

**AGENDA**  
**Council on Postsecondary Education**  
**Executive Committee**

**July 1, 2004**  
**9:30 a.m. (ET)**  
**Meeting Room A, CPE Offices, Frankfort, KY**

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1. Roll Call	
2. Approval of Minutes .....	1
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a. Non-Profit Corporation .....	33
b. 2004-05 Agency Budget .....	35
c. 2004-06 Budget/Public Services Continuation Plan Update (Handout)	
8. Adjournment	

**MINUTES**  
**Council on Postsecondary Education**  
**Executive Committee**  
**November 17, 2003**

The Executive Committee of the Council on Postsecondary Education met November 17, 2003, at 2 p.m. at the Hyatt Regency in Louisville, Kentucky. Chair Barger presided.

**ROLL CALL**

The following committee members were present: Steve Barger, Peggy Bertelsman, Bart Darrell, Ron Greenberg, and Joan Taylor. Other Council members present: Walter Baker, Richard Freed, and Esther Jansing.

**APPROVAL OF  
MINUTES**

The minutes of the September 21, 2003, Executive Committee meeting were approved as distributed.

**FY 2002-03  
AGENCY AUDIT**

**RECOMMENDATION:** The staff recommends that the Executive Committee on behalf of the Council accept the FY 2002-03 agency audit and report back to the Executive Committee on actions taken to resolve management comments contained in the audit report.

Allen Norvell with Potter & Company reviewed the audit report and stated that there were no references of noncompliance found. Management letters were provided on the general audit and on travel procedures and requirements. The committee members asked the Council staff to provide an annual report on the pass-through programs.

The executive committee had asked Potter & Company for a cost estimate for a management audit on the business controls in place, or that should be in place, related to the transfer of the adult education and literacy programs. Mr. Norvell provided the committee with a proposal costing an additional \$8,000. The committee members will review the proposal and will decide if this review should occur at the present time or can be reported as part of next year's audit of the Council (which will include adult education activities).

**MOTION:** Ms. Bertelsman moved that the audit report be accepted. Mr. Greenberg seconded the motion.

**VOTE:** The motion passed.

**CAPITAL  
PROJECT – KCTCS**

**RECOMMENDATION:** The staff recommends that the Executive Committee on behalf of the Council approve the request of the Kentucky Community and Technical College System to construct a vehicle and pedestrian connection between the Somerset Community College campus and the Technical College campus with \$1,200,000 in federal funds (Federal Highway Administration Transportation and Community System Preservation Grant).

**MOTION:** Ms. Bertelsman moved that the recommendation be approved. Ms. Taylor seconded the motion.

VOTE: The motion passed.

CAPITAL  
PROJECT –  
KSU

RECOMMENDATION: The staff recommends that the Executive Committee on behalf of the Council approve the request of Kentucky State University to purchase a Satellite Uplink Mobile Unit with \$900,000 of federal funds (U.S. Department of Agriculture).

MOTION: Mr. Darrell moved that the recommendation be approved. Ms. Bertelsman seconded the motion.

VOTE: The motion passed.

2004-06  
REGIONAL  
STEWARDSHIP  
PROGRAM  
GUIDELINES

At the November 2003 CPE meeting, the staff was asked to revise the 2004-06 Regional Stewardship Program Guidelines to include the involvement of the P-16 councils and the independent institutions. The revised guidelines were distributed.

2004-06 TOTAL  
BUDGET  
FUNDING  
DISTRIBUTION  
POLICY

The Council adopted the 2004-06 Total Budget Funding Distribution Policy at the November 3 CPE meeting. Mr. Layzell said that the staff is consulting with the institutions to consider several options regarding possible principles that may be used to guide the Governor and legislature in the allocation of less than full funding of the total budget recommendation. The presidents will discuss the draft principles at their December 8 meeting.

The executive committee expressed an interest in being involved as the total budget funding distribution principles are being developed. The staff will send the guidelines to the Council members prior to the December 8 discussion and will provide an update after that meeting.

The meeting adjourned at 3:15 p.m.

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Thomas D. Layzell  
President

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Phyllis L. Bailey  
Associate, Executive Relations

## 2004 Strategic Planning Process

As follow-up to the Council's May 2004 action to initiate a strategic plan update process (attached), the staff has identified a number of issues for Council discussion. The following outline is offered as a starting point for a conversation with the Executive Committee:

1. Timeline
  - Phases
  - Linkages with comprehensive funding review, 2006-08 budget process, EEO planning, eLearning strategy, P-16 planning, adult education planning
  - Council member involvement
2. Analysis
  - Current Assessment
  - Enrollment and impact analysis
3. Public/Regional Involvement
  - Regional forums
    - Dates
    - Locations
    - Format
    - Invitees
    - Presentations/materials
  - Communications Strategy
4. Campus Involvement
  - Campus forums
    - Dates
    - Locations
    - Format
    - Invitees
    - Presentations/materials
  - Presidents meetings
5. Partner Involvement
  - Meetings with individuals, groups, and agencies
6. Mission Review
  - CPE's statutory responsibility
  - Issues
  - Process
7. House Bill 1 Goals
  - Proposed revisions
8. Planning Documents

- Public agenda
- Statewide action agenda
- Institutional action agenda

9. Key Indicators

- Statewide
- Institutional

**Kentucky Postsecondary Education 2004 Strategic Planning Process  
Opportunities for Council Member Involvement**

Date	Meeting	Action
July 1, 2004	Executive Committee	planning process preliminary plans and dates for regional and campus forums
July 19, 2004	CPE	update of the planning process dates for regional and campus forums draft agendas for regional and campus forums comprehensive data assessment enrollment impact analysis/projections
August 2004	CPE Retreat	draft public agenda to be distributed at regional and campus forums final plans for regional and campus forums comprehensive data assessment and enrollment impact analysis/projections draft state-level implementation plans and key indicators
September 19, 2004	CPE	update on the planning process report on the regional and campus forums held thus far draft public agenda draft state-level implementation plans and key indicators
October 2004	Executive Committee	update on the regional and campus forums and reviews the draft public agenda draft state-level implementation plans and key indicators draft institutional action agendas, mission statements, and performance goals
November 8, 2004	CPE	approve Statewide Public Agenda draft institutional action agendas, mission statements, and performance goals
December 2004	Executive Committee	key indicator goals draft institutional action agendas, mission statements, and performance goals
January 2005	Executive Committee	key indicator goals draft institutional action agendas, mission statements, and performance goals
February 2005	CPE	approve key indicator goals approve draft institutional action agendas, mission statements, and performance goals

Postsecondary Education 2004 Strategic Planning Process

Regional and Campus Forums – Council Member Involvement

<b>DATE</b>	<b>TIME</b>	<b>CITY</b>	<b>EVENT</b>	<b>AREA DEVELOPMENT DISTRICT/COUNTIES</b>	<b>COUNCIL MEMBER CLOSEST PROXIMITY</b>
9-1-04	6:30-9 pm (ET)	Prestonsburg	Prestonsburg regional forum	Big Sandy ADD: Floyd, Johnson, Magoffin, Martin, Pike FIVCO ADD: Boyd, Carter, Elliott, Greenup, Lawrence	Lois Weinberg
9-2-04	9:30-11:30 am (ET)	Prestonsburg	Big Sandy CTC campus forum		Lois Weinberg
9-8-04	6:30-9 pm (ET)	Lexington	Lexington regional forum	Bluegrass ADD: Anderson, Bourbon, Boyle, Clark, Estill, Fayette, Franklin, Garrard, Harrison, Jessamine, Lincoln, Madison, Mercer, Nicholas, Powell, Scott, Woodford Gateway ADD: Bath, Rowan, Menifee, Montgomery, Morgan	Richard Freed John Hall Joan Taylor
9-9-04	9:30-11:30 am (ET)	Lexington	UK campus forum		Richard Freed John Hall Joan Taylor
9-10-04	9:30-11:30 am (ET)	Elizabethtown	Elizabethtown CTC campus forum		Walter Baker Steve Barger JP Davis Ron Greenberg Charlie Owen
9-27-04	2-4 pm (ET)	Morehead	MoSU campus forum		Richard Freed John Hall Joan Taylor
9-29-04	6:30-9 pm (ET)	Covington	Covington regional forum	Northern KY ADD: Boone, Campbell, Carroll, Gallatin, Grant, Kenton, Owen, Pendleton Buffalo Trace ADD: Bracken, Fleming, Lewis, Mason, Robertson	Peggy Bertelsman Charles Whitehead
9-30-04	9:30-11:30 am (ET)	Highland Heights	NKU campus forum		Peggy Bertelsman Charles Whitehead
10-4-04	6:30-9 pm (ET)	Louisville	Louisville regional forum	KIPDA ADD: Bullitt, Henry, Jefferson, Oldham, Shelby, Spencer, Trimble	Steve Barger JP Davis Ron Greenberg Charlie Owen
10-5-04	2-4 pm (ET)	Louisville	UofL campus forum		Steve Barger JP Davis Ron Greenberg

<b>DATE</b>	<b>TIME</b>	<b>CITY</b>	<b>EVENT</b>	<b>AREA DEVELOPMENT DISTRICT/COUNTIES</b>	<b>COUNCIL MEMBER CLOSEST PROXIMITY</b>
					Charlie Owen
10-11-04	2-4 pm (ET)	Frankfort	KSU campus forum		Steve Barger JP Davis Richard Freed Ron Greenberg John Hall Charlie Owen Joan Taylor
10-13-04	6:30-9 pm (ET)	Manchester	Manchester regional forum	Cumberland Valley ADD: Bell, Clay, Harlan, Jackson, Knox, Laurel, Rockcastle, Whitley KY River ADD: Breathitt, Knott, Lee, Leslie, Letcher, Owsley, Perry, Wolfe	Lois Weinberg
10-14-04	9:30-11:30 am (ET)	Williamsburg	Cumberland College campus forum		Walter Baker Lois Weinberg
10-21-04	9:30-11:30 am (ET)	Richmond	EKU campus forum		Richard Freed John Hall Joan Taylor
10-25-04	6:30-9 pm (CT)	Paducah	Paducah regional forum	Purchase ADD: Ballard, Calloway, Carlisle, Fulton, Graves, Hickman, Marshall, McCracken	Susan Guess Ken Winters
10-26-04	9:30-11:30 am (CT)	Paducah	Paducah CC campus forum		Susan Guess Ken Winters
10-26-04	6:30-9 pm (CT)	Madisonville	Madisonville regional forum	Pennyrile ADD: Caldwell, Christian, Crittenden, Hopkins, Livingston, Lyon, Muhlenberg, Todd, Trigg Green River ADD: Daviess, Hancock, Henderson, McLean, Ohio, Union, Webster	Esther Jansing
10-27-04	9:30-11:30 am (CT)	Murray	MuSU campus forum		Susan Guess Ken Winters
10-27-04	6:30-9 pm (CT)	Glasgow	Glasgow regional forum	Barren River ADD: Allen, Barren, Butler, Edmonson, Hart, Logan, Metcalfe, Monroe, Simpson, Warren Lake Cumberland ADD: Adair, Casey, Clinton, Cumberland, Green, McCreary, Pulaski, Russell, Taylor, Wayne Lincoln Trail ADD: Breckinridge, Grayson, Hardin, Larue, Marion, Meade, Nelson, Washington	Walter Baker John Turner
10-28-04	9:30-11:30 am (CT)	Bowling Green	WKU campus forum		Walter Baker John Turner



## Kentucky Postsecondary Education 2004 Strategic Planning Process

**Action:** That the Council staff be directed to coordinate a review of the systemwide public agenda and strategic implementation plans, institutional mission statements and action agendas, and key indicators of progress toward postsecondary reform, and recommend to the Council an updated set of plans and performance measures in late 2004 or early 2005. This review shall be based on a comprehensive analysis of the system's progress toward reform goals and comparisons to national and regional benchmarks and shall include broad participation of the postsecondary community and its primary constituents and stakeholders across the Commonwealth.

In 1998 the Council established the public agenda called for in House Bill 1. *2020 Vision: An Agenda for Kentucky's System of Postsecondary Education* links advanced education to statewide priorities and economic growth in the 21st century. It explains how students, graduates, employers, the education community, and the general public can expect to benefit from the system's energies and efforts. *2020 Vision* positions Kentucky's colleges and universities as providers of a public good and their work as a means to an end.

*2020 Vision* is now six years old. The Council's 2003-04 Plan of Work calls for an update of this public agenda and its companion document, *Action Agenda 2001-06*, and the key indicators of progress as framed by the Five Questions. This work will begin this spring and continue into the 2004-05 fiscal year.

As a starting point, the Council staff scheduled a series of meetings in April, May, and June with institutional presidents and other campus leaders (at the campuses), executive branch officials, legislative staff, and the Council to seek advice on the design of the planning process. Those discussions have been focused on: 1) the rationale for the update, 2) the objectives of the process, 3) who should be involved, 4) general timeline, and 5) deliverables. Outlined below is a reflection of the dialogue that has been occurring:

### ***Why do we need to update 2020 Vision and the Action Agenda?***

- HB1 requires the Council to review the strategic agenda every four years and the strategic implementation plan every two years. *2020 Vision* has been in place since 1998, and the

current action agenda covers the period 2001-06.

- Since the time that the original public agenda was established both the Council and the Commonwealth have new leadership.
- Kentucky's postsecondary system has made significant progress toward the goals and objectives established in the initial planning phases. A review of the current status of reform – its past accomplishments and future challenges – may suggest revised goals or new directions for the system.
- Developments in the U.S. and Kentucky since the first strategic plans were put in place – technological advances, homeland security and public health issues, fiscal constraints, employer needs – suggest a fresh look at Kentucky's postsecondary education system and its role in meeting the needs of the Commonwealth and her people.
- Legislation enacted since the passage of HB1 and the establishment of *2020 Vision*, particularly the Adult Education Act and the Kentucky Innovation Act (2000 General Assembly), provides new opportunities and challenges that should be considered in future plan development.
- The transfer of Kentucky Adult Education from the Workforce Development Cabinet to the CPE in 2000 (policy leadership) and in 2003 (total operations) broadens the scope of this planning initiative.
- The Program Review and Investigations Committee report of July 2003 recommended that the Council review the strategic agenda and implementation plans to assure adherence to HB1 goals.

