Council on Postsecondary Education
February 3, 2003

2002-04 Budget Update and FY '03 and FY '04 Budget Reduction Contingency Plan Activities

The Kentucky General Assembly did not reach agreement on a 2002-04 operating budget during either the 2002 Regular Session or the 2002 First Extraordinary Session in April. Governor Patton directed state agencies and the postsecondary institutions to follow the provisions contained in House Bill 1 from the 2002 First Extraordinary Session and proceed with allotments on that basis.

On June 26, the Governor issued Executive Order 2002-727 implementing a FY 2003 executive spending plan. The plan closely mirrors House Bill 1. There were no base increases built into the spending plan for postsecondary education institutions or most other state government agencies, nor did the executive spending plan authorize the issuance of any debt.

At the September council meeting, Dennis Jones, president of the National Center for Higher Education Management Systems (NCHEMS), made a presentation on ways in which state governments, postsecondary systems, and individual institutions can (and should) continue to move a public agenda forward in difficult fiscal times. President Todd, as convener of the presidents, reported on actions that the institutions had taken or were considering to address a possible revenue shortfall.

In response to revenue shortfalls, on November 25, 2002, the state budget director requested that the council staff develop a budget reduction contingency plan for the postsecondary system based on General Fund appropriation reductions of 2.6 percent in FY 2003 and 5.2 percent in FY 2004. At their December 4 meeting, the presidents discussed the state budget director's request and agreed to use the benchmark process to develop the system response. As a result, some institutions would face an effective reduction greater than 2.6 percent and 5.2 percent. The council staff is discussing with the administration the possibility of instituting a cap that will limit the impact of the reductions on some institutions while still using the benchmark process. The benchmark process was also used when budget cuts

were implemented in FY 2002. At that time, the administration agreed to cap institutional reductions.

The council staff also prepared a budget reduction plan for agency programs including: agency operations, KYVU/KYVL, pass-through programs, strategic investment and incentive trust funds, and funding incentive programs. The council staff adopted an across-the-board approach to indicate how each program would be affected. If a reduction is implemented, the council staff may revise the budget reduction plan and recommend selective reductions. In past reductions, some activities such as the Southern Regional Education Board contract spaces program and the SREB Faculty Diversity program have been spared the full impact.

On December 5, the institutions submitted their contingency plans for absorbing the 2.6 and 5.2 percent reductions. The council then transmitted to the state budget director the system's response. (See attachment A.) On December 12, the Governor held a press conference to discuss the impact of cuts to all sectors of education. The presidents also spoke and provided specific examples of the impact on their campuses and the strategies they were pursuing to more efficiently use resources. Examples of the impact of budget reductions of this magnitude include: the inability of institutions to maintain physical plant at high levels, postponing replacement of instructional equipment, greater financial burden on the students through increased tuition and fees, hiring more fixed term instructors and adjunct faculty, increased class sizes, closing selected academic programs, reducing student financial aid, reducing financial support of academic program areas, reducing student access by offering fewer courses.

On December 12, the Governor issued Executive Order 2002-1334 directing the executive branch cabinet and agencies to continue to implement reductions in administrative costs begun in FY 2001 and to implement additional measures to help address the Commonwealth's budget deficit in FY 2003. The order identified several areas of possible cost saving measures. Generally, since the institutions are not part of the executive cabinet they are not required to participate. However, at their January 8 meeting, the presidents agreed to consider the Governor's Executive Order and implement, where possible, cost saving measures on their campuses. Institutions reported to the council actions that they are taking on their campuses to further reduce administrative costs. (See Attachment B.) The summary of actions by institutions to further reduce administrative costs also will be shared with the Governor and the secretary of the Finance and Administration Cabinet. At this writing, the administration has not determined whether or when it will implement a reduction in the FY 2003 or FY 2004 budgets.

On January 15, the Legislative Research Commission asked the council president to appear at the January 29 meeting of the House Appropriations and Revenue Budget Review Subcommittee on Education to discuss the impact of a 9 percent reduction in state General Fund support for the postsecondary education system in FY 2004. The university presidents and the president of the KCTCS also were asked to testify, specifically addressing the impact of the cuts on students, institutional staffs, faculty, and identifying the actions institutions would take to address a budget reduction of this magnitude. A copy of the general presentation by the council president will be mailed under separate cover.

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