

Council on Postsecondary Education
September 10, 2009

2010-12 Budget Recommendation Update

The current economic slowdown and ongoing state fiscal crisis provide a challenging environment for the Council on Postsecondary Education to make a reasonable yet aggressive 2010-12 budget recommendation that is aligned with statewide priorities and consistent with the mandates of the *Kentucky Postsecondary Education Improvement Act of 1997*.

As discussed earlier in the summer with the Council, the timeline called for drafting a Points of Consensus document in July/August, reviewing draft budget documents in August/September, discussing a more complete draft at a special budget meeting October 1, and taking final action on the budget request at its November 6, 2009, meeting.

To assist in the budget development process, Chair Patton appointed a Council work group consisting of Dan Flanagan (chair), Chris Crumrine, Glenn Denton, and Pam Miller.

The work group met in mid-August and reviewed the following information.

- State Budget Planning Estimates (Attachment A)
- Points of Consensus (Attachment B)
- Potential Impact of Points of Consensus on 2010-12 Budget Recommendation (Attachment C)

The Budget Development Work Group agreed that in the current environment there is an advantage to keeping the budget development process simple. Thus, instead of detailed budget presentations from each institution, it has requested that each institution prepare a two-page summary discussing how it would use any additional state appropriations if they become available in 2010-12. A similar two-page summary also will be drafted for the Council's agency request.

These documents, due September 22, will be shared in advance of the October 1 Council meeting and provide context for an open discussion with Council members and presidents regarding the 2010-12 budget request.

The state's revenue outlook will continue to change over the next several months, so it will be critically important that there is good dialogue among the presidents, the Council, the Governor's office, and legislative leadership as the Council moves forward with its 2010-12 budget recommendation.

State Budget Planning Estimates

In mid-August, the Office of the State Budget Director (OSBD), in conjunction with the Consensus Forecast Group, released initial revenue planning estimates for the next biennium. Although these estimates are not official budget numbers for FY11 and FY12, they provide an early snapshot of anticipated General Fund revenue over the next several years and important context for the Council's 2010-12 budget recommendation.

General Fund Revenue (in \$millions)			
Fiscal Year	Amount	% Change from Previous Year	\$ Change from Previous Year
2006 *	\$8,376	9.6%	\$731
2007 *	\$8,573	2.4%	\$197
2008 *	\$8,664	1.1%	\$91
2009 *	\$8,426	(2.7%)	(\$238)
2010 **	\$8,295	(1.5%)	(\$131)
2011 ***	\$8,422	1.5%	\$127
2012 ***	\$8,712	3.5%	\$290
2013 ***	\$9,012	3.4%	\$300
2014 ***	\$9,289	3.1%	\$277
* Actual			
** Current CFG office estimate (May 29, 2009)			
*** CFG Planning Estimate (August 12, 2009)			

The budget planning estimates call for an increase in General Fund revenue of \$127 million (1.5 percent growth) in FY11 and an increase of \$290 million (3.5 percent growth) in FY12.

At these levels, assuming no new revenue from other sources, if postsecondary education maintained its current share of the General Fund (approximately 12 percent excluding state financial aid), this would equate to approximately \$15 million in additional General Fund appropriations in FY11 and approximately \$35 million in FY12.

This example is for illustrative purposes only; however, it highlights the challenge of seeking additional General Funds in the current fiscal environment. It is also important to note that this example and the revenue estimates do not account for any growth of other state expenditures over the next several years, including anticipated growth in Medicaid, Corrections, and other areas of state government.

Points of Consensus

For the last several months, Council staff worked collaboratively with the Chief Budget Officers and the presidents on a Points of Consensus document that reinforces basic principles to guide the development of the Council on Postsecondary Education's 2010-12 operating and capital budget recommendation.

Given the current economic and budget difficulties, it was agreed that the Points of Consensus for the 2010-12 budget recommendation should be a simple document that provides historical context for the request and is focused on two areas, base funding and capital investments.