#### ***What are the objectives of the planning process?***

- To engage beneficiaries, constituents, partners, policy makers, and campus leaders and the Council in a dialogue about 1) the current status of postsecondary education and its contributions to addressing state needs, 2) what Kentucky postsecondary education needs to do to improve the standard of living and quality of life of Kentuckians as directed by HB1, and 3) what it will take for the system to perform at expected levels.
- To establish goals, objectives, and benchmarks for the next four to six years – both at the state level and for individual institutions.

#### ***Who should be involved in the process?***

Policy makers, students and parents, small and large businesses, labor groups, the elementary and secondary community, economic development entities, non-profit and community leaders, faculty and staff of the public and independent colleges and universities, institutional alumni and governing boards, local P-16 councils, and concerned citizens will be invited to participate in this process. A series of forums will be held across the state to discuss the needs of the

Commonwealth – its communities, employers, workers, and general citizenry – and what the postsecondary community can do to respond.

***What are the phases and timeline for plan development?***

Working closely with the individuals and groups listed above, the Council staff will refine the system's public agenda and strategic implementation plans and present a draft to the Council for consideration in winter 2004. A preliminary timeline of the process is attached for Council discussion.

***What are the deliverables?***

*Current Assessment* – A comprehensive analysis of the current condition of educational attainment, income levels, and other demographic, economic, and educational statistics, including both trends in Kentucky and comparisons to other states. This analysis will be conducted early in the planning process and will be presented to various constituent groups for discussion about the future direction of the postsecondary system and its institutions.

*Enrollment Projection and Impact Analysis* – Using the current assessment as a foundation, this analysis will update existing estimates of the undergraduate enrollment numbers necessary if Kentucky is to reach the national average on a variety of education attainment and economic well-being indices by 2020. The analysis will address the following questions:

- How many students will be in the system by 2020 if Kentucky achieves its goal of being at or above the national average in educational attainment?
- Does Kentucky currently produce enough degrees annually to close the gap by 2020? How many more degrees (by level) need to be produced above and beyond the current level of production? In what areas? What increases in enrollment, retention, and graduation rates are needed?
- If these projections and goals are achieved, what impact will they have on Kentucky's per capita income and tax base?

*Public Agenda* – This will be a brief publication suitable for multiple audiences, including campus communities, education partners, local community groups, and current and potential employers. The public agenda shall focus on the needs of the Commonwealth and her people by describing how Kentucky's postsecondary education system can contribute to the creation of good jobs, the development of a skilled workforce to fill those jobs, and the continuing development of an educated, engaged citizenry. (This document will replace *2020 Vision* and encompass the Five Questions.)

*Implementation Plans* – These statements will outline more detailed objectives for implementing the public agenda and the six goals of HB1. These will replace the *2001-06 Action Agenda* folder with one-pagers for each public and independent institution, adult education, and KYVU. Implementation plans shall include:

- **Statewide Action Agenda:** A set of statewide action plans that describe what the Council and the system will do (and how the system will work with other education sectors, individual cabinets, and other agencies at the state level) to implement the public agenda and six goals of HB1.
- **Institutional Action Agendas:** Mission statement, goals, objectives, and benchmarks for each institution outlining what it will do to further the public agenda and the six goals of HB1 in the most effective and efficient manner.

*Key Indicators of Progress* – The key indicators of progress were streamlined for 2003-04; a comprehensive review of the key indicators will flow from the strategic planning process. The revised key indicators will reflect the objectives identified in the Public Agenda and the projections and goals established through the Enrollment Projection and Impact Analysis.

The Council staff seeks the advice and counsel of CPE members on the proposed planning process and timeline as outlined in this agenda item.

Staff preparation by Sue Hodges Moore



Council on Postsecondary Education  
Executive Committee  
July 1, 2004

## Comprehensive Funding Model Review

As presented at the May Council meeting, the staff is proceeding with its plan of work regarding the comprehensive funding model review. Activities and progress are as follows:

- The staff completed campus visits with each institution and met with the staffs of the Office of the State Budget Director and the Legislative Research Commission to discuss funding policies and issues relevant to the review.
- The staff conducted a two-day Chief Budget Officers retreat June 10-11 to discuss in detail all of the issues and to prepare for the remaining activities related to the review.
- The staff presented and discussed a status report regarding the work of the Chief Budget Officers during the retreat as well as a discussion of specific issues related to the review during the June presidents meeting.

The attachment provides a draft of the objectives and principles that are designed to guide the overall work of the review. These objectives were discussed at the Chief Budget Officers retreat and will be discussed with the presidents at their July 7 meeting.

The attachment is provided for information and discussion with the Executive Committee regarding next steps in the funding review process. Further discussion with the full Council will take place at the July 19 meeting.

Staff preparation by Sandra Woodley

## Objectives and Principles for Comprehensive Funding Review

DRAFT: For Discussion Only

### Principles:

1. **Inclusivity and Objectivity:** The process for the review will be inclusive of all groups impacted by recommended changes and sufficient opportunities will be available to fully discuss and debate alternatives in an objective manner. There will be a deliberate focus to ensure complete understanding regarding the details of all recommendations resulting from the review process.
2. **Simplicity:** Where possible, all models should be concise and easy to explain. This simplicity also should be balanced with the need to be sufficiently complex in order to address differentiation among institutions.
3. **Temporary Until Final:** During the review process, all agreements are tentative until the final recommendations are presented to the Council for action.
4. **Benchmarks Remain:** Benchmarking will not be abolished, but its role may be modified.
5. **Mission:** The review will incorporate institutional missions and will focus on advancement of the system of postsecondary education and how individual missions of the institutions contribute to statewide goals.

### Objectives:

1. **POLICY COORDINATION:** To ensure that funding policies of the Council advance the postsecondary reform agenda and are coordinated with the system's strategic plans, accountability system, equal opportunity plans, financial aid policies, and tuition policies.  
ACTIONS:
  - a. Synchronize funding policies with the strategic plan update process, affordability review, equal opportunity planning and, to the extent appropriate, incorporate recommendations (institutional missions, tuition policies, financial aid policies, diversity policies, etc.).
2. **ADEQUACY and EQUITY:** To address adequacy and equity concerns.  
ACTIONS:
  - a. Determine if current funding policies appropriately address funding adequacy.
  - b. Ensure that benchmark selections are objective, define purpose and use, and determine if other methodologies should be used to determine funding objectives.
  - c. Determine if equity adjustments are appropriate and, if so, how to incorporate.
  - d. Determine if funding distribution methodology needs revision.
  - e. Determine appropriate method for accounting for non-resident students and mandated programs.
3. **ACCOUNTABILITY:** To address accountability concerns.  
ACTIONS:
  - a. Determine appropriateness and use of expenditure analysis (not just revenue side).
  - b. Determine appropriateness and use of performance measures either directly or indirectly.
  - c. Address concerns expressed by elected leadership (PRIC report, etc.).

## Endowment Match Program Guideline Revisions

There are three proposed changes to the 2002-04 Endowment Match Program Guidelines:

1. Add a “Research Scholars” category, allowing funding for up to three non-tenured medical faculty for a maximum of four years each.
2. Clarify the definition of applied research programs for the comprehensive universities.
3. Add diversity language in accordance with HB 269.

### **Research Scholars**

On May 18, 2004, the University of Kentucky submitted a request to the Council to make a change in the 2002-04 endowment match program guidelines (see Attachment A). If approved, the proposed change will allow participating universities to use interest earnings from match program endowments to support the research and salary expenses of non-tenured medical school faculty, with the intent that these faculty receive tenure within four years and be awarded endowed chairs or professorships. The existing guidelines do not allow program funds to be used to support salary expenses of faculty who are not named chairs or professors.

The staff recommends adding a “Research Scholars” category to the “Uses of Program Funds” section of the guidelines (see Attachment B, page 24). This change will allow the universities to support salaries, benefits, and other personnel expenses for up to three non-tenured medical school faculty who exhibit the potential to assume endowed chairs or professorships. Such faculty must have a clearly defined research agenda that is related to the chair or professorship and must fill that position within four years.

According to UK officials, the proposed change will facilitate the recruitment of talented, non-tenured medical school faculty, provide a mechanism for supporting these faculty early in their careers, and allow rapid progress toward realizing the programmatic intent of the funds provided. UK’s proposal and draft revisions to the guidelines were shared with the university presidents, chief budget officers, and chief academic officers. There were no objections to the proposed change.

### **Applied Research Program Criteria**

In September, the Council approved several revisions to the 2002-04 endowment match program guidelines. One of those changes, prompted by a Program Review and Investigations Committee recommendation, requires the comprehensive universities to use at least 50 percent of program funds to support programs of distinction or “applied research programs” approved by the Council (see Attachment B, page 26). The staff recommends adding an addendum to the guidelines that



specifies the criteria for determining applied research program eligibility, as well as procedures for Council approval (see Attachment B, page 29).

The staff also recommends adding academic disciplines contained within the five new economy clusters to the comprehensive university 50 percent requirement in the “Areas of Concentration” section of the guidelines (see Attachment B, page 26). This change brings the language of the comprehensive university requirement more in line with that of the research university 70 percent requirement.

Draft applied research criteria and proposed revisions to the guidelines were shared with the university presidents, chief budget officers, and chief academic officers. Suggestions for changes were discussed and, where appropriate, incorporated into the final document.

### **Diversity Statement**

The 2003 budget bill (HB 269) directs the universities to develop and implement plans to achieve reasonable diversity in the recruitment and retention of women, African Americans, and other underrepresented minorities for positions funded by the Endowment Match Program, including scholarship and fellowship recipients. The bill further stipulates that the universities shall report annually to the Council on Postsecondary Education the race and gender of program faculty, professional staff, and financial aid recipients.

Both requirements of HB 269 have been met. Demographic information regarding endowment match program faculty and financial aid recipients was reported to the Council at its February 2004 meeting, and university diversity plans for the program were presented at the March 2004 meeting. The staff recommends that a statement incorporating the diversity provisions of HB 269 be added to the guidelines (see Attachment B, page 27).

This draft has been shared with the chief budget officers and the chief academic officers for review and comment. The draft is presented to the Executive Committee for discussion. A recommendation will be presented to the Council for action at the July 19 meeting.

Staff preparation by Sandra Woodley, Jim Applegate, Bill Payne, and Ben Boggs

## **Endowment Match Program Proposed Revisions to 2002-04 Guidelines**

**(1) Add a new “Research Scholars” category to the “Uses of Program Funds” section of the guidelines (p. 5).**

**Research Scholars:** Salaries, benefits, and other personnel related expenses associated with nontenured, medical school faculty who exhibit the potential to assume chair or professorship positions once tenure has been awarded. Research scholars should have clearly defined research agendas that relate specifically to the fields of study envisioned for the ultimate occupants of the chairs or professorships. Funding for this purpose is time limited. Each research scholar may be supported with endowment proceeds for a maximum of ~~four years~~ six years. At the end of that time, if the research scholar has not been appointed to the identified chair or professorship, university officials should fill the position with an appropriately qualified, tenured faculty member.

**(2) Establish a limit on the number of research scholars in the “Use of Funds Requirements” section (p. 6).**

- At any given point in time, ~~no more than three research scholars at each institution may~~ be the number of research scholars funded through the match program may not exceed 20 percent of the number of filled match program chairs and professorships housed in a university’s medical school.

**(3) Add new economy clusters to the comprehensive university 50 percent rule in the “Areas of Concentration” section (p. 7).**

- At the comprehensive universities only, at least 50 percent of program funds must be endowed for the purpose of supporting Programs of Distinction, academic disciplines contained within the five new economy clusters, or applied research programs approved by the Council that address local or regional economic and community needs (effective for gifts and pledges received after October 1, 2003). These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy.

**(4) Add eligibility criteria for applied research programs as an addendum to the guidelines (p. 10).**

- The number of applied research programs at each institution that receive funding through the match program should be limited. No more than three programs at each institution ~~should~~ will be eligible to receive match program applied research status. Applied research programs contained within an institution's Program of Distinction will not count toward the three-program limit.
- The research produced by a proposed program should ~~be unique within Kentucky,~~ offer potential for innovation and commercialization or address pressing needs of the community, the region, or the Commonwealth.

