

# EXECUTIVE SUMMARY

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## PURPOSE OF THIS REPORT

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Senate Joint Resolution 98 (SJR 98) directs the Council on Postsecondary Education (CPE) to assess whether Kentucky's current postsecondary system is adequate to meet the state's current and future human capital and workforce needs. More specifically, it charges CPE with determining: 1) the efficacy of Kentucky's current postsecondary governance structure; 2) the feasibility of a new four-year public university in southeastern Kentucky; and 3) the feasibility and impact of narrowing KCTCS's scope to technical education and training only, with the comprehensive (regional) universities assuming responsibility for general education and transfer programs.

Implicit in this task is the assumption that the reforms enacted by the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1) may not be working as intended or producing the results we need. **In this way, SJR 98 serves as a referendum on House Bill 1, as well as an opportunity to make bold changes that reposition Kentucky for greater economic competitiveness in the next quarter century.**

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## REPORT METHODOLOGY

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Ernst and Young LLP (EY) was hired as a third-party consultant to provide objective insights about the effectiveness of various higher education governance structures across the nation, including Kentucky's. EY conducted interviews with around 135 Kentucky stakeholders and 30 national leaders – including legislators, cabinet secretaries, postsecondary faculty and staff, employers, and students – that informed each of SJR 98's three study areas. Our report leans heavily on EY's observations and research, which are described in detail in a separate report (Appendix A).

CPE contracted with the University of Kentucky's Center for Business and Economic Research (CBER) to examine the potential economic effects a new university might have on southeastern Kentucky, as requested in study area two. Their report estimates the potential direct, indirect, and induced effects on employment and income associated with an increased four-year university presence in the region. Their analysis also explores how shifting university-related spending and enrollment from other areas of the state to southeastern Kentucky could affect Kentucky as a whole. CBER's report is included as Appendix B.

CPE staff took the lead in conducting quantitative research and analysis to inform the report's recommendations. As requested in study area one, CPE conducted a state landscape analysis examining both postsecondary progress and demographic and economic trends. CPE consulted the Kentucky Postsecondary Education Data System (KPEDS), the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS), the Kentucky Center for Statistics (KYSTATS), the U.S. Census Bureau, and other national

and state data and policy organizations in compiling this research. To aid in readability, the report focuses only on the major findings of the landscape analysis. More detailed policy briefs supporting these findings can be found in Appendix C.

The study mandated by SJR 98 is multi-faceted and complex, with many different options and impacts to consider. Given the compressed, eight-month timeline, **CPE advises that further study will be needed to fully determine the feasibility, cost, and impact of some of the report's endorsements and recommendations.**

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## THE LEGACY OF HB 1

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To fully understand the rationale behind Kentucky's current postsecondary governance structure, one must revisit the reforms enacted in 1997. At that time, only a quarter of the workforce had college credentials, making Kentucky ill equipped to capitalize on emerging opportunities in the knowledge-based economy. The jobs poised for growth demanded higher-order analytical and reasoning skills and some form of training beyond high school.

HB 1 dissolved the Council on Higher Education (CHE) and replaced it with the Council on Postsecondary Education, a statewide coordinating board and associated agency with enhanced statutory powers. Each member of the postsecondary system has a distinct role to play.

### Kentucky's Current Postsecondary System

- **CPE, the statewide coordinating board and associated state agency**, is charged with setting tuition ceilings; overseeing academic programs; developing a statewide strategic agenda for higher education with related goals; distributing General Fund appropriations through a performance funding model; and submitting a unified budget request. CPE also manages trust funds created by HB 1 to incentivize institutional behavior, although these have not been consistently funded. In carrying out its duties, CPE enforces institutional missions, guards against unnecessary duplication, and ensures institutions are focused on the needs of the state and its people.
- **Two research universities** (UK and UL) are charged with increasing research and development productivity, awarding more doctoral degrees, expanding knowledge and scientific discoveries through cutting-edge research, and enhancing their national reputations by improving the quantity and quality of undergraduate and graduate education. UK and UL are overseen by Boards of Trustees.
- **Six comprehensive universities** (EKU, KSU, Morehead, Murray, NKU, WKU) are charged with providing accessible, affordable undergraduate and graduate degrees; cultivating nationally recognized programs of distinction or applied research programs; and providing continuing education and public service to improve the welfare of their regions. The comprehensive universities are overseen by Boards of Regents.

