

TITLE: 2024-2026 Budget Development Update

DESCRIPTION: The Finance Committee received an update on the 2024-2026 budget development process, including major components and funding amounts in the Council's budget recommendation, in the Executive Budget, in the House Budget (as amended), and in the Senate Budget. Included as attachments were tables that facilitate comparisons across various iterations of the budget.

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COMMITTEE'S REVIEW

The Finance Committee received this information update at their March 25, 2024, meeting. It will not be covered or presented in detail at the March 28 board meeting; however, staff will be available for questions.

OVERVIEW

The postsecondary education budget development process is an iterative undertaking that takes about eleven months to complete, involves multiple stakeholders and policy leaders, and allows multiple opportunities for deliberation, negotiation, and compromise along the way. It typically begins in summer of every odd-numbered year with Council staff engaging in conversations with campus presidents and chief budget officers to identify the most pressing resource needs of the postsecondary education community.

It continues with the Council exercising its statutory authority to approve a biennial budget recommendation for postsecondary education, which typically occurs in November every other year (although that approval took place in September for the 2024-2026 biennium). That recommendation was submitted to the Governor and General Assembly this past October and was followed in sequence by the Executive Budget in December, the House Budget in February, and the Senate Budget in March.

The next step in the process involves members of the Free Conference Committee agreeing on budget components and funding amounts to reconcile differences between the House and Senate versions of the budget. That is followed by a time period during which the Governor has an opportunity to make line-item vetoes, which can then be overridden (or not) by the General Assembly. Typically, the state has an enacted budget by April 15 in every even-numbered year.

In this agenda item, CPE staff provides an update on the budget development process for the upcoming 2024-2026 biennium. It contains and compares information obtained from the Council's *2024-2026 Postsecondary Education Budget Recommendation*, the Executive Budget, House Budget (as amended), and Senate Budget.

COUNCIL RECOMMENDATION

On September 19, 2023, the Council on Postsecondary Education fulfilled one of its primary statutory responsibilities, when it approved a biennial budget recommendation for postsecondary education. That recommendation, which encompasses fiscal years 2024-25 and 2025-26, included three main categories of requests: (1) postsecondary institution operating funds; (2) capital investment; and (3) CPE agency budget. Major components and funding amounts included in each category are provided below.

Postsecondary Institution Operating Funds

CPE staff engaged in discussions with multiple stakeholders to identify funding components to include in the Council's *2024-2026 Postsecondary Education Budget Recommendation* that would address the most pressing resource needs of Kentucky's public postsecondary system and provide the highest return on state investment. Using a collaborative process involving CPE staff and campus leaders, a consensus was reached that the highest priorities for institutional operating funds in the upcoming biennium were additional appropriations for an inflation adjustment, performance funding, and KSU's land-grant program.

A summary of the main components and funding amounts included in the Council's 2024-2026 Postsecondary Institution Operating Funds request is provided below.

- The Council's recommendation included a request for \$81.9 million in 2024-25 and \$109.2 million in 2025-26 for an inflation adjustment to help institutions offset some of the largest increases in higher education costs in two decades
- These funds represented across-the-board increases of 9% in 2024-25 and 12% in 2025-26 on each institution's 2023-24 net General Fund base
- The Council included a request for \$22.7 million in 2024-25 and \$22.7 million in 2025-26 for Performance Funding to provide ongoing incentives for institutions to increase student success and course completion outcomes and continue making progress toward the state's 60x30 college attainment goal
- If authorized, these funds would be added to \$97.3 million currently in the performance fund, bringing the total to \$120.0 million (i.e., 23% increase)
- Request for \$1.5 million in 2024-25 and \$1.5 million in 2025-26 to meet federal matching requirements on KSU's land grant program
- An appropriation of \$2.1 million in 2023-24 to address state matching funds deficits that occurred in 2022-23 (\$608,400) and 2023-24 (\$1,499,100)

Capital Investment

The Council's Capital Investment recommendation typically includes requests for three funding components: new construction, asset preservation, and information technology and equipment. In recent biennia, due to sizable, accumulated needs for renovation and renewal of campus facilities, the Council has elected to prioritize asset preservation in its capital requests.

This focus was operationalized again for the 2024-2026 biennium by including a sizable request for asset preservation, while at the same time recommending no funding for new capital construction or expanded space projects, or information technology projects for the upcoming biennium. In addition to the asset preservation component, the Council's recommendation included a funding request in 2024-25 to help institutions offset unprecedented increases in construction costs on individual capital projects that had been authorized in the 2022-2024 biennium.

The main components and proposed funding levels of the Council's 2024-2026 postsecondary institution Capital Investment request are listed below.