## Endowment Match Program Proposed Revisions to 2002-04 Guidelines

Proposed Change	University Reaction	Staff Recommendation
<p><b>Add “Research Scholars” category to the Uses of Funds Section (p. 5).</b></p> <ul style="list-style-type: none"> <li>• Provides support for nontenured medical school faculty who exhibit the potential to assume chair or professorship positions.</li> <li>• Each research scholar may be supported for a maximum of four years.</li> </ul>	<ul style="list-style-type: none"> <li>• UK officials would like for CPE to expand application of research scholar funding to disciplines outside the medical school.</li> <li>• UK officials would like for CPE to increase the term of research scholar funding to six years (i.e., the probationary period for nontenured faculty).</li> </ul>	<ul style="list-style-type: none"> <li>• Do <u>not</u> expand application of research scholar funding beyond the medical school. The rationale cited by UK in their proposal was to provide funding specifically for research scientists in the College of Medicine.</li> <li>• The staff concurs. Increase the term of research scholar funding to six years.</li> </ul>
<p><b>Establish a limit on the number of research scholars funded (p. 6).</b></p> <ul style="list-style-type: none"> <li>• At any given time, no more than three research scholars at each institution may be funded through the match program.</li> </ul>	<ul style="list-style-type: none"> <li>• UK officials would like for CPE to increase or do away with the limit on the number of research scholars funded.</li> </ul>	<ul style="list-style-type: none"> <li>• The staff concurs. Modify the limit so that the number of research scholars does not exceed 20 percent of the number of filled, match program chairs and professorships housed in a university’s medical school.</li> </ul>
<p><b>Add New Economy Clusters to 50 Percent Rule (p. 7).</b></p> <ul style="list-style-type: none"> <li>• At least 50 percent of program funds must be used to support PODS, academic disciplines in new economy areas, or applied research programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Most institutions like this change, but argue it does not go far enough. Some want to add the phrase “or other priority areas” to this paragraph to encompass programs in areas of state need (e.g., teacher preparation, small business incubation, economic development, and energy conservation).</li> </ul>	<ul style="list-style-type: none"> <li>• Do <u>not</u> add “other priority areas” to the guidelines. Support for these programs can be accommodated through the other 50 percent of an institution’s allocation that are not as limited.</li> </ul>
<p><b>Add Eligibility Criteria for Applied Research (p. 10).</b></p> <ul style="list-style-type: none"> <li>• No more than three programs at each institution will be eligible to receive match program applied research status.</li> </ul>	<ul style="list-style-type: none"> <li>• Most comprehensive institutions would like for CPE to revise or eliminate the limit on the number of applied research programs.</li> </ul>	<ul style="list-style-type: none"> <li>• Do <u>not</u> revise or eliminate the limit on the number of applied research programs eligible to receive match program funding. The staff feels that there should be a focused effort for three programs rather than diluting focus with many applied research programs. Additionally, the other 50 percent of the institution’s allocation does not have this limit.</li> </ul>



**Attachment A**

**POSTSECONDARY  
EDUCATION**

**MAY 20 8 22 AM '04**

**Planning, Budget and  
Policy Analysis**

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May 18, 2004

Ms. Sandra K. Woodley  
Vice President for Finance  
Kentucky Council on Postsecondary Education  
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Frankfort, Kentucky 40601-8204

Dear Sandy:

Enclosed is a proposal to amend the 2002-04 Research Challenge Trust Fund Endowment Match Program Guidelines. This proposal would allow the research universities to use endowment earnings generated from newly established endowed professorship positions to provide an immediate impact in strategic areas of research emphasis. This change would provide the research universities the opportunity to use the endowment earnings to support research of faculty working in the same scholarly focus envisioned by the endowment agreement prior to the appointment of a faculty member to the endowed position.

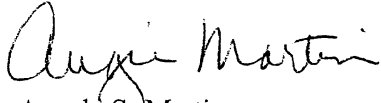
The proposal includes a provision that a qualified faculty member will be appointed to the endowed professorship within four years of the position's establishment. During the interim, the universities would be able to utilize the endowment earnings to support research efforts of other faculty with the same scholarly focus.

The donors would agree upon the time-limited alternative in advance, and wording to this effect would be included in the endowment agreement or subsequent addendum. This change will not affect the universities' continued commitment to meeting the new guidelines for the Endowment Match Program, but will allow a more rapid progress in realizing the programmatic intent of the funds.

Ms. Sandra K. Woodley  
May 18, 2004  
Page 2

I would be happy to discuss this further with you at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Angie Martin".

Angela S. Martin  
Vice President for Planning,  
Budget, and Policy Analysis

ASM:tbr

Enclosure

c: Lee T. Todd, Jr.  
Tom Layzell  
Dick Siemer  
Wendy Baldwin  
Dr. David Watt  
Ron Carson  
Bill Payne

## PROPOSAL

### **Utilization of Research Challenge Trust Fund Endowment Match Program Endowment Earnings for Support of Untenured Faculty**

**Proposal:** Revise the guidelines for utilization of Research Challenge Trust Fund Endowment Match Program endowment earnings generated from newly established endowed professorship positions to provide an immediate impact in strategic areas of research emphasis.

**Rationale:** The current guidelines mandate that the endowment earnings cannot be expended until a faculty member has been appointed to the endowed position. Only tenured faculty are appointed to endowed positions and may identify themselves as holders of the “endowed chair” or “endowed professorship” in a particular field. The proposal would provide the opportunity to use the endowment earnings to support the salary and the research of non-tenured faculty working within the scholarly focus defined by the endowment. These faculty would not be formally appointed to chairs and professorships but would be identified as “endowed scholars” in a particular field. The endowment funds would enable the University to support talented, non-tenured faculty early in their careers and provide a mechanism for recruiting such faculty who would be eligible for appointment to the endowed position once they achieved tenure. This approach meets the vision of the RCTF Endowment Match Program.

**Implementation:** A qualified, non-tenured faculty member would be identified through a national search process, appointed to the faculty, and provided with the income from the endowed professorship position until such time as the individual achieved tenure and was deemed worthy of appointment to the endowment. The initial appointment of a non-tenured faculty as an “endowed scholar” would occur within four years of the position’s establishment.

Donors would agree to allow non-tenured faculty to hold these “endowed scholar” positions supported by the endowment income, and wording to this effect would be included in the endowment agreement or subsequent addendums. The change will not

affect the commitment to meeting the new guidelines for RCTF Endowment Match Program but will allow a more rapid progress in realizing the programmatic intent of the funds provided.

**Background:** Non-tenured faculty in clinical medicine departments with research interests (called physician scientists) cannot earn sufficient clinical income to maintain a competitive laboratory program. These faculty either abandon their research or leave the University.

*Example* – A neurologist, appointed as an assistant professor, is appointed in a tenure-track position supported by limited state funding and clinical income.

State base	\$33,500
Clinical income	<u>\$76,500</u>
Total salary	\$110,000

The assistant professor would be required to bill for \$300,000 in services in order to generate \$76,500 in salary. In order to generate this level of billing activity, the assistant professor would be required to spend a least three full days (60% effort) in the clinics each week. Only 40% of the assistant professor’s time is available for teaching, research, and service assignments; and therefore, the assistant professor cannot maintain a competitive research program. Put simply, there is insufficient “protected time” for research. The result is the faculty member either abandons the research or leaves the University.

Changing the RCTF guidelines will provide “protected time” to non-tenured physician scientists in the College of Medicine and ensure their success by:

- Providing income from the endowment to be used to support the non-tenured faculty member during the probationary period or until such time as sufficient extramural funding is available to support their research effort;



- Providing an incentive to the non-tenured faculty member, in the form of appointment to the endowed professorship or chair once the promotion and tenure process is complete;
- Coupling this mechanism for supporting non-tenured faculty with appropriate mentoring and milestones (e.g., submission of VA career awards, NIK K awards, etc.).

Why should this activity be supported? The following are examples of concerns that have a bearing on the future of the University, the Commonwealth, and the Nation.

- There is a need to provide essential interaction between observations in the clinic and laboratory research (so-called “translational” research). Programs are under active development at the NIH under the leadership of the current Director to facilitate this type of research (i.e., the so-called “Roadmap” programs).
- Long-term, failure to support this activity will imperil future medical discoveries.
- There is a growing national concern that the number of NIH grant applications from physicians will decline expeditiously if mechanisms are not implemented to support physician scientists early in their careers.
- Future leaders are needed to provide training to residents, fellows, medical students, and graduate students.
- Experience shows that departments that “grow their own” research leaders, have the best chance of long-term stability in their research and clinical portfolio.
- Other universities, with whom we compete for talented personnel and for research grants, are taking steps to solve this problem.

## **Council on Postsecondary Education**

# **2002-04 Endowment Match Program Guidelines**

### **Background**

Kentucky recognizes the importance of research to the economic well being of its citizens. The Endowment Match Program encourages private investment in public higher education research activities to stimulate business development, generate increases in externally sponsored research, create better jobs and a higher standard of living, and facilitate Kentucky's transition to a knowledge-based economy. The program matches public money with private gifts to fund chairs, professorships, research staffs and infrastructure, fellowships and scholarships, and mission support at the public universities. This collaborative approach is critical to advancing Kentucky's research presence into national prominence.

State funds for the program are appropriated to the Research Challenge Trust Fund (RCTF) for the research institutions and to the Regional University Excellence Trust Fund (RUETF) for the comprehensive institutions. Both trust funds were created with the passage of the Postsecondary Education Improvement Act of 1997 (HB 1).

The Endowment Match Program received surplus General Fund appropriations of \$110 million in 1998-99 and \$120 million in 2000-01. The legislature debt funded another \$120 million for the program in 2003-04.

### **Program Administration**

The Council on Postsecondary Education oversees the Endowment Match Program. The Council establishes the areas of concentration within which program funds are used, develops guidelines for the distribution of program funds, and reviews reports from the institutions on the use of funds and the results achieved.

The boards of trustees and boards of regents of the Commonwealth's public universities are responsible for the Endowment Match Program on their campuses. The boards are to review and approve all donations, gifts, and pledges that will be used to establish new endowments or expand existing endowments for which matching state funds will be requested. The boards are to ensure that the purpose of the endowment and the source of funds comply with the Council's guidelines and serve the public good. Documentation of board approval must be submitted with each endowment request. In addition, the boards are to review and approve the Endowment Match Program reports that are to be submitted annually to the Council.

## **Allocation of Program Funds**

The legislature appropriated \$120 million for the Endowment Match Program in 2003-04. Of that amount, \$100 million was appropriated to the RCTF and \$20 million was appropriated to the RUETF. These funds will be allocated to the institutions as follows:

- The research university endowment match will be allocated two-thirds to the University of Kentucky (\$66,667,000) and one-third to the University of Louisville (\$33,333,000).
- The comprehensive university endowment match will be divided into two \$10 million pools designated primary and secondary. Each pool will be allocated among the institutions based on their proportionate share of total net 2002-03 General Fund appropriations.
- The primary pool will be allocated to the institutions and will remain in the trust fund until matched. The secondary pool will be similarly assigned to the institutions until December 31, 2004. If not matched by that date, other comprehensive universities that have fully matched their allocations from both pools may submit requests for additional matching funds. Funds requested from January 1 to January 31, 2005 will be matched on a pro rata basis based on the dollar amount of requests received. For example, if the secondary pool contains \$100,000 on January 1, and four institutions submit requests of \$50,000 each to the Council between January 1 and January 31, then each institution would be eligible to receive \$25,000 in state matching funds ( $\$50,000 / \$200,000 \times \$100,000$ ). After January 31, requests will be

considered on a first-in basis until all funds are allocated. If multiple requests arrive simultaneously, then the pro rata method described above will apply.

## **Matching Requirements**

The Endowment Match Program is conceived as a way to bring new money from external sources into the Commonwealth's system of postsecondary education. In order to receive state funds, the universities must provide dollar-for-dollar matching funds that satisfy the following requirements:

- Gifts and pledges must be newly generated to be eligible for state match. Newly generated contributions are those received by the university after June 1, 1997 (i.e., the approximate effective date of postsecondary education reform).
- Gifts and pledges must be from external sources to be eligible for state match. External source contributions are those that originate outside the university and its affiliated corporations. Eligible sources of funding include, but are not limited to, businesses, non-governmental foundations, hospitals, corporations, and alumni or other individuals. Funds received from federal, state, and local government sources are not eligible for state match (effective for gifts and pledges received after October 1, 2003).
- General Fund appropriations and student-derived revenues (e.g., tuition and fees revenue) are not eligible for state match.
- The minimum institutional request amount is \$50,000. A university may combine smaller donations from businesses, non-governmental foundations, hospitals, corporations, and alumni or other individuals to meet the \$50,000 minimum.
- All funds, both state and private, must be endowed. "Endowed" means only the investment earnings are eligible for expenditure, not the principal.

- Requests for state funds must identify the matching funds that are cash and the matching funds that are pledges.
- Pledges, or promises of future payment, are eligible for state match provided they are based on a written contract or agreement and include a payment schedule, which does not exceed five years from the initial pledge date. Pledge payment schedules showing receipts to date and scheduled future payments are to be included in the audited financial statements of either the institution or the foundation.
- If pledged funds are not received within five years of the initial pledge date, the university must replace the portion of private funds not received with another eligible cash gift or the unmatched portion of the state funds plus an allowance for accrued interest will revert to the trust fund for reallocation. In such cases, time frame for the replacement or return of state funds will be negotiated between Council staff and institutional representatives.
- University officials must notify the Council staff of unpaid pledges six months before the end of the five-year deadline, or immediately when a gift has been revoked.

## Uses of Program Funds

Investment earnings from the endowments can be used to support various activities including chairs, professorships, research scholars, research staff, graduate fellowships, undergraduate scholarships, research infrastructure, and mission support as described below.

**Chairs:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

**Professorships:** New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

**Research Scholars:** Salaries, benefits, and other personnel related expenses associated with non-tenured, medical school faculty who exhibit the potential to assume chair or professorship positions once tenure has been awarded. Research scholars should have clearly defined research agendas that relate specifically to the fields of study envisioned for the ultimate occupants of the chairs or professorships. Funding for this purpose is time limited. Each research scholar may be supported with endowment proceeds for a maximum of four years. At the end of that time, if the research scholar has not been appointed to the identified chair or professorship, university officials should fill the position with an appropriately qualified, tenured faculty member.

**Research Staff:** Salaries, benefits, and other personnel related expenses associated with full-time or part-time staff assistants who are directly linked to the research activities of an endowed chair or professor.

**Graduate Fellowships:** Fellowship stipends for outstanding graduate or professional students, which may include travel and other expenses as permitted by university policy.

**Undergraduate Scholarships:** At the comprehensive universities only, program funds can be used to support scholarships for outstanding undergraduate students, which may include travel and other expenses as permitted by university policy.

**Research Infrastructure:** Start-up and operating expenses that are directly linked to the research activities of an endowed chair or professor, including equipment, materials and supplies, and other research related expenses as permitted by university policy.