- **KCTCS, a governing board and associated system office**, is charged with providing workforce education and technical training, as well as broad access to general education courses designed for four-year transfer. KCTCS oversees 16 community and technical colleges, each with Boards of Directors.

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## STATE LANDSCAPE ANALYSIS

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CPE conducted a state landscape analysis to identify strengths, opportunities, and threats to Kentucky's continued advancement and provide context for the report's recommendations. This analysis is in two parts: a postsecondary analysis and a demographic and economic analysis.

### Postsecondary Analysis

Over the last 25 years, Kentucky's public higher education system has made substantial progress under its current governance structure. However, there are trends that, if left unchecked, place future educational attainment gains at risk.

#### Progress

- Since 2000, **Kentucky's improvement in educational attainment is among the best in the nation**, with the percentage of adults (ages 25-64) with an associate degree or higher at 38%. When certificates are factored in, Kentucky's attainment rate is 54.3%, within striking distance of our 2030 goal of 60%.
- **Degree productivity and efficiency have improved significantly.** Despite enrollment declines over the last decade, total credential production has increased 33.5% at KCTCS and 70.4% at public universities since 2011-12. Minority degree production was up a remarkable 92.4% at public universities and 68.7% at KCTCS over the same period. Graduation rates are approaching the national average.
- Before reform, campuses ignored or circumvented CHE's funding formula, appealing directly to the General Assembly for state dollars. **An outcomes-based funding distribution model now exists that incentivizes performance and has credibility** among legislators and postsecondary leadership.

#### Challenges

- **Kentucky's immediate college-going rate (51.5%) is significantly below the national average of 62.0%.** The college-going rate for low-income students is 12.9 points below the state average.
- **Sizable decreases in low-income undergraduate enrollment** – down 38% at public colleges and universities over the decade - signal college costs are becoming a greater barrier to postsecondary participation.

- The link between state support for campus operations and college affordability cannot be overstated. **Before reform, state General Fund appropriations to campuses accounted for two-thirds of public funding for postsecondary education, and tuition and fee revenue accounted for a third. Now, these shares are reversed.** While Kentucky's students and families are benefitting from higher levels of financial aid, they are shouldering more of the overall cost of higher education.
- Compared to other states, **Kentucky invests a much larger portion of state and local support for higher education to financial aid (22.5% versus 10.7% nationally) and dedicates less to general operations at public institutions (66.3% versus 78.5% nationally).** While the state's commitment to financial aid is critically important, adequate state funding provided directly to campuses for their operations is equally important to ensure access, quality, and affordability.
- **On a per-FTE basis, Kentucky's community and technical colleges are the 6th worst funded in the nation.** Declines in state general fund appropriations between 2008-2020 and the lack of local support are contributing causes. As a result, average tuition for in-state students enrolled at KCTCS is nearly 50% higher than the national average.

## Demographic & Economic Analysis

A central premise of HB 1 was that increased educational attainment would bring about a higher standard of living for Kentuckians in terms of per capita income and workforce opportunity. Kentucky has increased its educational attainment rate, but attendant economic gains have fallen short of expectations. Kentucky's per capita personal income remains around 80% of the national average, just as it was in 1997.

What accounts for this phenomenon? The answer lies in stark disparities between Kentucky's urban and rural regions, which are masked by statewide averages. Kentucky's urban areas have higher educational attainment levels (at or above the national average) and higher incomes on average. The economies in these areas tend to be dominated by advanced manufacturing, transportation/logistics, healthcare/social services, and managerial/professional services like insurance and real estate. Kentucky is capitalizing on talent pools in larger cities and along the I-65 corridor, where there is an in-migration of skilled, educated residents.