The attached document is the latest draft that is intended to highlight a unified approach to the 2010-12 budget recommendation on behalf of postsecondary education and be signed by the Council president, the university presidents, and the president of KCTCS.

Points of Consensus Among University Presidents, KCTCS President, and the Council President Concerning the 2010-12 Funding Request

The following Points of Consensus are principles that should guide the development of the Council on Postsecondary Education's 2010-12 operating and capital budget recommendation.

Since 2002, the postsecondary education system has absorbed mid-year cuts in state appropriations with three of the most severe reductions occurring since December 2007. These budget cuts have negatively impacted the system's ability to achieve the goals of the *Kentucky Postsecondary Education Improvement Act of 1997* (House Bill 1). Aggressive cost containment and cost avoidance tactics, productivity gains, and increases in tuition rates have helped the system survive and even prosper during this difficult period.

Despite these economic and budget difficulties, the aggressive goals outlined in House Bill 1 have not changed and neither has the determination of the public postsecondary education community to transform the Commonwealth and dramatically improve the quality of life and standard of living for all Kentuckians.

Stable and consistent investment in education at all levels is essential to achieving a brighter future for Kentucky. The Governor has committed to keep public funding of postsecondary education in fiscal year 2009-10 level with its fiscal year 2008-09 funding through a combination of General Funds and federal stimulus funds, and asserted that base funding in future years for postsecondary education and K-12 should not be penalized when stimulus funds are exhausted.

It is imperative that the system of postsecondary education work with the Governor and the General Assembly to determine a reasonable, yet aggressive, funding level for 2010-12 that is aligned with statewide budget priorities and is sensitive to the budget reductions experienced since the beginning of fiscal year 2007-08.

Given the traditional inverse relationship between state appropriations and tuition rates, CPE will work with the institutions to set tuition and mandatory fees at levels that support the operational needs, quality, and strategic goals of the institutions and the state, while keeping the system accessible.

General Principles

- The operating and capital request will be simple and abbreviated and will include two parts:
 - Base Funding
 - Capital Investments

- Each part of the request will directly advance the goals of the *Kentucky Postsecondary Education Improvement Act of 1997*.
- No redistribution among institutions of existing institutional General Fund base appropriations should occur.
- General Fund appropriations to institutions should continue to be lump sum with necessary accountability requirements.
- General Funds for debt service, the UofL hospital contract, and mandated public service and research programs that are not student credit hour generating will be excluded from any funding comparisons and performance measures.

I. Base Funding

In recognition of the Commonwealth's commitment to postsecondary education as the long-term solution to Kentucky's chronic problems, recommendations for funding to be appropriated to the base budgets of the universities and the Kentucky Community and Technical College System will include:

- Base adjustments
 - Changes in debt service requirements for institutional bond issues supported by state appropriations and to be paid by the institution.
 - Changes to the UofL hospital contract.
 - Changes to the federal match required for KSU's land grant program.
 - Maintenance and operating funds for new educational and general facilities. (Note: Because such funds are traditionally provided, but were not during the 2008-10 biennium, funding levels for 2010-12 should be calculated by including new buildings beginning in 2008-09.)
- If funds become available, through the normal budget process, the budget bill's General Fund Surplus Expenditure Plan, or other means that increase fiscal capacity, institutions' General Fund base appropriations should increase in the manner in which they have been reduced.
- Additional General Fund base appropriations will be strategically used to enhance access and enrollment growth, quality, degree production, research, regional and statewide stewardship, and other initiatives that support institutional business plans or strategic plans consistent with the mandates of the *Kentucky Postsecondary Education Improvement Act of 1997*.

II. Capital Investments

- Projects recommended for state bonds or state funds:

The capital budget recommendations should align with the findings and recommendations of the 2007 statewide facilities assessment by VFA, Inc., including capital renewal, space adequacy and renovations, and new and expanded educational and general facilities.