**Mission Support:** Program funds can be used to support research and graduate missions at all institutions, and programs of distinction or applied research programs approved by the Council at the comprehensive institutions. Consideration will be given to mission support activities such as: (1) expenditures that enhance the research capability of university libraries (i.e., books, journals, research materials, media, and equipment); (2) start-up costs, equipment, and supplies that support faculty, graduate student, or undergraduate student research activities; (3) funding for visiting scholars, lecture series,

and faculty exchange; and (4) expenditures for the dissemination of research findings (i.e., nationally prominent publications and presentations at conferences, symposiums, seminars, or workshops). However, priority will be given to mission support expenditures that encourage the research related activities of faculty and students. Expenditures for general personnel expenses that are not directly linked to an endowed chair or professor do not qualify as mission support activities.

## **Use of Funds Requirements**

The following requirements apply to gifts and pledges received after October 1, 2003. However, requests submitted for unclaimed, secondary-pool comprehensive university funds will adhere to these requirements regardless of when the gifts and pledges contained in those requests were made.

- At the research universities only, at least 70 percent of program funds must be endowed for the purpose of supporting chairs, professorships, or research scholars, ~~research~~ staffs, infrastructure, or fellowships that are directly linked to the research activities of an endowed chair or professor. No more than 30 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships that are not directly linked to the research activities of an endowed chair or professor. At any given point in time, no more than three research scholars at each institution may be funded through the match program.
- At the comprehensive institutions only, at least 50 percent of program funds must be endowed for the purpose of supporting chairs, professorships, or research staffs, infrastructure, fellowships, or scholarships that are directly linked to the research activities of an endowed chair or professor. No more than 50 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships or scholarships that are not directly linked to the research activities of an endowed chair or professor.

## Areas of Concentration

- At the research universities only, the Council expects state and private matching funds to be substantially directed toward supporting research that leads to the creation, preservation, or attraction of businesses that will increase the number of good jobs in Kentucky. For these purposes, “good jobs” are defined as jobs that yield income at or above the national per capita income.
- The Council recognizes that strong research programs are clustered around related academic disciplines and encourages campus officials to create a critical mass of scholars who can influence the nation’s research and academic agenda.
- The Council recognizes that the boundaries of traditional disciplines are increasingly permeable and encourages the use of endowment funds for interdisciplinary, problem solving, or applied research activities.
- The Council recognizes the importance of cooperation between universities and corporations and encourages partnerships in the technologies, engineering, and applied sciences.
- At the research universities only, at least 70 percent of program funds must be endowed for the purpose of supporting Research Challenge programs or academic disciplines contained within five new economy clusters: (1) human health and development; (2) biosciences; (3) materials science and advanced manufacturing; (4) information technologies and communications; and (5) environmental and energy technologies. These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy
- At the comprehensive universities only, at least 50 percent of program funds must be endowed for the purpose of supporting Programs of Distinction, academic disciplines contained within the five new economy clusters, or applied research programs approved by the Council that address local or regional economic and community needs (effective for gifts and pledges



received after October 1, 2003). These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy.

- The Council recognizes the contribution of arts and humanities to quality of life and to economic development in the Commonwealth and is receptive to limited use of endowment funds in this area.
- Program funds cannot be used for positions that are primarily administrative. However, researchers or scholars with an active research program who may have an appointment such as department chair, center director, or dean are eligible.
- Program funds cannot be used to fund capital construction projects.

## **Program Diversity**

The Council on Postsecondary Education and participating universities are committed to ensuring the gender and ethnic diversity of Endowment Match Program faculty, professional staff, and financial aid recipients. The universities shall develop and implement plans calculated to achieve reasonable diversity in the recruitment and retention of women, African Americans, and other underrepresented minorities for positions funded by the Endowment Match Program, including scholarship and fellowship recipients. In addition, the universities shall report annually to the Council on Postsecondary Education the race and gender of program faculty, professional staff, and financial aid recipients.

## **Annual Reporting**

Institutions will provide detailed annual reports describing how the state and matching funds are used by October 15 each year. These reports will include such items as the number of endowed chairs and professorships by name and incumbent, the specific support services attached to the

chairs and professorships, the gender and race of program faculty and financial aid recipients, and the benefits of the program to the Commonwealth of Kentucky in terms of jobs, revenue growth, creation of wealth, and improved standards of living. The reports should also identify institutional outcomes, such as increases in sponsored research directly attributed to the program, changes in the quality of students and measurable outcomes (retention, graduation, pursuit of advanced study, and employment), and the creation and profitable use of intellectual property.

The Council staff, working with the university presidents and their staffs, will devise and maintain reporting procedures that specify the content and format of Endowment Match Program annual reports.

## Addendum

### 2002-04 Endowment Match Program Guidelines Applied Research Program Criteria

#### Introduction:

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) gives CPE the responsibility to develop the criteria and processes by which institutions may apply for funds appropriated to individual Strategic Incentive and Investment Trust Funds. In June 2004, the CPE staff, working in conjunction with university officials, developed the following set of criteria that can be used to determine if a program is eligible to receive “applied research” status through the Endowment Match Program.

#### Program Criteria:

- A proposed program should be a single disciplinary or interdisciplinary applied research program or a limited number of such programs in a related field of study.
- The number of applied research programs at each institution should be limited. No more than three programs at each institution should be eligible to receive match program applied research status.
- A principal objective of the RUETF is to develop a complementary array of instructional and applied research programs across the state. Given this aim, a proposed program should complement existing programs of distinction and applied research programs at other comprehensive universities.
- The research produced by a proposed program should be unique within Kentucky, offer potential for innovation and commercialization, or address pressing needs of the community, the region, or the Commonwealth.

- Applied research is encouraged in areas that:
  - Raise the region's standard of living, education, and training
  - Address local or regional economic and community needs
  - Aid efforts to improve local government and services
  - Enhance public schools
  
- A proposed program should enhance the quality of education and the educational experience at the university, where possible involving students in research initiatives and community partnerships through internship, co-op, and service learning programs.
  
- The process for selecting an applied research program should provide for broad participation of the board of regents, faculty, and other university constituents, as appropriate.
  
- A proposed program should contribute to the university's overall mission and strategic plan.

Council on Postsecondary Education  
Executive Committee  
July 1, 2004

## 2004 Governor's Conference on Postsecondary Education Trusteeship

The 2004 Governor's Conference on Postsecondary Education Trusteeship is scheduled for September 19-20 in Bowling Green. A draft agenda will be presented for discussion with the Executive Committee.

Staff preparation by Sue Hodges Moore

**Institute for Effective Governance  
2004 Governor's Conference on Postsecondary Education Trusteeship**

**September 19-20, 2004  
Sloan Convention Center, Bowling Green, KY**

**Focus: Planning & Accountability**

Sunday, September 19, 2004

- 11:30-12:30    Brunch
- 12:30-2:15    CPE meeting
- 2:30-4:00    Opening Plenary Session  
--Welcome - Ron Greenberg  
--Planning process kick-off – Tom Layzell
- 4-6:00        SCOPE meeting
- 6-7:00        Reception
- 7-9:00        Dinner  
Presentation of Kentucky Advocates OAK and Acorn Awards  
Keynote address – Governor Ernie Fletcher (invited)

Monday, September 20, 2004

- 7:15-8:15     Breakfast buffet
- 7:15-8:15     Breakfast meeting with chairs and vice chairs
- 8:30-10:00   Plenary session  
                 Tom Layzell - planning and accountability  
                 Peter Ewell - Kentucky's grades on Measuring Up 2004 and what they tell us  
                                         about the challenges ahead (including student learning pilot)
- 10:15-12:00   Planning discussion
- 12:15-2:00    Luncheon  
                 Format TBD
- 2:15-4:00     Board development/orientation workshops

Council on Postsecondary Education  
Executive Committee  
July 1, 2004

## Non-Profit Corporation

The Council staff is presenting for discussion with the Executive Committee a proposal that a non-profit corporation be created to receive private and corporate gifts in support of postsecondary education.

Recently the Council staff has been talking with the Louisville *Courier-Journal* and other individuals and corporations about sponsoring a number of postsecondary education initiatives. Donors reasonably expect that they will receive tax deductions for charitable giving as a result of any contributions. In order for such contributions to be tax exempt, the receiving organization must be recognized by the federal government as a charitable corporation under section 501c(3) of the Internal Revenue Code.

Currently the Council staff is in discussions with representatives of the Education Cabinet and the Fletcher administration to ascertain whether enabling legislation is required. There are a number of non-profit organizations established as extensions of state agencies. The corporation that finally emerges will be an affiliated corporation and, therefore, will be subject to the scrutiny of state officials.

Staff preparation by Dennis L. Taulbee

Council on Postsecondary Education  
Executive Committee Meeting  
July 1, 2004

## 2004-05 Agency Operating Budget

The 2004 General Assembly adjourned without approving a 2004-06 biennial budget; however, the governor signed an executive order presenting a Public Services Continuation Plan for the first quarter of FY 2004-05. Franklin County Circuit Judge Roger Crittenden ruled on Wednesday June 30, 2004, that the continuation plan could proceed, but with limits. The governor's office does not know at this point how the order may affect the continuation plan. The information presented in this agenda item is based on the continuation plan as it is, but the plan may be revised based on court action.

The continuation plan for the Council's operating budget was different from the governor's recommended FY 2004-05 budget as follows:

1. \$8,775,000 was added to KEES because of increased lottery projections.
2. \$221,300 was added to fully fund the contract spaces.
3. \$10 million was added and designated for distribution to the institutions, the allocation and purpose to be determined within the first quarter by the governor and the Council.

The FY 2004-05 Agency Operating Budget details revenues and expenditures proposed for FY 2004-05 and presents comparative information from FY 2003-04.

The Council operates four major budget areas:

Operations  
Pass-Through Programs  
Strategic Initiative and Incentive Funding Programs  
Federal Programs

Within each of these areas, additional financial and narrative detail is provided. The Council operating budget is presented as a consolidated agency operating budget, which includes funding previously displayed separately as Agency Operations, KYVU/KYVL, and Adult Education. Strategic Initiative and Incentive Funding Programs include all trust funds and funding programs.

The proposed budget is divided into five sections:

Section 1 - Agency Summary  
Section 2 - Operations  
Section 3 - Pass-Through Programs



Section 4 - Strategic Initiative and Incentive Funding Programs  
Section 5 - Federal Funds

As a result of budget cuts, the Council will begin FY 2004-05 with \$6.5 million less for its programs and operations than it had at the beginning of FY 2003-04.

During FY 2003-04, the Council budget was reduced by nearly \$5.0 million through the 2004 Budget Reduction Executive Order. The Council operating budget was reduced by \$520,500, Kentucky Adult Education balances were reduced by \$2.8 million, accumulated interest earnings on the trust funds were reduced by \$1.4 million, and the Science and Technology Funding Program was reduced by \$224,500.

In addition to the reductions by executive order, the Council's budget was reduced by another \$1.5 million in the development of the FY 2004-05 budget. The Council's operating budget for personnel costs was reduced by an additional \$139,500; various pass-through programs were reduced by \$336,000; recurring allotments to the Technology Initiative Trust Fund, Kentucky Adult Education, and the Science and Technology Funding Program were reduced by \$784,500; and nonrecurring cuts to the KYVU/KYVL agency fund balance (\$133,000) and Technology Initiative Trust Fund interest earnings (\$132,900) also were made.

Detail of reductions:

Reduction Order 04-01

CPE General Fund personnel costs	\$ 407,400
CPE Agency Fund operating costs	113,100
KYAE Agency Funds (former trust fund)	2,801,400
Interest earnings on the KYAE trust fund	698,600
Interest earnings on the Research Challenge Endowment Match Program	728,500
Science and Technology Trust Fund (unused ONE funds)	<u>224,500</u>
Total	\$4,973,500

Reductions in the 2004-05 Budget Development

CPE General Fund personnel costs	\$ 139,500
Pass-Through Programs	336,000
Technology Initiative Trust Fund (General Funds)	16,000
KYAE (General Funds)	487,800
Science and Technology Funding Program (General Funds)	280,700
KYVU/KYVL (agency fund carry-forward)	133,000
Technology Trust Fund (accumulated interest earnings)	<u>132,900</u>
Total	\$1,525,900
Total Reductions	\$6,499,400

The following highlights relate to agency operations in particular:

- Overall staffing levels are down from one year ago and responsibilities have increased. Positions cut include:
  - three positions in Academic Affairs
  - one position in Administrative Services
  - six positions in Information Technology
  - two positions in Adult Education
  - three positions in KYVU
- Certain technology and information projects have to be delayed, scaled down, or possibly eliminated.
- Budget reductions have resulted in the Council's nonrecurring fund balances providing less capacity to outsource needed activities and services.
- Budget reductions and uncertainty surrounding the budget for FY 2004-05 prompted a very conservative approach. Consequently, a 2 percent budget reserve was built into the calculations and will not be budgeted for activities until later in the year when more certainty exists regarding revenues and expenditures of the Council.

A proposed budget will be presented for discussion with the Executive Committee. The Council will take action on the agency budget at the July 19 Council meeting.

Council on Postsecondary Education  
Executive Committee Meeting  
July 1, 2004

## 2004-06 Budget/ Public Services Continuation Plan Update

*On June 28, 2004, Governor Fletcher signed an executive order implementing a Public Services Continuation Plan for the first quarter of the fiscal year 2004-05. Franklin County Circuit Judge Roger Crittenden ruled on Wednesday June 30, 2004, that the continuation plan could proceed, but with limits. The governor's office does not know at this point how the order may affect the continuation plan.*

Attachment A provides details regarding annual General Fund spending estimates for the institutions as specified in the continuation plan. The plan covers only the first quarter, but annual estimates are also included. Included in the attachment is an analysis of the \$41 million nonrecurring reduction that was previously planned to occur in FY 2003-04, but which under the continuation plan will occur in FY 2004-06.