Although there are exceptions, the state's rural regions tend to be dominated by lower-skill, lower-wage employment opportunities. Geographic isolation and low proximity to interstates are barriers to economic development, as are low rates of educational attainment and workforce participation. While there are strong efforts to revitalize rural economies, the decline of extractive industries in the eastern and far western parts of the state has left a void that has yet to be filled. So long as these conditions persist, it will be difficult to reverse Kentucky's economic fortunes.

**In short, educational attainment alone is not a silver bullet for economic prosperity.** Higher educational levels are almost always tied to geographic clusters of certain key industries. Raising education levels will not make an appreciable difference if rural residents subsequently leave the area to find better paying jobs. Educators and employers must work together to create the economic conditions and opportunities that will incentivize residents to earn educational credentials that can be put to work in their own regions.

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## STUDY AREA 1: KENTUCKY'S POSTSECONDARY GOVERNANCE STRUCTURE

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In the United States, there are three main types of higher education governance structures: a single coordinating board (21 states), a single governing board (8 states), and no statewide body with some combination of local administrative agencies or system boards (21 states plus D.C.). EY conducted a state comparative analysis to determine if there are variations in governance structures or practices that could prove beneficial to the Commonwealth. Their analysis focused on states with similar higher education enrollment, income levels, and urbanicity.

EY found that a state's higher education governance structure has no discernable effect on postsecondary performance. What matters more is effective leadership, adequate funding, academic quality, and other levers of postsecondary governance. Additionally, even similar state boards or administrative agencies exercise their higher education authorities differently and to varying degrees. Postsecondary oversight can be strengthened or relaxed without a change in governance structure, which creates significant disruption and requires additional time and human/financial resources to implement.

### EY's Proposed Governance Options

After extensive analysis, EY identified four potential options for Kentucky.

- 1. Maintaining Kentucky's current higher education governance structure with improved execution of authorities:** Kentucky's coordinating board has received national and state acclaim for how well it balances the needs of the state with the needs of autonomous institutions. Nevertheless, there are opportunities to better leverage existing authorities around academic program oversight, fiscal monitoring, and board training. This option is the least disruptive and costly to implement, but it fails to take advantage of opportunities to strengthen institutional transparency and state oversight.
- 2. Maintaining the current governance structure but granting additional statutory authorities to CPE:** CPE's coordinating authorities could be strengthened with the addition of new statutory responsibilities. Statutory changes could include reporting requirements around institutions' financial health, CPE involvement in state financial aid policy decisions, and CPE participation in campus presidential searches or in the nomination of potential board members. This option may yield the most benefits in relation to its cost. It increases transparency and oversight but retains institutional autonomy.
- 3. Adding a single governing board for public four-year institutions (inclusive or exclusive of the research universities):** In this option, CPE would continue as the coordinating board working closely with two governing boards (the KCTCS board and a new four-year board). This option could achieve greater efficiency and transparency in the long run, but it would cost more to implement and create significant disruption in the higher education ecosystem.

- 4. Creating a new “superboard” or single, statewide governing board that oversees both two-year and four-year institutions.** The superboard would gain all the authorities of CPE, institution governing boards, and the KCTCS governing board, though the superboard could choose to delegate powers to local institution advisory boards. This option would be the most costly and disruptive to implement, and it could result in increased focus on institutional operations to the detriment of an independent, statewide perspective.

## CPE Recommendations

CPE endorses EY’s Option 2, which calls for leaving the postsecondary governance structure as is, but with better execution in some areas and with changes to some statutory responsibilities to strengthen state-level oversight and coordination. Additionally, CPE offers the following suggestions:

- A process should be implemented for CPE to actively monitor and regularly report to the General Assembly and Governor on the **financial health of the state’s public colleges and universities.**
- **CPE’s role in state financial aid policy and program decisions should be strengthened** to ensure a balanced and aligned approach to higher education financing and college affordability.
- **The General Assembly should increase investment in state-level higher education incentive funds – in addition to direct appropriations to campuses** – to foster innovation, incentivize collaboration, and respond quickly to regional needs.
- **CPE should strengthen review and approval of non-degree academic programs,** including short-term certificates, and more routinely review and terminate programs of limited relevance and quality.
- **CPE’s board training responsibilities should be strengthened** to provide a greater focus on fiduciary responsibilities. Lawmakers should consider **involving CPE in the recruitment and review of candidates for postsecondary governing and advisory boards.**
- The **CPE president (or representative) should be consulted during campus presidential evaluations** for public universities and KCTCS and **serve as a voting member on presidential search committees.**

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## STUDY AREA TWO: FEASIBILITY OF A NEW PUBLIC UNIVERSITY IN SOUTHEAST KENTUCKY

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SJR 98 asked CPE to contemplate whether a four-year residential university in Southeast Kentucky would help improve economic opportunity in the region. The three alternatives posed by SJR 98 include building a new public university, creating a new satellite campus of a regional university, or incorporating an existing private university into the public system.

In its analysis, CPE determined that the Kentucky River Area Development District or KY River ADD (comprised of Breathitt, Knott, Lee, Leslie, Letcher, Owsley, Perry, and Wolfe counties) would provide the best location for an increased university presence. The KY River ADD is a postsecondary desert, which means it is a commuting zone without a broad-access, public or private, non-profit university. The KY River ADD also has the most need in terms of baccalaureate degree attainment and poverty. Hazard's central location within the KY River ADD, at the intersection of the Hal Rogers Parkway and KY 15, would offer the greatest accessibility to potential students in the wider region.

However, each of the three alternatives posed by SJR 98 is in some way problematic. Constructing a new comprehensive university would be prohibitively expensive, and its long-term viability (especially in terms of enrollment) would be uncertain. In the last several years, enrollment and degree production at the area's regional satellites have declined precipitously. It seems unlikely a new regional satellite would receive adequate resources and attention, especially since satellite services are often the first target for cuts. The private universities in Southeast Kentucky (Alice Lloyd, Union College, University of the Cumberlands, and University of Pikeville) would not provide sufficient physical access to the KY River ADD, as measured by the optimal 45-minute commute. Acquisition would be a complicated legal process, and the private institutions in the southeast region have expressed little interest in this option.

In its research and analysis, CPE identified additional options worthy of consideration. They involve Hazard Community and Technical College (HCTC), as well as a cooperative entity housed there called the University Center of the Mountains (UCM). UCM is a consortium of four-year universities working with community colleges to bring online bachelor's and master's to the region.

### CPE Recommendations

- **HCTC could be allowed to offer select bachelor's programs as a KCTCS institution.** However, it would be difficult to prevent other CTCs from seeking to expand their program offerings, leading to mission creep and intense competition for a limited pool of baccalaureate students.
- HCTC could become a stand-alone college or university offering both sub-baccalaureate technical programs and a few bachelor's programs (in line with area workforce demand). **This is CPE's preferred approach, but CPE cannot provide an unqualified endorsement without greater**

**stakeholder engagement, further analysis of the benefits and risks, and a deeper understanding of student demand.**

- **If a residential facility is added to HCTC**, CPE estimates the cost of a 48-unit dormitory with 96 beds at \$18.2 million. Additional construction would be needed to create a traditional on-campus student experience (a dining facility, student center, etc.). **The legislature might consider a non-traditional housing option** for single parents, veterans, transitioning foster youth, or justice-impacted populations, as traditional students are likely to live at home.
- In either option, **steps could be taken to make UCM more visible and impactful**. This type of arrangement has been successful elsewhere and warrants additional analysis. It should be noted, though, that UCM is not a university. It is a collaborative, mainly online entity designed to expand access to baccalaureate and graduate education in an underserved region. It would be unlikely to produce the kinds of economic impacts a stand-alone institution would, as envisioned in SJR 98.
- While CPE endorses an increased four-year presence in Southeast Kentucky, it does so with the following strong caveat: **without a comprehensive economic and workforce development strategy, a new university will not yield the desired results for the region.**