Given the large backlog of capital renewal and deferred maintenance needs across Kentucky's public postsecondary education institutions, preserving current assets should be a priority in the capital funding request.

The capital budget recommendation should include the total cost of new projects, as well as funds required for maintenance and operations and debt service.

- Projects recommended for agency bonds or agency funds:

The CPE should continue to recommend a sufficient agency bond pool amount and recommend that institutions have the autonomy to bond their projects without affecting the state bonding capacity and be given greater flexibility to seek interim legislative authorization for projects.

The CPE and the institutions will work together to identify models which maximize institutional authority to finance capital projects.

Potential Impact of Points of Consensus on 2010-12 Budget Recommendation

The following information provides a brief summary of the potential impact of the Points of Consensus on the Council's 2010-12 budget recommendation.

Base Funding

- After the additional 2 percent mid-year budget cut in FY09, the General Fund appropriation (net of debt service and the UofL contract) for the public postsecondary institutions equaled \$1.006 billion.
- The projected net General Fund appropriation for FY10 will be \$936 million plus \$70 million in federal stimulus funds (State Fiscal Stabilization Funds) in order to maintain combined resources at the FY09 revised net General Fund level.

	FY09 Revised Net GF (After 2% Cut)	FY10 Projected Net GF	FY10 SFSF	FY10 Combined	FY10 Percent of SFSF
EKU	\$73,731,000	68,663,500	\$5,067,500	\$73,731,000	7%
KSU	\$25,496,900	23,730,600	\$1,766,300	\$25,496,900	3%
MoSU	\$44,630,700	41,577,500	\$3,053,200	\$44,630,700	4%
MuSU	\$51,884,300	48,413,800	\$3,470,500	\$51,884,300	5%
NKU	\$51,267,200	47,662,900	\$3,604,300	\$51,267,200	5%
UK	\$310,271,400	289,204,600	\$21,066,800	\$310,271,400	30%
UofL	\$154,522,400	142,343,600	\$12,178,800	\$154,522,400	17%
WKU	\$79,013,800	73,597,700	\$5,416,100	\$79,013,800	8%
KCTCS	\$214,931,200	200,554,700	\$14,376,500	\$214,931,200	21%
Total	\$1,005,748,900	935,748,900	\$70,000,000	\$1,005,748,900	100%

Technical Adjustments to Base Funding

- Debt service: In FY11, total debt service provided to institutions to pay for state funded capital projects in prior years is estimated at \$18.9 million and \$12.6 million in FY12. These estimates are down from the approximately \$20.5 million provided in FY10. Note: The majority of the current debt service (\$135 million in FY09) for new state funded public postsecondary education facilities resides within the Finance Cabinet's budget.
- UofL's Quality and Charity Care Trust Contract: In FY11, the technical adjustment for this contract is expected to be about \$20.8 million and \$21.5 million in FY12, up slightly from approximately \$20 million in FY10.
- Change in federal match for KSU's land grand program is unknown at this time, but could be approximately \$.5 million.
- Maintenance and operating funds (M&O) for new university and college facilities combined for FY09, FY10, FY11, and FY12 is approximately \$26.9 million in FY11 and an additional \$9.7 million in FY12, for a total biennial request of \$36.4 million.

	2010-11 M&O New Facilities*	2011-12 M&O New Facilities*	Biennial M&O Request*
EKU	\$779,534	\$3,118,547	\$3,898,081
KSU	\$457,360	\$63,576	\$520,936
MoSU	\$2,004,120	\$920,240	\$2,924,360
MuSU	\$762,572	\$20,304	\$782,876
NKU	\$5,402,578	\$1,496,549	\$6,899,127
UK	\$3,800,828	\$2,179,720	\$5,980,548
UofL	\$5,901,774	\$602,793	\$6,504,567
WKU	\$2,100,791	\$931,054	\$3,031,845
KCTCS	\$5,538,760	\$345,272	\$5,884,032
Total	\$26,748,317	\$9,678,055	\$36,426,372

