ceiling, is reasonable. This assessment will be made within the context of state economic and budgetary conditions, institutional resource needs, and affordability concerns at the time.

- Depending on the outcome of the aforementioned assessment, it may be appropriate to phase in a requested fee over multiple years to maintain affordability and access.
- The Council does not expect a fee that qualifies for an exemption under this policy to remain in effect in perpetuity. To be eligible for an exemption, the requesting institution must have a plan in place for the eventual elimination of a proposed asset preservation fee within 25 years of its initial implementation date.

Exemption Process

The Council will evaluate requests for a fee exemption under this policy on a case-by-case basis. To initiate the process:

- An institution's governing board must approve the proposed asset preservation project(s) and related student fee.
- Campus officials must submit to the Council a copy of that board approval, along with a written request to exempt the asset preservation fee from Council tuition and fee ceilings.
- Council staff will review the request, assess whether or not the proposed project(s) and related fee qualify for an exemption, and make a recommendation to the Council.

To facilitate the exemption-request review process, a requesting institution shall provide the Council with the following information:

- Documents certifying that the specific asset preservation project(s) financed and proposed fee details have been approved by the institution's governing board.
- Documents specifying the fee amount, anticipated implementation date, revenue projections, uses of revenue, number of years the fee will be in place, and impact on tuition and fees in the year imposed (i.e., percentage points above the ceiling).
- Documents identifying the project's scope, its timeframe for completion, debt payment schedule, and plan for the eventual elimination of the fee upon debt retirement.

Periodic Reporting

- Upon request by the Council, the postsecondary institutions will provide documentation certifying the date an asset preservation fee was implemented, annual amounts of fee revenue generated to date, uses of fee revenue, the amount of fee revenue or agency bond funds used to meet state matching requirements on asset preservation project appropriations, and the number of years the fee will remain in place.

Ongoing Usage

- Once an Asset Preservation Fee is approved by the Council, revenue generated from the fee may be used for ongoing asset preservation, renovation and fit-for-use projects with institutional board approval.
- Asset preservation, renovation and fit-for-use project(s) financed with asset preservation fee revenue shall comply with all statutory requirements pertaining to the approval of capital projects (KRS 45.750, KRS 45.763, KRS 164.020 (11)(a), KRS 164A.575).

Council on Postsecondary Education
Preliminary 2021-22 Tuition Setting Timeline

Nov – Dec — Council staff works with campus chief budget officers (CBOs) to develop any proposed changes to the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy and to identify key issues that might impact the 2021-22 tuition setting cycle.

Dec 2, 2020 — Presidents' Meeting – Council staff updates the presidents regarding any potential changes to the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy. Key issues for 2021-22 are discussed.

Dec 15, 2020 — Finance Committee Meeting – Council staff shares the preliminary Tuition Setting Timeline and current Tuition and Mandatory Fee Policy with Finance Committee members for review and discussion. Key issues for 2021-22 are discussed.

Dec – Jan — Council staff continues to work with campus CBOs to finalize proposed Tuition Setting Timeline and Tuition and Mandatory Fee Policy documents and begins collecting and updating policy relevant data in the areas of funding adequacy, shared benefits and responsibility, affordability and access, attracting and importing talent, and productivity. Postsecondary institutions begin collecting data related to fixed cost increases, tuition and fee revenue estimates, potential impact of tuition increases, anticipated uses of additional tuition and fee revenue, and budgeted student financial aid expenditures.

Jan 6, 2021 — Presidents' Meeting – Council staff shares proposed Tuition Setting Timeline and Tuition and Mandatory Fee Policy documents with postsecondary institution presidents for review and discussion. Key issues that might impact the 2021-22 tuition setting cycle are discussed.

Jan – Feb — Council and institutional staffs continue respective data collection efforts.

Jan 12, 2021 — Finance Committee Meeting – Revised Tuition Setting Timeline, proposed Tuition and Mandatory Fee Policy, and updated policy relevant data are presented for review, discussion, and endorsement.

Jan 29, 2021 — CPE Meeting – Finance Committee presents final Tuition Setting Timeline for Council information and proposed Tuition and Mandatory Fee Policy for Council action and provides update on 2021-22 tuition setting process.

Feb 3, 2021 — Presidents' Meeting – Council staff shares updated policy relevant data for review and discussion. Components of the Governor's proposed budget and implications for the upcoming tuition cycle are discussed.