To the extent allowable by the judge's order, approximately \$30 million in General Funds are included in the annual targets for the continuation plan for the institutions in FY 2004-05. Approximately \$1.7 billion in capital authorizations also are included in the continuation plan. Project implementation is limited by the judge's order. However, capital projects that are funded with federal or private money may be authorized using the interim process prescribed by KRS 45.760. The capital authority and General Fund increases are summarized as follows:

- Funds for changes in debt service as well as maintenance and operations for new facilities (approximately \$10 million).
- \$10 million for research, regional stewardship, workforce development, and capital renewal and maintenance (see Attachment B).
- \$10 million (included in the Council's budget) to be distributed to the institutions. The allocation and use of funds will be determined by the governor and the Council within the first quarter of FY 2004-05.
- \$1.7 billion in capital project authority provided for cash funded projects (see Attachment C).

In addition, if allowable by the judge's order, \$5 million is included in the budget of the Finance and Administration Cabinet for the purpose of providing cash startup or planning funds for capital projects that were included in the governor's recommended budget. While this allocation is not limited to postsecondary institutions, many of the projects that will be eligible for consideration are postsecondary projects. There is also a \$2.5 million dollar capital emergency, repair, maintenance and replacement fund to accommodate capital emergencies for all of state government, so postsecondary institutions may be eligible for assistance from some of these funds as well.

Staff preparation by Sandra Woodley

**COMMONWEALTH OF KENTUCKY POSTSECONDARY EDUCATION INSTITUTIONS**  
**Public Services Continuation Plan (PSCP)**  
**Analysis of Reductions and General Fund Spending Estimates for FY 2004-05**

Institutions	FY 2003-04 Revised Appropriation (1)	*Executive Recommendation	Transfer of LCC to KCTCS	FY 2004-05						Firefighter Fund Swap	Debt Service Savings	PSCP Operating Spending Estimates
				Stability Initiative Reductions			Additional \$10 Million					
				General Fund	Restricted Funds (2)	Total	Operating	Capital	Total			
EKU	71,448,100	71,047,200			(2,415,700)	(2,415,700)	589,000		589,000			71,636,200
KCTCS	184,747,600	181,289,900	8,321,800	(379,100)	(5,865,600)	(6,244,700)	1,523,000		1,523,000	707,000		191,462,600
KSU	22,286,600	23,414,900			(586,600)	(586,600)	143,000		143,000			23,557,900
MOSU	41,599,300	41,550,300			(1,501,300)	(1,501,300)	366,000		366,000			41,916,300
MUSU	50,179,100	50,203,000			(1,632,900)	(1,632,900)	398,000		398,000			50,601,000
NKU	45,127,300	45,068,500			(1,951,600)	(1,951,600)	476,000		476,000			45,544,500
UK	302,595,500	303,896,200	(8,321,800)	(16,723,200)		(16,723,200)	1,000,000	3,079,000	4,079,000		(188,300)	279,662,900
U of L	171,859,400	172,263,200		(3,162,400)	(4,400,000)	(7,562,400)		1,845,000	1,845,000			169,100,800
WKU	68,811,500	68,878,400			(2,381,600)	(2,381,600)	581,000		581,000			69,459,400
Additional \$10 million to be distributed (3)												10,000,000
<b>Total Institutions</b>	<b>\$ 958,654,400</b>	<b>\$ 957,611,600</b>	<b>\$ -</b>	<b>\$ (20,264,700)</b>	<b>\$ (20,735,300)</b>	<b>\$ (41,000,000)</b>	<b>\$ 5,076,000</b>	<b>\$ 4,924,000</b>	<b>\$ 10,000,000</b>	<b>\$ 707,000</b>	<b>\$ (188,300)</b>	<b>\$ 952,941,600</b>

(1) FY 2003-04 revised appropriations includes the 2.5% recurring reduction included in the executive budget reduction order (\$23.4 million)  
(2) Restricted Fund reductions are presented for display only and do not impact General Fund spending estimates in the Public Services Continuation Plan.  
(3) This appropriation was put into the Council's budget for distribution to the institutions. The allocation and purpose is to be determined within the quarter by the Governor and CPE.

Proposed Use of Additional Nonrecurring Funds

	Research	Regional Stewardship	Workforce Development	Capital Renewal & Maintenance	Total	Description
<b>Research Institutions</b>						
University of Kentucky	4,079,000				4,079,000	\$1M in operating funds to retain 'star' faculty and provide seed money for research and development activities, including lab renovations for RCTF endowed faculty. \$2M capital funds to replace air handling units in Research #1 building and minor renovations for the newly established College of Public Health, which is housed in this facility. \$1.079M to apply toward the match of federal funds to equip the fourth floor of the Biological / Biomedical Sciences Research Building.
University of Louisville	1,845,000				1,845,000	\$1,845,000 to supplement the construction budget for the Cardiovascular Innovation Institute in order to add two additional floors of prime research space.
<b>Comprehensive Institutions</b>						
Eastern Kentucky University				589,000	589,000	\$589,000 to specifically address the replacement of the energy management system and associated building systems.
Kentucky State University		23,000		120,000	143,000	\$120,000 in major maintenance work at Young Hall, \$23,000 for Regional Stewardship program to identify at-risk secondary students and expose them to college life at KSU including educational counseling through meetings on campus.
Morehead State University		161,200		204,800	366,000	\$161,200 for Regional Stewardship, \$204,800 capital renewal and maintenance.
Murray State University		180,000		218,000	398,000	\$110,000 Deferred Maintenance, \$130,000 Ed. Outreach, \$50,000 Economic Development Initiative to improve communication throughout the region, \$108,000 technological improvements at extended campuses in Henderson, Hopkinsville, Paducah, and Madisonville.
Northern Kentucky University		476,000			476,000	Regional Stewardship Program as detailed in budget request.
Western Kentucky University		400,000		181,000	581,000	\$400,000 for Regional Stewardship to merge the WKU-Owensboro programs with Owensboro Community and Technical College. \$181,000 to address capital renewal and maintenance priorities.
<b>Two-Year Institutions</b>						
KCTCS (including LCC)			1,523,000		1,523,000	\$500,000 to establish the Center of Excellence in Automotive Manufacturing, \$500,000 for Homeland Security Initiatives, and \$523,000 to implement a systematic Business Partnership Development Program.
<b>TOTAL</b>	<b>\$ 5,924,000</b>	<b>\$ 1,240,200</b>	<b>\$ 1,523,000</b>	<b>\$ 1,312,800</b>	<b>\$ 10,000,000</b>	

**Public Services Continuation Plan  
FY 2004-05, 1st Quarter**

June 29, 2004

Capital Projects/Institution	Source of Funds			
	General	Restricted	Federal	Other
Eastern Kentucky University				
Capital Project Authority		\$ 30,619,000		
Kentucky Community and Technical College System				
Warren County Technology Center	5,500,000			
Capital Project Authority		18,050,000		
Subtotal-KCTCS	5,500,000	18,050,000	-	-
Kentucky State University				
Capital Project Authority		36,998,000		
Morehead State University				
Capital Project Authority		11,632,000	10,000,000	
Murray State University				
Capital Project Authority		15,157,800		
Northern Kentucky University				
Capital Project Authority		89,885,000		
University of Kentucky				
Fit-up 4th Floor BBSRB	1,079,000	2,186,000	7,735,000	
Replace Air Handling Units Research #1	950,000			
College of Public Health Minor Renovations	1,050,000			
Capital Project Authority - Additional		1,195,634,000	57,800,000	
Subtotal-UK	3,079,000	1,197,820,000	65,535,000	-
University of Louisville				
Cardiovascular Innovation Unit-Additional	1,845,000			
Capital Project Authority - Additional		182,808,000		
Subtotal-UofL	1,845,000	182,808,000	-	-
Western Kentucky University				
Capital Project Authority		79,182,000		
<b>Total Authority</b>	<b>\$ 10,424,000</b>	<b>\$ 1,662,151,800</b>	<b>\$ 75,535,000</b>	<b>\$ -</b>
KHEAA and KHESLC				
Capital Project Authority		840,000		
<b>System Total</b>	<b>\$ 10,424,000</b>	<b>\$ 1,662,991,800</b>	<b>\$ 75,535,000</b>	<b>\$ -</b>

**NOTES:**

1. Reauthorized projects are for the amount listed in HB 269, except when specific additional amounts are identified.
2. Projects listed in the P S Continuation Plan are to implemented in the same manner as in an enacted budget.
3. The P S Continuation Plan does not contain any DEBT issuance authorizations for postsecondary education.
4. The PS Continuation Plan identifies \$5.0 million to be distributed by the Secretary of the Finance and Administratio date to address SOME or ALL capital projects that were included in the Governor's budget.

	<u>Total Authority</u>
\$	30,619,000
	5,500,000
	18,050,000
	23,550,000
	36,998,000
	21,632,000
	15,157,800
	89,885,000
	11,000,000
	950,000
	1,050,000
	<u>1,253,434,000</u>
	1,266,434,000
	1,845,000
	<u>182,808,000</u>
	184,653,000
	79,182,000
<b>\$</b>	<b>1,748,110,800</b>
	840,000
<b>\$</b>	<b>1,748,950,800</b>

n Cabinet at a later





KENTUCKY  
**Council**  
on postsecondary education

**2004-05 Agency Operating  
Budget**

July 1, 2004

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**2004-05 Agency Operating Budget**

**July 1, 2004**

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### CPE Summary

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	8,953,507	0	-100.00%
Interest Earnings			
1998-2000	312,308	0	-100.00%
2000-02	3,139,774	0	-100.00%
Current Appropriation	122,506,200	116,947,900	-4.54%
Current Year Interest Earnings	1,145,666	0	-100.00%
Bond Funds	120,000,000	0	-100.00%
Sub Total General Fund	256,057,455	116,947,900	-54.33%
Agency Receipts			
Carry-Forward	8,186,700	742,800	-90.93%
Current Receipts	4,860,700	2,316,000	-52.35%
Sub Total Agency Receipts	13,047,400	3,058,800	-76.56%
Federal Funds			
Carry-Forward	0	0	0.00%
Current Receipts	19,099,400	19,099,400	0.00%
Sub Total Federal Funds	19,099,400	19,099,400	0.00%
<b>TOTAL REVENUES</b>	<b>288,204,255</b>	<b>139,106,100</b>	<b>-51.73%</b>
Expenditures by Major Object			
Personal Services	10,798,333	9,569,600	-11.38%
Operating Expenses	5,971,000	5,945,100	-0.43%
Grants, Loans, Benefits	270,590,722	123,296,500	-54.43%
Capital Expenses	101,400	85,400	-15.78%
Budgeted Carry-forward	742,800	0	-100.00%
Budget Reduction Reserve	0	209,500	100.00%
<b>Total Expenditures by Major Object</b>	<b>288,204,255</b>	<b>139,106,100</b>	<b>-51.73%</b>
Expenditures by Program			
CPE Operations	12,927,200	12,329,100	-4.63%
Pass-Through Programs	11,055,300	5,182,900	-53.12%
Strategic Initiative and Incentive Funding Programs	245,122,355	102,494,700	-58.19%
Federal Programs	19,099,400	19,099,400	0.00%
<b>Total Expenditures by Program</b>	<b>288,204,255</b>	<b>139,106,100</b>	<b>-51.73%</b>

## Agency Summary

The FY 2004-05 agency operating budget presents proposed sources of funds and expenditures by major object and by activity. The presentation also separately displays financial information for the four major council programs:

- Operations
- Pass-through Programs
- Strategic Initiative and Incentive Funding Programs
- Federal Programs

During FY 2003-04, the operating budgets for Agency Operations, KYVU/KYVL and Adult Education were reported separately. Beginning with FY 2004-05, the operating budgets for the three units have been consolidated into a single operating budget called Operations. In addition to unifying the operations of the agency, the consolidation allows for greater efficiencies in budgeting and accounting for expenditures.

The current FY 2003-04 budget information is provided for the purpose of comparison with the new FY 2004-05 budget. Comparison between FY 2003-04 and 2004-05 should be made with caution because the carry-forward balances from FY 2002-03 are reflected in the FY 2003-04 revised budget column while the carry-forward balances from FY 2003-04 will not be known until thirty days after the end of the fiscal year. Any FY 2003-04 carry-forward balances will be presented in the FY 2004-05 first quarter report that will be available October 2004.

The 2004 General Assembly adjourned without enacting a budget for the 2004-06 biennium. At the time of the preparation of this agency budget, we had neither an enacted budget nor an executive spending plan. The only guidance we had to anticipate levels of funding for CPE's various activities, functions and programs was the allotment process approved by the Office of the State Budget Director. This agency budget is based on the approved allotments, recognizing that amounts may change when an executive spending plan is executed or a budget is enacted. The program narratives attempt to identify areas where funding levels may change.

The FY 2003-04 revised budget column reflects the two rounds of budget reductions during the fiscal year (previously detailed in the FY 2003-04 quarterly reports), as well as the reductions in the proposed 2004-06 biennial budget to provide non-recurring support for certain programs in FY 2004-05. The total General Fund support for CPE changes only slightly from FY 2003-04 to FY 2004-05. Those variations are detailed later in the program narrative.

Like the agency budgets for FY 2002-03 and FY 2003-04, the FY 2004-05 budget provides for the use of trust fund interest earnings to help finance several programs. Trust fund interest earnings totaling \$820,000, displayed as non-revenue agency receipts, will be used to support the following programs:

Contract Spaces	\$ 100,000
Minority Student College Prep. Program	105,500
SREB Doctoral Scholars Program	188,400

Early Math Testing	50,000
P-16 Local Councils	50,000
Knowledge-based Economy Academic Programs	<u>326,100</u>
	\$ 820,000

Detailed information on individual programs is included in sections 2—4.