- Request for \$162.4 million in bond funds in 2024-25 to offset construction cost increases on individual new and expanded space projects authorized in 2022-2024
- Allocated by applying a 20% cost factor to bond funds received by each institution for line-itemed capital projects in the enacted 2022-2024 budget
- Request for \$700 million in state bond funds (i.e., \$350 million each year) to finance asset preservation projects at postsecondary institutions
- With no required institutional match and language allowing funds to be used for renovation and renewal of state-owned residential housing
- In total, for both construction cost increase and asset preservation components, the Council's capital investment recommendation included requests for debt service of \$20.6 million in 2024-25 and \$55.3 million in 2025-26.

CPE Agency Budget

General Fund appropriations for agency operations support expenditures associated with the Council's higher education coordinating board role, including resources for policy leadership, strategic planning, regulation of the state's postsecondary education system, financial policy analysis and development (biennial budget recommendation, performance funding, and tuition setting), administrative services, communications, academic affairs and program review, and information, research, and data analysis.

The Council's 2024-2026 Agency Budget request included recommended additional appropriations for agency operations and strategic initiatives. These funds support staff, operating funds, and grants to the postsecondary institutions to advance the Council's *2022-2030 Strategic Agenda for Kentucky Postsecondary Education*. This funding also includes support for continued oversight of Kentucky State University.

The Council's 2024-2026 recommendation included several relatively small requests for defined calculations, SREB doctoral scholars, and SREB dues.

- It requested funding to cover anticipated increases in the agency's retirement system and health insurance costs (i.e., defined calculations), and a 1.0% salary adjustment each year, as a placeholder
- It included a request for additional appropriations of \$50,000 in 2024-25 and \$100,000 in 2025-26 to support four additional SREB doctoral scholar's students in the first year and an additional four doctoral students in the second year
- In addition, the Council requested an additional \$10,000 each fiscal year to cover anticipated increases in SREB dues

The Council's 2024-2026 Agency Budget request also identified several high priority resource needs for the upcoming biennium, including two expansion requests.

- A request for \$3.0 million each year of the biennium to support higher education coordination and management
- If authorized, this funding would allow CPE to expand its role in connecting higher education and workforce and economic development, P-20 transitions, monitoring campus finances, and assessing academic programs
- This funding is needed to effectively respond to growth in CPE's statutory duties and responsibilities and expanded due diligence and oversight role
- The Council recommendation also included a request for \$20.0 million each year to support the *Fund for Higher Education and Economic Development*
- If authorized, this fund would provide incentive grants to campuses to increase educational attainment, strengthen workforce alignment, foster collaboration, improve efficiencies, and build a more streamlined P-20 pipeline

EXECUTIVE BUDGET

Governor Beshear introduced his budget on December 18, 2023. It included inflation adjustment and fire and tornado insurance premium components for campus operating funds, construction cost increase and asset preservation components for capital investment, and defined calculations funding for the CPE agency budget. Additional information on postsecondary education budget components and funding amounts contained in the Executive Budget is provided below.

Postsecondary Institution Operating Funds

- The Executive Budget included appropriations of \$44.8 million in 2024-25 and \$63.8 million in 2025-26 for an inflation adjustment
- These funds represented base increases of about 4.4% in 2024-25 and 6.3% in 2025-26 on each institution's 2023-24 net General Fund base

- The Governor’s budget included \$15.1 million each year of the biennium to partially offset anticipated increases in Fire and Tornado Insurance Premium costs (i.e., about 50% of the expected increase)
- It also provided \$2,107,500 in 2023-24 (i.e., a current-year appropriation) and \$1,499,100 in both 2024-25 and 2025-26 to meet federal matching requirements for KSU’s land grant program
- Finally, the Executive Budget included additional appropriations of \$10.1 million in 2024-25 and \$12.6 million in 2025-26 resulting from net changes in mandated program funding (excluding UK’s Markey Cancer Center, KSU’s land grant program, and pension subsidy reductions)
- Overall, these components represent increases in operating funds of 6.7% in 2024-25 and 8.7% in 2025-26 relative to the 2023-24 net General Fund base

Capital Investment

The Executive Budget included debt service on state bond funds supporting two categories of capital projects, including funding to offset cost overruns on new and expansion projects authorized for the 2022-2024 biennium and asset preservation projects for the upcoming biennium. More information regarding these funding components is provided below.

