

TITLE: 2021-22 CPE Agency Budget

RECOMMENDATION: Staff recommends that the Council approve the agency's operating budget for 2021-22.

PRESENTERS: Dr. Aaron Thompson, CPE President
Shaun McKiernan, Director of Budget and Finance

SUPPORTING INFORMATION

Each year, the Council reviews and approves the agency's revenue and expenditure budget for the upcoming fiscal year. Below is a description of CPE's budget as proposed for fiscal 2021-22. The enacted state budget for 2021-22 (HB 192), along with CPE's 2020-22 biennial budget request, submitted to the state budget office and Legislative Research Commission in November 2019, provide the framework for staff's proposed 2021-22 agency budget. Budgeted figures for the current year (i.e., 2020-21) are included for comparison.

CPE General Fund Budget

The Commonwealth of Kentucky operates on a biennial budget cycle. Typically, a two-year budget is passed in even-numbered years. During the 2020 regular session of the General Assembly, legislators adopted a one-year state budget (HB 352) due to uncertainties in projecting state revenues caused by the COVID-19 pandemic. In the 2021 regular session, lawmakers passed a budget for the 2020-2022 biennium (HB 192) that revised some appropriations for 2020-21 and included funding for 2021-22.

House Bill 192 is largely a continuation budget for most state agencies, as it is for CPE. Importantly, it restores the levels of General Fund support for CPE operations and technology initiatives to the amounts provided in 2019-20. In 2020-21, CPE's General Fund budget was reduced by \$3.5 million and expenditure authority for the use of other funds was increased, concomitantly. This action had the same effect as transferring accumulated agency restricted funds to the state General Fund.

House Bill 192 appropriates \$50,000 for the Southern Regional Education Board (SREB) Doctoral Scholars program in 2021-22, maintaining the same level of funding as in the prior year. This program, which was reinstated in 2020-21, provides scholarships and other programming to help underrepresented minority doctoral candidates at the University of Kentucky and University of Louisville succeed and encourage them to pursue careers in academia after graduation.

The 2021-22 budget also funds Kentucky's dues to the Southern Regional Education Board (SREB), which were traditionally paid from the Contract Spaces program. Contract Spaces provided support for Kentucky residents pursuing degrees in veterinary medicine and optometry, mostly out-of-state. Contract Spaces funding was moved to the Kentucky Higher Education Assistance Authority in 2020-21, but the funding for SREB dues remains in CPE's agency budget.

The table below shows General Fund appropriations by expenditure category for CPE's agency budget which are included in the 2020-22 state budget.

CPE Agency Budget 2020-2022 General Fund Appropriations			
Expenditure Category	FY 2020-21	FY 2021-22	Difference
General Fund			
Operating Funds	\$5,696,500	\$7,205,600 ^{a, b}	\$1,509,100
SREB Doctoral Scholars	50,000	50,000	0
Technology Trust Fund	1,628,300	3,628,300 ^a	2,000,000
SREB Dues	211,600	214,800 ^c	3,200
Ovarian Cancer Screening	500,000	500,000	0
Total	\$8,086,400	\$11,598,700	\$3,512,300
^a Restores General Fund to 2019-20 level.			
^b Provides \$9,100 for defined calculations (i.e., retirement contributions).			
^c Provides \$3,200 to cover an increase in Kentucky's SREB dues.			

The expenditure category Technology Trust Fund in the table contains funding for the Kentucky Virtual Library (KYVL), Technology Support, and the Kentucky Postsecondary Education Network (KPEN).

As a reminder, since 2011, CPE has sustained seven reductions to its agency budget. Cumulatively, the impact of the cuts since 2010 is -28.2%. The table below shows the magnitude of General Fund reductions by fiscal year.

Agency Operating Budget Change from Prior Year in Agency General Fund Appropriation Fiscal Years 2011-2019								
<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
-5.00%	-3.00%	-8.40%	0.00%	-5.00%	-4.50%	0.00%	-5.10% *	-6.25%
								*non-recurring

2021-22 Operating Budget

The CPE operating budget includes most of the agency's funding for personnel and operations. Next year, CPE will use state General Fund appropriations, along with \$500,000 in Restricted Funds received by the Council for administering federal grants (i.e., primarily the GEAR UP grant), to fund agency operations. Personnel expenses make up 84 percent of the Agency Operations budget, which is typical for state government agencies. General Fund appropriations in 2021-22 will support 45 employees, down from 97 staff in 2007-08.

While CPE's 2021-22 budget is largely a continuation budget, staff has been able to identify some changes to the budget for 2021-22 that are needed to maximize the impact of state funds appropriated to CPE.

Next year, CPE leaders will continue to focus on the successful transition of students from secondary to postsecondary education and the agency's leadership of the P-20 Education Continuum and related activities. Staff also identified the need for additional collaboration with workforce and economic development leaders in the state and policy/program leadership in this area. In response to these needs, CPE's 2021-22 operating budget includes funding for additional staff capacity dedicated to the P-20 Education Continuum, college pathway policy/programs, and the development and ongoing support of a new college-going portal. It also includes funds for leadership staff to guide the agency's work in the areas of workforce and economic development, and additional staff capacity in the area of academic programs and policies

The 2021-22 operating budget includes funding for additional office, storage, and meeting space, which was not available when CPE moved to the new 100 Airport Road offices. The new space (located above current offices) will reduce costs for off-site

storage and rented meeting space, and accommodate additional staffing needs.