**Operations**

Category	2003-04 Revised Budget	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	10,471,300	10,471,300	0.00%
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
<b>Sub Total General Fund</b>	<b>10,471,300</b>	<b>10,471,300</b>	<b>0.00%</b>
Agency Receipts			
Carry-Forward	1,335,900	742,800	
Current Receipts	1,120,000	1,115,000	
<b>Sub Total Agency Receipts</b>	<b>2,455,900</b>	<b>1,857,800</b>	<b>-24.35%</b>
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
<b>Sub Total Federal Funds</b>	<b>0</b>	<b>0</b>	
<b>TOTAL REVENUES</b>	<b>12,927,200</b>	<b>12,329,100</b>	<b>-4.63%</b>
<b>Expenditures by Major Object</b>			
Personal Services	6,987,000	6,909,600	-1.11%
Operating Expenses	4,746,000	4,774,600	0.60%
Grants, Loans, Benefits	350,000	350,000	0.00%
Capital Expenses	101,400	85,400	-15.78%
Budgeted Carry-forward	742,800	0	0.00%
Budget Reduction Reserve	0	209,500	0.00%
<b>Total Expenditures by Major Object</b>	<b>12,927,200</b>	<b>12,329,100</b>	<b>-4.63%</b>
<b>Expenditures by Program</b>			
Agency Operations	5,534,200	5,303,900	-4.16%
KYVU/KYVL	4,741,000	4,797,400	1.19%
Adult Education Operations	1,909,200	2,018,300	5.71%
Budgeted Carry-forward	742,800	0	0.00%
Budget Reduction Reserve	0	209,500	0.00%
<b>Total Expenditures by Program</b>	<b>12,927,200</b>	<b>12,329,100</b>	<b>-4.63%</b>

**Operations -- Detail**

	Minor Object Codes	2003-04 Revised Budget	2004-05 Original Budget	Percent Change
	<b>Personnel</b>			
111	Regular Salaries and Wages	5,614,800	5,461,800	
112	Seasonal Salaries and Wages	3,500	0	
114	Per Diem	26,800	26,000	
115	Overtime	0	1,500	
	<i>Reserve: 2% increment</i>	0	15,600	
181	OMI-Lump Sum Payments	0	0	
119	Comp Time (block 50 payments)	0	0	
110	SALARIES TOTAL	5,645,100	5,504,900	-2.48%
121	Employer's FICA	348,100	418,100	
122	Employer's Retirement	447,800	463,700	
123	Employer's Health Insurance	256,700	274,500	
124	Employer Life Insurance	2,300	2,400	
127	TIAA-CREF Disability Coverage	7,800	5,900	
174	Adoption Benefit	3,000	0	
120	FRINGE BENEFITS TOTAL	1,065,700	1,164,600	9.28%
131	Workers' Compensation	11,500	12,500	
132	Unemployment Compensation	300	2,500	
133	Employee Training	23,100	24,500	
138	Automobile Liability Insurance	2,200	2,000	
130	OTHER PERSONNEL COSTS TOTAL	37,100	41,500	11.86%
141	Legal Services	0	0	
142	Auditing Services	62,100	50,000	
145	Professional Computer Services	33,900	0	
146	Professional Services	96,100	105,000	
147	Advertising Services	1,000	0	
150	Miscellaneous Serv - 1099 Report	0	0	
140	PROF. CONTACTS TOTAL	193,100	155,000	-19.73%
152	Court Reporters	0	0	
162	Security Guard Services	0	2,600	
163	Janitorial Services	41,000	41,000	
164	Honoraria	5,000	0	
160	OTHER TOTAL	46,000	43,600	-5.22%
100	PERSONNEL SERVICES TOTAL	6,987,000	6,909,600	-1.11%
	<b>Operating</b>			
212	Electricity	26,000	51,400	
210	UTILITIES TOTAL	26,000	51,400	97.69%
221	Rental - non-state owned buildings	246,000	334,300	
223	Rental of Equipment	10,100	8,200	
224	Copy Machine Rental	47,200	47,500	
226	Carpool Rental	11,500	3,800	

	Minor Object Codes	2003-04 Revised Budget	2004-05 Original Budget	Percent Change
227	State-Owned Aircraft	<u>0</u>	<u>0</u>	
220	RENTAL TOTALS	314,800	393,800	25.10%
231	Maintenance of Buildings	14,500	3,200	
232	Maintenance of Equipment	2,000	1,200	
233	Copy Machine Maintenance	650	550	
234	Computer Maintenance	3,000	2,500	
235	Maintenance of Vehicles	150	250	
238	Computer Software Maintenance	<u>0</u>	<u>20,000</u>	
230	MAINTENANCE & REPAIRS TOTAL	20,300	27,700	36.45%
241	Postage and Postage Meters	34,100	9,500	
242	Freight	0	0	
243	Other Parcel Delivery	<u>246,800</u>	<u>331,500</u>	
240	POSTAGE & RELATED SERV. TOTAL	280,900	341,000	21.40%
251	Printing paid to State Agency	25,200	13,500	
252	Printing paid to Vendor	2,800	0	
254	Insurance Premium	2,400	1,100	
255	Advertising	206,000	5,000	
256	Garbage Collection	900	900	
257	Services not otherwise classified	51,900	78,300	
259	Expenses related to shows & fairs	<u>3,200</u>	<u>6,500</u>	
250	MISCELLANEOUS SERVICES TOTAL	292,400	105,300	-63.99%
262	Telephone Charges Paid to Vendor	9,800	3,600	
263	Other Telecommunications	600	400	
264	Cellular Telephone Charges	12,700	10,500	
265	Pager Service	800	0	
266	800/888 Toll Free Service	<u>1,100</u>	<u>7,500</u>	
260	TELECOMMUNICATIONS TOTAL	25,000	22,000	-12.00%
271	Information Systems - Tech. Serv.	3,122,500	3,517,800	
276	Computer-Coax-Cable-Ends	800	0	
281	Computer-Disk Space	100	0	
294	Computer Equipment	138,500	2,000	
300	MARS Charges	<u>14,700</u>	<u>11,600</u>	
270	COMPUTER SERVICES TOTAL	3,276,600	3,531,400	7.78%
321&315	Office Supplies	51,000	43,500	
323	Janitorial Supplies	6,000	5,900	
328	Classroom Supplies	1,500	0	
330	Photographic Supplies	2,600	1,600	
331	Data Processing Supplies	15,000	2,500	
333	Motor Vehicle Supplies & Parts	0	0	
338	Copy Machine Supplies	100	13,000	
340	Procurement Card Purchases	<u>3,000</u>	<u>0</u>	
320	SUPPLIES TOTAL	79,200	66,500	-16.04%
343	Motor Fuels	2,700	1,000	
346	Furniture, equipment under \$5000	4,200	2,500	



Minor Object Codes		2003-04 Revised Budget	2004-05 Original Budget	Percent Change
351	Books	1,100	1,500	
353	Telephone/Telecom Equip under \$5000	0	0	
354	Computer Software	167,500	19,500	
355	Films & Video Cassettes	100	0	
340	COMMODITIES TOTAL	175,500	24,500	-86.04%
361	In-state Travel	65,950	39,500	
362	Out-of-state Travel	46,250	40,500	
363	Travel for Non-state Employees	35,000	28,000	
560	Commercial Airfare	0	0	
562	General Travel	0	0	
563	General Lodging	0	0	
565	Per Diem Expense	0	0	
566	Personally Owned Vehicles	0	0	
567	Registration Fees	0	0	
568	State Park Lodging	0	0	
569	Subsistence	0	0	
571	Transportation Expense	0	0	
572	Dinner/ W-2 Reportable	0	0	
360	TRAVEL TOTAL	147,200	108,000	-26.63%
381	Dues/Subscriptions	99,500	94,500	
399	Other (Food Products)	8,600	8,500	
527	Computer Hdw/Stand Alone	0	0	
370	MISCELLANEOUS EXPENSES TOTAL	108,100	103,000	-4.72%
300	TOTAL OPERATING EXPENSES	4,746,000	4,774,600	0.60%
<b>Grants</b>				
400	TOTAL GRANTS	350,000	350,000	0.00%
<b>Capital Outlay</b>				
601	Furniture, Equipment over \$5000	0	0	
611	Lease Purchase	8,900	0	
622	Office Automation Equipment	92,500	85,400	
631	Capital Purchases	0	0	
600	TOTAL CAPITAL OUTLAY	101,400	85,400	-15.78%
	TOTAL	12,184,400	12,119,600	-0.53%
	Budgeted Carry-forward	742,800		
	Budget Reduction Reserve	0	209,500	100.00%
	GRAND TOTAL	12,927,200	12,329,100	-4.63%

## Operations

Beginning with FY 2004-05, the operating budgets previously displayed as Agency Operations, KYVU/KYVL and Adult Education Operations are consolidated into a single agency operating budget simply called Operations. This consolidation is expected to result in improved operational efficiencies.

The total FY 2004-05 General Fund allotment for Operations is the same total amount the agency had for its operations in FY 2003-04, following the series of budget reductions -- \$10,471,300. This amount is sufficient to support 87 full-time and 4 part-time positions with a total payroll cost of \$6.7 million. The agency currently has 17 vacant positions; however, the FY 2003-04 budget reductions eliminated funding for all but two of these vacant positions.

In addition to the financial summary page, a detailed list of budgeted expenditures by minor object code from both General Funds and Agency Receipts is included.

Other significant budget items displayed in the minor object code detail relate to the operation of the Virtual University: the \$300,000 library delivery system coded under Other Parcel Delivery; \$3.5 million coded in Information Systems that includes the KYVU databases; and the \$350,000 in grants for services provided by institutions.

The percentage increase in the minor object codes for utilities and building rental are unusually large for two reasons: (1) the increased cost associated with the KYAE space in FY 2003-04 was not for the full twelve months, and (2) in FY 2003-04, this increased cost was charged to the KYAE federal grant administrative allowance, whereas in FY 2004-05, this normal recurring expense is budgeted with General Fund operating money.

The Computer Software Maintenance minor object code increased by \$20,000 primarily because maintenance charges previously covered by the software vendor will now be a CPE obligation.

**Pass Through Programs**

<b>Category</b>	<b>2003-04 Revised Budget 3/31/2004</b>	<b>2004-05 Original Budget</b>	<b>Percent Change</b>
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	10,259,000	4,689,000	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	10,259,000	4,689,000	-54.29%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	796,300	493,900	
Sub Total Agency Receipts	796,300	493,900	-37.98%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>11,055,300</b>	<b>5,182,900</b>	<b>-53.12%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	11,055,300	5,182,900	
Capital Expenses	0	0	
Total Expenditures by Major Object	11,055,300	5,182,900	-53.12%
Expenditures by Program			
Contract Spaces	2,712,500	2,912,500	7.37%
Metroversity Consortium	58,800	58,800	0.00%
Professional Education Prep. Program	416,700	416,700	0.00%
Telecommunication Consortium (ETV)	182,700	182,700	0.00%
Minority Student College Prep. Program			
Base	224,700	224,700	0.00%
Supplemental Funding	105,500	105,500	0.00%
State Autism Training Center	217,800	217,800	0.00%
Kentucky Rural Development Center	698,200	698,200	0.00%
Early Reading Incentive Grant	4,013,100	0	-100.00%
SREB Doctoral Scholars Program			
Base	68,000	68,000	0.00%
Supplemental Funding	188,400	188,400	0.00%
KY Postsecondary Education Network	1,566,500	0	-100.00%
Early Math Testing	50,000	50,000	0.00%
P-16 Local Councils	50,000	50,000	0.00%
KSU Land Grant Match	502,400	0	-100.00%
MLK Scholarship at KSU	0	9,600	100.00%
Total Expenditures by Program	11,055,300	5,182,900	-53.12%

## Pass-Through Programs

The Council has been designated as the funding recipient for several programs and activities with appropriations ultimately intended for postsecondary education institutions, other state agencies or independent organizations. Pass-through programs are monitored by the Council while day-to-day administration of pass-through programs are, for the most part, directed by these outside entities. For convenience, these programs and activities are grouped under the common heading of Pass-Through Programs.

The FY 2004-05 General Fund allotment is \$4,689,000, an insufficient amount needed to support all activities the legislature approved. The budget includes \$493,900 in interest earnings from the strategic trust funds to cover the additional costs for these programs:

Contract Spaces	\$ 100,000
Minority Student College Preparation Program	105,500
SREB Doctoral Scholars Program	188,400
Early Math Testing	50,000
P-16 Local Councils	<u>50,000</u>
	\$ 493,900

The Contract Spaces program includes optometry and veterinary medicine agreements with the Southern Region Educational Board (SREB) and with the state of Indiana. Kentucky purchases veterinary medicine seats at Auburn and Tuskegee Universities and purchases optometry seats at the University of Alabama, Birmingham, the Southern College of Optometry, Memphis, Tennessee, and Indiana University. The initial allotments allow \$2,812,500 in General Funds for the Contract Spaces Program. This is \$221,300 less than the total amount needed to fully fund all spaces reserved for Kentucky optometry and veterinary students. The agency remains hopeful that these needed funds will be provided when an executive spending plan is executed or a budget is enacted by the General Assembly. Although the 2004 General Assembly adjourned in April without enacting a budget, both the House and Senate versions of the budget included full funding for the Contract Spaces Program.

Funding for the remainder of the Pass-Through Programs continues at the same level in FY 2004-05 as in FY 2003-04 with the following exceptions:

- The Early Reading Incentive Grant (ERIG) previously passed through CPE to the Kentucky Department of Education (KDE). KDE also receives an Early Reading Incentive Grant, so the Office of the State Budget Director allotted all ERIG funds directly to KDE.
- The Kentucky Postsecondary Education Network (KPEN) was previously funded partially with Pass-through funds and partially with Technology Trust Funds. Beginning in FY 2004-05, all funds for KPEN flow through the Technology Trust Fund.

- In 2003-04, CPE received \$502,400, which it passed through to Kentucky State University to supplement KSU's Land Grant Match program. For FY 2004-05, that amount became part of KSU's base budget allocation and no longer passes through CPE.
- In FY 2004-05, an allotment of \$9,600 will pass through CPE to KSU for a Martin Luther King Scholarship.