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## STUDY AREA THREE: FEASIBILITY OF THE PROPOSED SPLIT OF KCTCS

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As the gateway to postsecondary education and training for many Kentuckians, KCTCS plays an important role within the state's higher education system. KCTCS's open-access institutions provide Kentuckians with the lowest priced postsecondary option in the state. With 16 main campuses, around 70 extended sites, and robust online offerings, a KCTCS program is a short drive or mouse click away. KCTCS serves a different student than our public universities; they tend to be older, less academically prepared, more racially and economically diverse, and more likely to be balancing school with work and caregiving responsibilities. Also, KCTCS is the state's largest provider of high school dual credit, serving over 25,000 high school students at nearly 300 off-campus locations. KCTCS helps ensure these courses are affordable and available to students throughout the Commonwealth.

While KCTCS has been successful in fulfilling many parts of its mission, EY's stakeholder analysis reveals concerns about the system overall. These include the large size of the system office, duplicative services across campuses, the proliferation of short-term certificates of questionable value, ongoing concerns about transfer, lack of clear distinctions between the role and responsibilities of the system board and the campus boards, and tensions between the system office and local institutions. These issues have led some to question whether comprehensive universities would be better equipped to manage KCTCS's academic (transfer) programs, allowing KCTCS campuses to focus on the provision of technical education and training.

CPE examined the feasibility of the proposed split in terms of its potential effects on students, institutions, and the state as a whole. **Without a more comprehensive evaluation and much broader stakeholder engagement, CPE does not endorse this course of action. There are numerous drawbacks to this plan.**

- Forcing AA/AS students to begin at a comprehensive university may deter them from enrolling in college altogether. Physical access would be reduced, costs would increase, and non-traditional, at-risk students may not feel as welcomed or accommodated. Technical students would lose pathways to academic and transfer programs, which can be important to their career advancement.
- Technical programs need general education courses for accreditation purposes. General education also provides students with important employability skills employers need, like critical thinking, teamwork, and the ability to communicate well. Transferring academic programs to comprehensive universities would require technical colleges to either duplicate or outsource general education courses. Technical programs are subsidized by academic offerings, which are less costly to deliver. Without the academic component, technical colleges would need additional funding to operate.
- Comprehensive universities would be unable to offer academic programs as affordably as community and technical colleges due to their higher delivery costs. It is unclear whether AA/AS degree programs would be maintained. Operating and maintaining current KCTCS physical plant assets could be a financial burden to comprehensive universities and to the state, and it is unclear how these assets would be divided. Resulting changes in program delivery and scope would create lengthy and detailed accreditation requirements for campuses.
- Mapping and translating student data would be a significant undertaking. Centrally held KCTCS student records (in Peoplesoft) would need to be translated and integrated by comprehensive universities, which have various student information systems. KCTCS has different pay scales and benefit systems, which would complicate the transfer of personnel.
- Affordable and accessible dual credit is a college readiness strategy that can reduce time-to-degree and postsecondary costs. The proposed split places dual credit access at risk.
- The power of KCTCS as a unified system, including the benefits of shared programs, backroom functions, and a common mission/vision would be diminished.

However, there are opportunities for KCTCS to execute its governing authorities more effectively while retaining the CTC's' responsiveness to local needs. To this end, CPE offers the following recommendations.

#### **CPE Recommendations:**

- An **assessment of the role and responsibilities of local CTC boards of directors** should be conducted. Consideration might be given to **transitioning the local boards into multi-campus regional advisory boards** to help drive collaboration and regional development.

- The KCTCS system office should be charged with developing a **comprehensive employer engagement strategy**, a more robust **program review and approval process focused on return on investment**, and more **seamless transfer pathways**.
- Consideration should be given to pursuing **single SACS accreditation for the KCTCS system** to ease administrative burdens for institutions associated with various accreditation processes and increase program alignment among campuses.
- **CPE's financial analyses highlighted KCTCS's need for additional state investment** to ensure a strong, effective, and responsive system of CTCs. However, increased state investment in KCTCS should not come at the expense of the investment in the state's public universities.

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