- The Governor’s budget included \$159.98 million in bond funds in 2024-25 to complete new capital construction and expansion projects that had been authorized in the *2022-2024 Budget of the Commonwealth*
- The intended use of these funds was to cover unprecedented increases in construction costs that occurred between the time the 2022-2024 budget was enacted, and institutions began undertaking authorized projects
- The Executive Budget also included \$400.0 million in bond funds for asset preservation projects, all of that amount appropriated in fiscal year 2024-25
- The asset preservation funds were allocated among institutions based on share of Category I and II Education and General Square feet
- There was no required institutional match, but the bill included language regarding maintenance of effort for asset preservation expenditures
- Included in the regular appropriation for each institution was debt service for both categories of capital projects (i.e., cost increases and asset preservation) totaling \$22.6 million in 2024-25 and \$45.1 million in 2025-26 for the system

CPE Agency Budget

The Executive Budget did not include additional appropriations for CPE’s two major expansion requests—namely, added funding to support higher education coordination and management and the *Fund for Higher Education and Economic Development*—but it did provide resources to offset expected increases in retirement and health insurance costs, SREB dues, and continuation funding for KSU oversight.

- The Governor's budget included a 6.0% salary increase for state workers in 2024-25 and an additional 4.0% in 2025-26, with an additional increment for long-serving state employees
- It provided funding to cover anticipated increases in the agency's retirement system and health insurance costs (i.e., defined calculations)
- It also provided \$10,000 each year to cover expected increases in SREB dues
- The Executive Budget appropriated \$750,000 each year for KSU oversight
- Finally, the Governor's budget included \$16.0 million in 2024-25 for Pikeville Medical Center's Psychiatry Residency Program (i.e., for four years of operation)

HOUSE BUDGET (AS AMENDED)

The House Budget (HB 6) was released on January 16, 2024, was later amended, and passed the full House on February 1, 2024. The information provided below was obtained from the House Committee Substitute version of the bill (HB 6/HCS 1).

Postsecondary Institution Operating Funds

The House Budget included several components supporting campus operations, including an inflation adjustment, funding to fully offset increases in Fire and Tornado Insurance Premium costs, KSU land-grant funding, and a small increase in the *Postsecondary Education Performance Fund*.

- Specifically, it included appropriations of \$35.8 million each year of the biennium for an inflation adjustment
- This level of funding represented an increase of about 3.6% on each institution's 2023-24 net General Fund base
- The House Budget also included \$31.3 million each year for Fire and Tornado Insurance Premium cost increases (or 100% of the expected increase)

In addition to these two major components, the House Budget included:

- Decreases in funding (of minus \$10.0 million) each year for the Markey Cancer Center at the University of Kentucky
- Appropriations of \$2,107,500 in the current year (i.e., fiscal year 2023-24) and \$1,499,100 each year of the biennium to fund state match payments required under federal law for KSU's land grant program
- Increases in funding of \$3,900,000 each year for the *Postsecondary Education Performance Fund* (i.e., bringing the total in the fund to \$101.2 million each year)
- Net decreases in mandated program funding (of minus \$50,000) in 2024-25 and (of minus \$350,000) in 2025-26 (excluding changes in UK's Markey Cancer Center, KSU's land grant program, pension subsidy reductions, and Fire and Tornado Insurance Premium funding)

- Overall, these components represent increases in operating funds of 5.6% in 2024-25 and 5.4% in 2025-26 relative to the 2023-24 net General Fund base

Capital Investment

In terms of capital investment, the House Budget provided debt service on state bond funds supporting two categories of capital projects, including new capital construction and expansion projects and asset preservation projects for the upcoming biennium.

- The House Budget included \$970.1 million in bond funds in 2024-25 to support new capital construction or expansion projects
- It provided one new construction or expansion project at each institution
- The House Budget also included \$600.0 million in bond funds (i.e., \$300.0 million each year) for asset preservation projects
- Twenty-five percent (25%) of the asset preservation funds were allocated among institutions by assigning \$15 million to each university and \$30 million to KCTCS (i.e., \$15 million x 8 universities = \$120 million + \$30 million @ KCTCS = \$150 million, or 25% of \$600 million)
- The remaining seventy-five percent (75%) was allocated among institutions based on share of E&G square footage
- Language included in the bill required UK and UofL to match twenty-five percent (25%) of their respective allocations with other source funds
- Finally, the House Budget included \$51.1 million in 2024-25 and \$114.3 million in 2025-26 to pay debt service on state bonds supporting both new construction (or expansion) projects and asset preservation projects

CPE Agency Budget

- The House Budget provided a 4.0% salary increase for state workers in 2024-25 and an additional 2.0% in 2025-26
- It included funding to offset anticipated increases in retirement system and health insurance costs (i.e., defined calculations)
- It did not include additional funding for either SREB dues or the SREB Doctoral Scholar's program
- It also reduced the agency's General Fund budget by \$272,400 each year of the biennium to reflect cuts in vacant positions
- The House Budget appropriated \$500,000 in 2024-25 and \$250,000 in 2025-26 (or \$750,000 over the biennium) for KSU oversight
- The budget provided \$7.0 million in 2024-25 and \$3.0 million in 2025-26 (or \$10.0 million over the biennium) for the Healthcare Workforce Investment Fund

SENATE BUDGET

The Senate Budget (HB 6/PSS 1) passed the full Senate on March 13, 2024. The information provided below was obtained from that bill.