### Strategic Initiative and Incentive Funding Programs

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	8,953,507	0	
Interest Earnings			
1998-2000	312,308	0	
2000-02	3,139,774	0	
Current Appropriation	101,775,900	101,787,600	
Current Year Interest Earnings	1,145,666	0	
Bond Funds	120,000,000	0	
Sub Total General Fund	235,327,155	101,787,600	-56.75%
Agency Receipts			
Carry-Forward	6,850,800	0	
Current Receipts	2,944,400	707,100	
Sub Total Agency Receipts	9,795,200	707,100	-92.78%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>245,122,355</b>	<b>102,494,700</b>	<b>-58.19%</b>
Expenditures by Major Object			
Personal Services	3,064,333	1,800,000	
Operating Expenses	529,000	500,000	
Grants, Loans, Benefits	241,529,022	100,194,700	
Capital Expenses	0	0	
Total Expenditures by Major Object	245,122,355	102,494,700	-58.19%
Expenditures by Program			
Endowment Match Program	122,266,233	0	-100.00%
Research Challenge Trust Fund	360,133	0	-100.00%
Lung Cancer Research	5,807,476	5,431,300	-6.48%
Regional Univ. Excellence Trust Fund	662,666	0	-100.00%
Technology Initiative Trust Fund	5,187,143	2,431,500	-53.12%
Physical Facilities Trust Fund	0	0	100.00%
Postsecondary Workforce Dev. TF	214,661	0	-100.00%
Student Financial Aid & Advancement TF	70,847,343	66,600,000	-6.00%
Kentucky Adult Education	24,487,200	19,026,000	-22.30%
Science and Technology Funding Prog.	15,289,500	9,005,900	-41.10%
Total Expenditures by Program	245,122,355	102,494,700	-58.19%

### Endowment Match Program

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	1,601,504	0	
Current Appropriation	0	0	
Current Year Interest Earnings	664,729	0	
Bond Funds	120,000,000	0	
Sub Total General Fund	122,266,233	0	-100.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>122,266,233</b>	<b>0</b>	<b>-100.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	122,266,233	0	
Capital Expenses	0	0	
Total Expenditures by Major Object	122,266,233	0	-100.00%
Expenditures by Program			
Eastern Kentucky University	4,820,000	0	-100.00%
Kentucky State University	1,473,600	0	-100.00%
Morehead State University	2,851,000	0	-100.00%
Murray State University	3,259,000	0	-100.00%
Northern Kentucky University	2,904,000	0	-100.00%
Western Kentucky University	4,759,000	0	-100.00%
Subtotal	20,066,600	0	-100.00%
University of Kentucky	66,717,700	0	-100.00%
University of Louisville	33,833,419	0	-100.00%
Subtotal	100,551,119	0	-100.00%
Reallocation to Other Programs	1,648,514	0	-100.00%
Debt Service	0	0	
Total Expenditures by Program	122,266,233	0	-100.00%

### Research Challenge Trust Fund

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	312,308	0	
2000-02	36,513	0	
Current Appropriation	0	0	
Current Year Interest Earnings	11,312	0	
Bond Funds		0	
Sub Total General Fund	360,133	0	-100.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>360,133</b>	<b>0</b>	<b>-100.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	360,133	0	
Capital Expenses	0	0	
Total Expenditures by Major Object	360,133	0	-100.00%
Expenditures by Program			
Research Challenge			
University of Kentucky	0	0	0.00%
Lexington Community College	0	0	0.00%
University of Louisville	0	0	0.00%
Subtotal	0	0	0.00%
Interest Income			
University of Kentucky	225,244	0	-100.00%
University of Louisville	104,091	0	-100.00%
Subtotal	329,335	0	-100.00%
Reallocation to Other Programs	30,798	0	-100.00%
Debt Service	0	0	0.00%
Total Expenditures by Program	360,133	0	-100.00%



### Lung Cancer Research

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	299,600	0	
Current Appropriation	5,455,000	5,431,300	
Current Year Interest Earnings	52,876	0	
Bond Funds	0	0	
Sub Total General Fund	5,807,476	5,431,300	-6.48%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>5,807,476</b>	<b>5,431,300</b>	<b>-6.48%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	5,807,476	5,431,300	
Capital Expenses	0	0	
Total Expenditures by Major Object	5,807,476	5,431,300	-6.48%
Expenditures by Program			
Lung Cancer Research	4,755,000	5,431,300	14.22%
Ovarian Cancer Screening Program	700,000	0	-100.00%
Reallocation to Other Programs	352,476	0	-100.00%
Total Expenditures by Program	5,807,476	5,431,300	-6.48%

**Regional University Excellence Trust Fund**

<b>Category</b>	<b>2003-04 Revised Budget 3/31/2004</b>	<b>2004-05 Original Budget</b>	<b>Percent Change</b>
<b>REVENUES</b>			
<b>General Fund</b>			
Carry-Forward			
Principal	434,300	0	
Interest Earnings			
1998-2000	0	0	
2000-02	198,720	0	
Current Appropriation	0	0	
Current Year Interest Earnings	29,646	0	
Bond Funds	0	0	
Sub Total General Fund	662,666	0	-100.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>662,666</b>	<b>0</b>	<b>-100.00%</b>
<b>Expenditures by Major Object</b>			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	662,666	0	
Capital Expenses	0	0	
<b>Total Expenditures by Major Object</b>	<b>662,666</b>	<b>0</b>	<b>-100.00%</b>
<b>Expenditures by Program</b>			
<b>Programs of Distinction</b>			
Eastern Kentucky University	257,000	0	-100.00%
Kentucky State University	177,300	0	-100.00%
Morehead State University	0	0	0.00%
Murray State University	0	0	0.00%
Northern Kentucky University	0	0	0.00%
Western Kentucky University	0	0	0.00%
Subtotal	434,300	0	-100.00%
Interest Earnings			
Eastern Kentucky University	29,881	0	-100.00%
Kentucky State University	56,568	0	-100.00%
Morehead State University	49,818	0	-100.00%
Murray State University	0	0	0.00%
Northern Kentucky University	0	0	0.00%
Western Kentucky University	0	0	0.00%
Subtotal	136,267	0	-100.00%
Reallocation to Other Programs	92,099	0	-100.00%
<b>Total Expenditures by Program</b>	<b>662,666</b>	<b>0</b>	<b>-100.00%</b>

**Technology Initiative Trust Fund**

<b>Category</b>	<b>2003-04 Revised Budget 3/31/2004</b>	<b>2004-05 Original Budget</b>	<b>Percent Change</b>
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	2,786,048	0	
Interest Earnings			
1998-2000	0	0	
2000-02	543,860	0	
Current Appropriation	484,000	2,050,500	
Current Year Interest Earnings	130,235	0	
Bond Funds	0	0	
Sub Total General Fund	3,944,143	2,050,500	-48.01%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	1,243,000	381,000	
Sub Total Agency Receipts	1,243,000	381,000	-69.35%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>5,187,143</b>	<b>2,431,500</b>	<b>-53.12%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	5,187,143	2,431,500	
Capital Expenses	0	0	
Total Expenditures by Major Object	5,187,143	2,431,500	-53.12%
Expenditures by Program			
KY Postsecondary Education Network	435,600	2,002,100	359.62%
KPEN - Non-recurring	543,000	0	-100.00%
KPEN - Recurring	750,000	331,000	-55.87%
Faculty Development	48,400	0	-100.00%
Faculty Development - Supplemental FY 04	30,000	0	-100.00%
Faculty Development - Supplemental FY 05	0	48,400	0.00%
BIO Conference	10,000	0	-100.00%
Institute for Effective Governance --	50,000	0	-100.00%
Go Higher Web Site Promotion	150,000	0	-100.00%
Comp. Database/CPE web site/Cons. Inform.	700,000	0	-100.00%
Local P-16 Councils	0	0	0.00%
Course Applicability System	225,000	50,000	-77.78%
Washington Intern Program	60,000	0	-100.00%
GEAR Up Matching	100,000	0	-100.00%
Finance -- Benchmark Funding Analysis	40,000	0	-100.00%
Finance -- Capital Project Evaluation	9,400	0	-100.00%
Centralized Advising Network (U-CAN)	175,000	0	-100.00%
Academic Programs -- Collaborative			
Program Development	600,000	0	-100.00%
GEAR UP Expo - KHEAA	100,000	0	-100.00%
Career Tracking System -- AE, EPSB, KCTCS	300,000	0	-100.00%
Strategic Planning Agenda	50,000	0	-100.00%
Strategic Initiatives	810,743	0	-100.00%
Total Expenditures by Program	5,187,143	2,431,500	-53.12%

**Physical Facilities Trust Fund**

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	0	0	
Capital Expenses	0	0	
Total Expenditures by Major Object	0	0	0.00%
Expenditures by Program			
Capital Renewal/Maintenance -- DS	0	0	0.00%
Renovation, Replace. & Infrastructure	0	0	0.00%
New Construction -- DS	0	0	0.00%
Total Expenditures by Program	0	0	0.00%

**Postsecondary Workforce Development Trust Fund**

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	202,716	0	
Current Appropriation	0	0	
Current Year Interest Earnings	11,945	0	
Bond Funds	0	0	
Sub Total General Fund	214,661	0	-100.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>214,661</b>	<b>0</b>	<b>-100.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	214,661	0	
Capital Expenses			
Total Expenditures by Major Object	214,661	0	-100.00%
Expenditures by Program			
KCTCS			
Enrollment Growth & Retention	0	0	0.00%
Workforce Training	0	0	0.00%
Reallocation to Other Programs	214,661	0	-100.00%
Total Expenditures by Program	214,661	0	-100.00%

**Student Financial Aid & Advancement Trust Fund**

Category	2003-04	2004-05	
	Revised Budget 3/31/2004	Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	2,111,259	0	
Interest Earnings			
1998-2000	0	0	
2000-02	256,861	0	
Current Appropriation	68,320,000	66,600,000	
Current Year Interest Earnings	159,223	0	
Bond Funds	0	0	
Sub Total General Fund	70,847,343	66,600,000	-6.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>70,847,343</b>	<b>66,600,000</b>	<b>-6.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	70,847,343	66,600,000	
Capital Expenses	0	0	
Total Expenditures by Major Object	70,847,343	66,600,000	-6.00%
Expenditures by Program			
KEES Program	70,847,343	66,600,000	-6.00%
KEES Reserve	0	0	
Total Expenditures by Program	70,847,343	66,600,000	-6.00%

### Kentucky Adult Education

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	38,500	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	19,026,000	19,026,000	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	19,064,500	19,026,000	-0.20%
Agency Receipts			
Carry-Forward	5,422,700	0	
Current Receipts	0	0	
Sub Total Agency Receipts	5,422,700	0	-100.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>24,487,200</b>	<b>19,026,000</b>	<b>-22.30%</b>
Expenditures by Major Object			
Personal Services	1,801,000	1,800,000	
Operating Expenses	529,000	500,000	
Grants, Loans, Benefits	22,157,200	16,726,000	
Capital Expenses	0	0	
Total Expenditures by Major Object	24,487,200	19,026,000	-22.30%
Program Support	21,599,600	17,284,300	-19.98%
System Support	2,887,600	1,741,700	-39.68%
Total Expenditures by Program	24,487,200	19,026,000	-22.30%

### Science and Technology Funding Program

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	3,583,400	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	8,490,900	8,679,800	
Current Year Interest Earnings	85,700	0	
Bond Funds	0	0	
Sub Total General Fund	12,160,000	8,679,800	-28.62%
Agency Receipts			
Carry-Forward	1,428,100	0	
Current Receipts	1,701,400	326,100	
Sub Total Agency Receipts	3,129,500	326,100	-89.58%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Federal Funds	0	0	0.00%
<b>TOTAL REVENUES</b>	<b>15,289,500</b>	<b>9,005,900</b>	<b>-41.10%</b>
Expenditures by Major Object			
Personal Services	1,263,333	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	14,026,167	9,005,900	
Capital Expenses	0	0	
Total Expenditures by Major Object	15,289,500	9,005,900	-41.10%
Expenditures by Program			
Rural Innovation	1,640,167	0	-100.00%
Research & Development Vouchers	5,595,677	2,904,000	-48.10%
Commercialization	1,192,756	726,000	-39.13%
Regional Technology Corp/ICC Satellites	984,000	0	-100.00%
EPSCoR/Science & Engineering Found.			
Base	4,376,900	4,375,900	-0.02%
Supplemental Funding	0	0	0.00%
Knowledge-Based Economy Academic			
Programs	1,000,000	1,000,000	0.00%
Office of the New Economy	500,000	0	-100.00%
Total Expenditures by Program	15,289,500	9,005,900	-41.10%



## **Strategic Initiative and Incentive Funding Programs**

There are six statutory strategic trust funds:

Research Challenge Trust Fund  
Regional University Excellence Trust Fund  
Technology Initiative Trust Fund  
Physical Facilities Trust Fund  
Postsecondary Education Workforce Development Trust Fund  
Student Financial Aid and Advancement Trust Fund

Two other trust funds were phased out during the 2002-04 biennium and were replaced with funding programs:

Kentucky Adult Education Funding Program  
Science and Technology Funding Program

Funding programs, unlike the trust funds, do not receive interest earnings and their balances do not automatically carry forward from one fiscal year to another without a continuing appropriation by the General Assembly.

- **Research Challenge and Regional University Excellence Trust Fund (Endowment Program)**

The Endowment match program resides within the research challenge and the regional university excellence trust funds, but is displayed separately. The endowment match program received \$120.0 million in FY 2003-04, marking the first time bonds were used to fund human capital. Most of these matching funds remain to be disbursed during FY 2004-05. To date, proceeds from the bonds have only been deposited to the accounts as funds have been needed to meet match requirements. Beginning in FY 2004-05, a larger portion will be deposited into CPE accounts and allowed to earn the interest needed to support several Pass-Through and Engineering programs.