Feb – Mar	Council and institutional staffs exchange information from respective data collection efforts and begin finalizing for distribution to Council members.
Mar 3, 2021	Presidents' Meeting – Council staff shares updated policy relevant data and initiates discussion of tuition and mandatory fee ceilings.
Mar 23, 2021	Finance Committee Meeting – Staff presents finalized policy relevant data and updates committee members regarding discussions to date.
Apr 7, 2021	Presidents' Meeting – Council staff shares draft tuition and fee ceilings with campus presidents for review and discussion.
(Date TBD)	Conference call with campus presidents and chief budget officers to discuss components of the enacted 2021-22 budget and implications for the 2021-22 tuition and fee recommendation.
(Date TBD)	Finance Committee Meeting – Staff presents proposed tuition and mandatory fee ceilings for review, discussion, and endorsement.
Apr 16, 2021	CPE Meeting – Finance Committee presents proposed tuition and fee ceilings for Council action.
May – Jun	Postsecondary institutions submit proposed tuition and mandatory fee rates to Council staff. The Council president updates Council members regarding rate proposals.
May 4, 2021	Finance Committee Meeting – Review campus proposals
June 8, 2021	Finance Committee Meeting – Review campus proposals
Jun 25, 2021	CPE Meeting – The Council takes action on each institution's proposed tuition and mandatory fee rates.

TITLE: Postsecondary Education Working Group Recommendations

DESCRIPTION: Summary of recommendations regarding application of performance funding models going forward endorsed by work group members at their December 2, 2020 meeting.

PRESENTERS: Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Director of Finance and Budget, CPE

The sixth and final meeting of the 2020 convening of the Postsecondary Education Working Group (PEWG) was held on December 2, 2020. At that meeting, CPE staff reviewed and led discussion about the implications of establishing a General Fund floor, or base level of state support, for each public postsecondary institution over the next several years and eliminating stop-loss contributions made by the institutions to the Postsecondary Education Performance Fund (PEPF) each year.

This approach, referred to by the group as the *General Fund Floor Proposal*, calls for the Governor and General Assembly, during the 2021 short session, to establish a base level of funding for each public postsecondary institution in fiscal year 2021-22 that is equal to the revised net General Fund appropriation for each institution in fiscal year 2020-21, minus mandated program funding in fiscal 2020-21 (a.k.a., the “Floor 21”). The proposal also urges policymakers to prioritize maintaining funding for the newly created floor over additional appropriations for the performance fund.

In addition, the proposal recommends that annual stop-loss contributions (e.g., the base carve outs of 1.0% in fiscal 2019-20 and 2.0% in 2020-21) made by the postsecondary institutions to the PEPF be discontinued, so that any and all monies appropriated to the performance fund going forward will be provided by the General Assembly. Moreover, any appropriated funds would be distributed among institutions on a nonrecurring basis, based on each institution’s performance on student success outcomes and operational support activity relative to the sector average. This will allow appropriated performance funds to become recurring to the PEPF in subsequent years.

CPE staff will continue to use the existing public university funding model with no changes, and KCTCS officials will continue to use the existing two-year college model with no changes, to distribute any new funding appropriated to the PEPF. Finally, CPE will reconvene the working group at such time as to provide sufficient time to further assess the functioning of the funding models and submit recommendations for changes to the Governor and General Assembly by no later than December 1, 2023.

At the December 2 meeting, members of the Postsecondary Education Working Group reached consensus concerning a list of recommendations to submit to the Governor and General Assembly prior to the start of the 2021 short session of the Kentucky legislature. That list contains elements of the *General Fund Floor Proposal* described above and is attached for Finance Committee review and discussion (Attachment A).

ATTACHMENT A
December 15, 2020

Postsecondary Education Working Group Recommendations
Application of Performance Funding Models Going Forward

At the December 2, 2020 meeting of the Postsecondary Education Working Group, members reached consensus on the following recommendations for the Governor and General Assembly:

- A General Fund appropriation floor ("Floor 21") should be established for each public postsecondary institution that equals each institution's revised net General Fund appropriation[1] for fiscal year 2020-21 (FY21) less appropriations for FY21 Mandated Programs.
- The General Assembly is in no way constrained by the proposed General Fund floor for each institution in the event that a budget reduction is necessary.
- Policymakers should prioritize maintaining each institution's General Fund floor over providing new funds for performance funding.
- Mandated program appropriations should continue to be line-itemed in appropriations bills and are subject to increase or decrease.
- Going forward, there should be no redistribution of base funding among postsecondary institutions, which means the institutions will not provide stop loss contributions to the Postsecondary Education Performance Fund (PEPF).
- Therefore all funding in the PEPF will be appropriations provided by the General Assembly.
- CPE will use the existing public university funding model, and KCTCS will use the existing two-year college model, with no changes, to distribute any new funding appropriated to the PEPF.
- Performance distributions will be non-recurring to the base budgets of institutions that earn those funds, so that performance funds will be recurring to the PEPF in subsequent years.
- CPE will reconvene the working group and submit recommendations for revisions to the models by no later than December 1, 2023.

[1] The FY21 revised net General Fund is defined as each institution's FY21 regular appropriation, plus any FY21 distribution from the Postsecondary Education Performance Fund, less FY21 debt service.