* Initial Estimates

Additional Funds Above Technical Adjustments

- As a reminder, net General Fund appropriations to Kentucky's public postsecondary institutions were reduced by about \$78 million from their enacted FY08 levels.
- If funds become available above technical base adjustments, they would be distributed in the manner in which they were reduced over the last biennium.
- In addition, if funds become available above the technical adjustment, they would be strategically used to support initiatives consistent with the mandates of the *Kentucky Postsecondary Education Improvement Act of 1997 (HB 1)*.
- Over the next four to six weeks, the magnitude of the request for additional funds above technical base adjustments will be discussed among the presidents, the Council, the Governor, and legislative leadership, in order to determine a reasonable, yet aggressive 2010-12 budget request for postsecondary education.
- Given the modest General Fund planning estimates for FY11 and FY12, it is likely that the amount of funds requested in the first year of the biennium would be smaller than the amount requested in the second year.

Institution	FY08 Net GF Enacted	FY09 Net GF Revised	Dollar Change	Percent of Total
EKU	\$79,761,400	\$73,731,000	\$6,030,400	8%
KSU	\$27,441,700	\$25,496,900	\$1,944,800	2%
MoSU	\$48,202,100	\$44,630,700	\$3,571,400	5%
MuSU	\$56,068,700	\$51,884,300	\$4,184,400	5%
NKU	\$55,099,500	\$51,267,200	\$3,832,300	5%
UK	\$335,071,000	\$310,271,400	\$24,799,600	32%
UofL	\$168,572,300	\$154,522,400	\$14,049,900	18%
WKU	\$85,115,600	\$79,013,800	\$6,101,800	8%
KCTCS	\$228,704,900	\$214,931,200	\$13,773,700	18%
Total	\$1,084,037,200	\$1,005,748,900	\$78,288,300	100%

2010-12 Capital Request

- Over the last month, Council staff, in conjunction with the public postsecondary education institutions and several external facility experts, has reviewed and begun to prioritize the top capital projects from each of the institutions based upon a methodology used over the last several biennia.
- The total amount and balance between renewal, renovation, new, and information technology will depend in large part on the state's capacity for additional bonding in 2010-12.
- In any capital request, it will be important to highlight not only the total cost of the new facilities, but also the debt service needed to pay for the projects and the maintenance and operating funds needed to maintain and operate the facilities, such as utility costs and custodial services.

Tuition 2010-11

- Revenue from tuition becomes even more essential in a budget environment where there are limited or no additional state appropriations to support the general operations of the postsecondary education system.
- Given that Kentucky's economy typically lags the national economy, the tuition setting environment for 2010-11 will most likely be similar to that of 2009-10.
- This could result in a continuation of modest tuition increases across the sectors.
- The combination of modest increases in both tuition rates and enrollment could generate additional tuition revenue of approximately \$40-\$60 million (rough initial estimate).
- A number of universities have expressed interest in moving from a flat-rate billing structure in 2009-10 to a per credit hour billing structure in 2010-11, similar to the way that Morehead State University made the transition several years ago. This will require additional discussions between CPE and the institutions on the impact of the change on certain segments of the student population during the transition period.

State Financial Aid

- Over the last several years, Governor Beshear has kept state financial aid a top budget priority by exempting it from budget cuts.
- The Governor's Higher Education Work Group is taking a detailed look at the state's financial aid programs to make sure they are achieving the desired goals and outcomes.
- It will be important for the Council to be aware of the Work Group's recommendations as they surface later this fall, particularly as they relate to need-based aid, transfer and time to degree, and the efficient use of institutional resources.
- There does appear to be a growing consensus that additional need-based aid is needed to maintain access for college ready students from low-to-moderate income backgrounds.