The Lung Cancer Research program is also part of the Research Challenge Trust Fund, but is displayed separately. The FY 2004-05 funding level is \$5,431,300. A separate board develops guidelines associated with the allocation of the funds and awards grant funds to individual research and clinical projects. The Council's primary responsibilities include review of the board's plan, acting as fiscal agent for the release of the funds, and receipt of final annual reports on the use of the funds.

During the 2002-04 biennium, \$700,000 of the Lung Cancer Research funds was set aside to support the Ovarian Cancer Screening Outreach program each year. This program is a legislative initiative, and in the absence of an enacted budget, no designation of funding for the Ovarian Cancer Screening program has been made to date.

- **Technology Initiative Trust Fund**

The Technology Initiative Trust Fund has the broadest application of any of the statutory trust funds. KRS 164.7921 states that the purpose of the trust fund is to “support investments in electronic technology for postsecondary education....” The language also allows the trust fund to be used for “other programs consistent with the purposes of postsecondary education, the adopted strategic agenda, and the biennial budget process.”

At the beginning of FY 2003-04, \$800,000 was cut from the Technology Trust Fund, reducing its allotment to \$500,000. Additional cuts during the fiscal year totaled \$16,000, reducing the General Fund support to \$484,000 for two programs: The Kentucky Postsecondary Education Network (KPEN) -- \$435,600 and Faculty Development -- \$48,400. Beginning with FY 2004-05, the additional funding for KPEN in the Pass-Through budget is now budgeted in the Technology Trust Fund, bringing the total for KPEN to \$2,002,100.

The \$381,000 in agency receipts represents debt service payments on technology-related bonds from NKU, UK and WKU. The bond issue included CPE and institution equipment items. The Council paid the initial debt service and these institutions have been repaying the Council. The debt service payments will continue through 2005-06. KCTCS also shared in making the debt service payments; however, KCTCS made payments in 2003-04 sufficient to cover its balance of their debt service obligation.

When the actual carry-forward amounts are determined, a full list of projects funded from the non-recurring funds will be displayed.

- **Physical Facilities Trust Fund**

As a part of its 2004-06 biennial budget request, CPE asked for \$569,100, which represented a 54 percent state General Fund match to pay debt service on agency bonds for the renovation of Young Hall dormitory at KSU. The Governor’s budget, as well as the House and Senate versions of the budget, did not include funding for this purpose. The budgets proposed by both the House and Senate for FY 2004-05 did, however, included \$527,000 for debt service for the Warren County Technology Center. Nevertheless, no funds have been allotted in this trust fund for FY 2004-05.

- **Postsecondary Workforce Development Trust Fund**

There is no FY 2004-05 appropriation to the Postsecondary Workforce Development Trust Fund. Accumulated interest earnings in this account will be displayed when actual carry-forward amounts are determined.

- **Student Financial Aid and Advancement Trust Fund**

The allotment for the Student Financial Aid and Advancement Trust Fund for FY 2004-05 is \$66,600,000. Additional funds from unclaimed prize money may be available to KEES upon certification by the Executive Director of the KHEAA that

sufficient funds are not available. In June 2004, the Consensus Forecasting Group revised the estimates of state revenues, including Lottery proceeds. The amount available to support the KEES program is expected to increase during FY 2004-05 based on the revised revenue estimates.

- **Kentucky Adult Education Funding Program**

The adult education budget is displayed in three components: (1) the KYAE operating budget is displayed as part of the Operations budget page, (2) the General Fund budget that supports the KYAE program and system support (displayed in this section), and (3) the federal funds appropriated through the WIA, Title II AEFLA, and integrated with General Fund program and system support (displayed under the Federal Programs section).

The majority of funds budgeted for Adult Education are included under the Program Support category, which is comprised of core services, family literacy, corrections education, incentive fund, and workforce & economic development. The System Support category is comprised of numerous programs and activities within KY Virtual Adult Education, professional development, and ancillary system support. The latter category includes budgets for Go Higher Communities (P-16), accountability (audits), research/evaluation, publications, and the GED test fee waiver activities.

- **Science and Technology Incentive Funding Program**

The FY 2004-05 General Fund allotment for the Science and Technology Funding Program is \$8,679,800. In addition to the General Funds, \$326,100 is budgeted from interest earnings on the trust funds. This provides a combined support of \$9,005,900, which is \$1,765,700 less than the amount requested by the Council for FY 2004-05. The budget proposed by the House included \$1 million additional to fully fund the Rural Innovation, Commercialization, Research & Development Vouchers, and Knowledge-Based Economy Academic Programs.

If the funding level is not increased for the Science and Technology Funding Program activities, the lesser allocation will have to be redistributed among the programs.

### Federal Programs--Summary

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	19,099,400	19,099,400	
Sub Total Federal Funds	19,099,400	19,099,400	0.00%
<b>TOTAL REVENUES</b>	<b>19,099,400</b>	<b>19,099,400</b>	<b>0.00%</b>
Expenditures by Major Object			
Personal Services	747,000	860,000	15.13%
Operating Expenses	696,000	670,500	-3.66%
Grants, Loans, Benefits	17,656,400	17,568,900	-0.50%
Capital Expenses	0	0	0.00%
Total Expenditures by Major Object	19,099,400	19,099,400	0.00%
Expenditures by Program			
Adult Education	15,149,400	15,149,400	0.00%
GEAR UP Kentucky	2,500,000	2,800,000	12.00%
Eisenhower Professional Development	204,000	0	-100.00%
Improving Educator Quality State Grant	886,000	800,000	-9.71%
FIPSE	350,000	350,000	0.00%
Kentucky Compact	10,000	0	-100.00%
Total Expenditures by Program	19,099,400	19,099,400	0.00%

### Kentucky Adult Education

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	15,149,400	15,149,400	
Sub Total Federal Funds	15,149,400	15,149,400	0.00%
<b>TOTAL REVENUES</b>	<b>15,149,400</b>	<b>15,149,400</b>	<b>0.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	455,500	455,500	
Grants, Loans, Benefits	14,693,900	14,693,900	
Capital Expenses	0	0	
Total Expenditures by Major Object	15,149,400	15,149,400	0.00%
Expenditures by Program			
Program Support	11,668,100	12,095,900	3.67%
System Support	2,604,300	2,176,500	-16.43%
Training & Re-Employment	421,500	421,500	0.00%
Administration	455,500	455,500	0.00%
Total Expenditures by Program	15,149,400	15,149,400	0.00%

### GEAR UP Kentucky Program

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	2,500,000	2,800,000	
Sub Total Federal Funds	2,500,000	2,800,000	12.00%
<b>TOTAL REVENUES</b>	<b>2,500,000</b>	<b>2,800,000</b>	<b>12.00%</b>
Expenditures by Major Object			
Personal Services	386,000	500,000	
Operating Expenses	225,300	200,000	
Grants, Loans, Benefits	1,888,700	2,100,000	
Capital Expenses	0	0	
Total Expenditures by Major Object	2,500,000	2,800,000	12.00%
Expenditures by Program			
GEAR UP Kentucky	2,500,000	2,800,000	12.00%
Total Expenditures by Program	2,500,000	2,800,000	12.00%

### Eisenhower Professional Development Grant

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	
Federal Funds			
Carry-Forward	0	0	
Current Receipts	204,000	0	-100.00%
Sub Total Federal Funds	204,000	0	-100.00%
<b>TOTAL REVENUES</b>	<b>204,000</b>	<b>0</b>	<b>-100.00%</b>
Expenditures by Major Object			
Personal Services	1,000	0	-100.00%
Operating Expenses	200	0	-100.00%
Grants, Loans, Benefits	202,800	0	-100.00%
Capital Expenses	0	0	100.00%
Total Expenditures by Major Object	204,000	0	-100.00%
Expenditures by Program			
Administration	1,200	0	-100.00%
Professional Development Grants	202,800	0	-100.00%
Total Expenditures by Program	204,000	0	-100.00%

### Improving Educator Quality State Grant Program

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	886,000	800,000	
Sub Total Federal Funds	886,000	800,000	-9.71%
<b>TOTAL REVENUES</b>	<b>886,000</b>	<b>800,000</b>	<b>-9.71%</b>
Expenditures by Major Object			
Personal Services	10,000	10,000	
Operating Expenses	15,000	15,000	
Grants, Loans, Benefits	861,000	775,000	
Capital Expenses	0	0	
Total Expenditures by Major Object	886,000	800,000	-9.71%
Expenditures by Program			
Administration	25,000	25,000	0.00%
Professional Development Grants	861,000	775,000	-9.99%
Total Expenditures by Program	886,000	800,000	-9.71%



**Fund for the Improvement of Postsecondary Education (FIPSE)**

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	0.00%
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	0.00%
Federal Funds			
Carry-Forward	0	0	
Current Receipts	350,000	350,000	
Sub Total Federal Funds	350,000	350,000	0.00%
<b>TOTAL REVENUES</b>	<b>350,000</b>	<b>350,000</b>	<b>0.00%</b>
Expenditures by Major Object			
Personal Services	350,000	350,000	
Operating Expenses	0	0	
Grants, Loans, Benefits	0	0	
Capital Expenses	0	0	
Total Expenditures by Major Object	350,000	350,000	0.00%
Expenditures by Program			
Consultants and Contracts	350,000	350,000	0.00%
Total Expenditures by Program	350,000	350,000	0.00%

### Kentucky Compact

Category	2003-04 Revised Budget 3/31/2004	2004-05 Original Budget	Percent Change
<b>REVENUES</b>			
General Fund			
Carry-Forward			
Principal	0	0	
Interest Earnings			
1998-2000	0	0	
2000-02	0	0	
Current Appropriation	0	0	
Current Year Interest Earnings	0	0	
Bond Funds	0	0	
Sub Total General Fund	0	0	
Agency Receipts			
Carry-Forward	0	0	
Current Receipts	0	0	
Sub Total Agency Receipts	0	0	
Federal Funds			
Carry-Forward	0	0	
Current Receipts	10,000	0	-100.00%
Sub Total Federal Funds	10,000	0	-100.00%
<b>TOTAL REVENUES</b>	<b>10,000</b>	<b>0</b>	<b>-100.00%</b>
Expenditures by Major Object			
Personal Services	0	0	
Operating Expenses	0	0	
Grants, Loans, Benefits	10,000	0	-100.00%
Capital Expenses	0	0	
Total Expenditures by Major Object	10,000	0	-100.00%
Expenditures by Program			
Kentucky Compact	10,000	0	-100.00%
Total Expenditures by Program	10,000	0	-100.00%

## Federal Programs

The council operated six federally funded programs in FY 2003-04, but only four will continue in FY 2004-05: Kentucky Adult Education, GEAR UP Kentucky, Improving Educator Quality, and the Fund for the Improvement of Postsecondary Education (FIPSE). The other two, Eisenhower Professional Development State Grant and Kentucky Compact will be closed at the end of this fiscal year.

- Kentucky Adult Education

The Kentucky Adult Education (KYAE) unit within CPE receives federal adult education funds pursuant to the Federal Adult Education and Family Literacy Act, Title II of the Workforce Investment Act of 1998 (Public Law 105 220). KYAE integrates these federal funds with the state funds (displayed in this report under the Kentucky Adult Education Funding Program) to administer a comprehensive adult education system designed to meet the varied needs of Kentucky's eligible adult learners.

Pursuant to the federal act, KYAE must provide direct equitable access to adult education funds through a competitive grant process to eligible entities identified in the act. KYAE contracts with the various agencies selected through this process to provide adult education and literacy services in all 120 counties. Among these agencies are local boards of education, community and technical colleges, community-based organizations, education consortia, public and private non-profit organizations, and the correctional institutions.

- GEAR UP Kentucky

GEAR UP Kentucky is part of Kentucky's effort to improve the college-going rate in Kentucky. GEAR UP Kentucky is an intervention and enrichment program that tracks middle school students through high school. The grant is \$2.1 million for each of five years beginning with FY 2000-01. The federal grant must be matched through a combination of state, local, and private funds. Sub-allocations are made to colleges, universities and local schools to develop special programs for targeted students in high-risk school districts.

A portion of the GEAR UP grant is allowed to be expended by CPE for administrative costs: two full-time positions (the Director and administrative assistant), evaluators and consultants, travel, office operations, and other direct program costs.

- Improving Educator Quality State Grant Program

The Improving Educator Quality State Grant Program (IEQ) replaced the Eisenhower Professional Development State Grant Program. The goal of IEQ is to foster partnerships among postsecondary institutions and local school districts that result in systemic, sustained improvements in teacher quality and student performance. The new program gives states increased flexibility to fund research-based training in content areas other than math and science. In return, states must demonstrate that

program activities result in measurable improvements in achievement for all students.

Up to five percent of the annual IEQ award may be used by CPE for administrative costs incurred as a result of being the fiscal agent for the grant.

- Fund for the Improvement of Postsecondary Education (FIPSE)

The KYVU was awarded a FIPSE grant from the U.S. Department of Education in 2002 to develop a statewide advising outreach network for high school students and adult learners who want to go on to college, and for students who wish to transfer from two-year to four-year institutions. The system is called U-CAN, the university coordinated advising network. Partners include the Kentucky Community and Technical College System, the Kentucky Adult Education & Literacy, the Kentucky Department of Education, the Kentucky Higher Education Assistance Authority, Northern Kentucky University, Morehead State University, Maysville Community College, Gateway Community College, and several school districts and adult learning centers in northern Kentucky. The FIPSE grant is \$400,000 spread over a three-year period, plus \$225,000 in matching funds from the KYVU/KYVL operating budget, to fund improvements to and expanded activities of the KYVU call center. Funds budgeted in FY 2003-04 and unspent are expected to be spent in FY 2004-05.