Postsecondary Institution Operating Funds

- The Senate Budget appropriates \$35.8 million each year of the biennium for an inflation adjustment, representing an increase of about 3.6% on each institution's 2023-24 net General Fund base
- It includes \$31.3 million each year to cover planned increases in state Fire and Tornado Insurance Premiums (or 100% of the expected increase)
- It contains reductions in funding of \$10.0 million each year for the Markey Cancer Center at the University of Kentucky
- It includes appropriations of \$2,107,500 in 2023-24 and \$1,499,100 each year of the upcoming biennium for KSU's land grant program
- The Senate Budget provides additional appropriations of \$102.7 million each year for the *Postsecondary Education Performance Fund* (i.e., bringing the total in the fund to \$200.0 million each year)
- It includes net increases in mandated program funding of \$1,743,800 in 2024-25 and \$2,546,200 in 2025-26 (excluding changes in UK's Markey Cancer Center, KSU's land grant program, pension subsidy reductions, and Fire and Tornado Insurance Premium funding)
- Finally, it provides additional funding for several programs or initiatives that are line-itemed in the budget bill, totaling \$24.7 million in 2024-25 and \$2.2 million in 2025-26 (e.g., the largest single item in 2024-25 is \$20.0 million for expansion and enhancement of online programs at NKU)
- Overall, these components represent increases in operating funds of 18.0% in 2024-25 and 15.7% in 2025-26 relative to the 2023-24 net General Fund base

Capital Investment

Like the House Budget, the Senate Budget (HB 6/PSS 1) included debt service on state bond funds supporting new capital construction and expansion projects and supporting asset preservation projects for the upcoming biennium. More information about these funding components is provided below.

- The Senate Budget appropriated bond funds of \$917.4 million in 2024-25 and \$105.0 million in 2025-26 (i.e., for a biennial total of \$1.022 billion) to support new capital construction or expansion projects at the postsecondary institutions
- It provided at least one new or expansion project for each institution (and two projects each at NKU and KCTCS)
- The Senate Budget also included \$608.2 million in state bond funds for asset preservation projects, \$324.7 million in 2024-25 and \$283.5 million in 2025-26

- While the allocation of asset preservation funds mirrored the assignment of funds in the House Budget for most institutions, the Senate made selected changes in the allocation for KSU and KCTCS
- The asset preservation allocation at KSU was increased from \$12.8 million each year of the biennium to \$37.5 million each year
- The allocation at KCTCS was decreased in the second year from \$71.1 million in the House Budget to \$30.0 million in the Senate Budget
- Language included in the bill required UK and UofL to match twenty-five percent (25%) of their respective allocations with other source funds
- Included in the regular appropriation for each institution was debt service for both new construction (or expansion) projects and asset preservation projects totaling \$50.0 million in 2024-25 and \$115.7 million in 2025-26 for the system

CPE Agency Budget

- The Senate Budget provides a 2.6% salary increase for state workers in 2024-25 and an additional 2.6% in 2025-26
- It funds anticipated increases in the agency's retirement system and health insurance costs (i.e., defined calculations)
- It also provides \$10,000 each year to cover expected increases in SREB dues
- The Senate Budget contains \$272,400 in vacant position cuts in CPE's agency budget each year of the biennium
- It appropriates \$750,000 each year for KSU oversight
- The Senate Budget appropriates \$2.0 million over the biennium for the Kentucky Healthcare Workforce Investment Fund (i.e., \$1.0 million each year)
- It also appropriates \$1.0 million in 2024-25 to conduct a feasibility study on expanding postbaccalaureate program offerings at comprehensive universities
- The Senate Budget appropriates \$16.0 million in 2024-25 for CPE to distribute to Appalachian Regional Healthcare to establish a psychiatric residency program to serve eastern Kentucky
- Finally, the budget provides \$300,000 in 2024-25 for CPE to pass through to the National Stem Cell Foundation to support a grant match

BUDGET COMPARISONS

Attached for Council review are three tables that should facilitate comparisons across the various versions of the postsecondary education budgets. Attachment A presents Postsecondary Institution Operating Funds components and funding amounts included in the Council's budget recommendation, Governor's Budget, and House and Senate versions of the budget. Attachment B shows Capital Investment components across all iterations of the postsecondary education budgets. Attachment C contains information pertaining to the CPE Agency Budget across all versions of the budgets.