The 2021-22 Operating budget reduces grants to campuses funded with state General Fund appropriations. In recent years CPE has provided targeted funds to help support campus-based pilot projects and to sponsor large meetings. This fiscal year and next, CPE will distribute \$17.8 million in federal grants to the campuses through the Governor's Emergency Education and Relief (GEER) funds. These grants are intended to help cover costs related to COVID-19 and support students impacted by the pandemic. Institutions will leverage these and other federal funds, to help improve student success during this difficult time.

Finally, it is important to note that for 2020-21, CPE did not plan on using all of its Restricted Fund expenditure authority in Agency Operations, given the very real possibility of a mid-year General Fund budget reduction. For 2021-22, CPE plans to leverage all of the Restricted Fund expenditure authorized in HB 192 and the Budget of the Commonwealth for operations to advance the Council's strategic agenda.

See the table below for a comparison of CPE's 2020-21 and 2021-22 operating budgets.

CPE Operating Budget				
	Original FY 2021	Proposed FY 2022	Percent Change	Notes on Differences
Sources of Funds				
General Fund (GF)	\$ 5,696,500	\$ 7,205,600	26%	\$1.5 M Restoration of GF, \$9,100 for KERS
Restricted Funds (RF)	1,557,800	500,000	-68%	Corresponding decrease in RF
Total Sources of Funds	<u>\$ 7,254,300</u>	<u>\$ 7,705,600</u>	6%	
Uses of Funds				
Salaries & Benefits	\$ 5,528,500	\$ 5,927,400	7%	Workforce, Academic Affairs, Technology Support, Salary Pool
Other Personnel Costs	190,000	523,600	176%	P-20 Education Continuum, Project Manager
Total Personnel	<u>\$ 5,718,500</u>	<u>\$ 6,451,000</u>	13%	
Building, Rentals, Repairs	212,000	\$ 351,800	66%	Additional space, cost increase
Computer & Misc Services	327,500	527,500	61%	Program Review contract
Supplies, Travel, Dues, Other	<u>338,200</u>	<u>315,300</u>	-7%	
Total Operating	<u>\$ 877,700</u>	<u>\$ 1,194,600</u>	36%	
Grants	\$ 658,100	\$ 60,000	-91%	
Total Uses of Funds	<u>\$ 7,254,300</u>	<u>\$ 7,705,600</u>	6%	

CPE Tobacco Fund, Federal Funds, and Restricted Funds Budgets

In addition to state General Fund appropriations, the Council's budget contains other sources of revenue, including tobacco settlement funds, cigarette tax revenue, federal grant funds, and agency receipts.

The next table provides a summary of the Council's 2020-21 authorized expenditure levels for these funds and proposed expenditures for 2021-22. The enacted budget (HB 192) specifies the expenditure limits for each fund type.

CPE Tobacco, Federal, and Restricted Funds Fiscal Years 2020-21 and 2021-22			
Expenditure Category	FY 2020-21	FY 2021-22	Difference
Tobacco Fund			
Spinal Cord and Head Injury Research	\$ 650,000	\$ 650,000	\$ -
Cancer Research and Screening	6,876,100	7,043,800	167,700
Total Tobacco Fund	\$ 7,526,100	\$ 7,693,800	\$ 167,700
Federal Funds			
GEAR UP	\$ 4,000,000	\$ 3,997,100	\$ (2,900)
Gov. Emergency Ed. Relief Funds	15,296,200	5,000,000	(10,296,200)
Total Federal Fund	\$ 19,296,200	\$ 8,997,100	\$ (10,299,100)
Restricted Funds			
Operations (Federal Indirect*)	\$ 2,000,000	\$ 500,000	\$ (1,500,000)
Cancer Research Match (Cigarette Tax)	4,110,000	4,107,700	(2,300)
Licensure (Licensure Fees)	325,200	316,200	(9,000)
Total Restricted Funds	\$ 6,435,200	\$ 4,923,900	\$ (1,511,300)
*In 2020-21, Licensure Fees were also used to support Operations.			

The state budget specifies that Tobacco Fund appropriations in CPE's budget fund cancer research at UK and UofL (divided equally). For 2020-21 and 2021-22, additional Tobacco Funds were provided for spinal cord research at UK and UofL.

In 2020-21, CPE received federal funding to distribute to the public postsecondary institutions through the Governor's Emergency Education Relief (GEER) Fund and

anticipates that it will receive additional GEER funds in 2021-22. CPE will also access federal funds next year as part of the GEAR UP grant. GEAR UP, which stands for Gaining Early Awareness and Readiness for Undergraduate Programs, is a federally funded program that helps students in underprivileged schools prepare for postsecondary education. The GEER Funds that CPE administers are federal funds designated by the Governor to assist the postsecondary institutions in responding to the COVID-19 pandemic.

The Restricted Funds category supports several areas of CPE's budget, including the Cancer Research Match program, Licensure, and Agency Operations. These funds come to CPE from a variety of sources, such as:

- Cigarette tax proceeds (i.e., one cent from each pack of cigarettes sold in Kentucky) fund the Cancer Research Match program, which is allocated to UK and UofL equally, provided the institutions are able to match the distributions with institutional funds expended on cancer research.
- Licensure fees fund the Licensure Unit. The Council licenses all Kentucky non-profit and for-profit baccalaureate degree granting and above institutions, and out-of-state public institutions operating or soliciting in the Commonwealth. The Licensure Unit also has duties related to the State Authorization Reciprocity Agreement (SARA), which allows Kentucky public and licensed institutions to do business in other SARA states. Licensure revenue of about \$350,000 per year supports the equivalent of two and a half full-time staff members who ensure the Council's licensure duties are performed.
- Finally, the Council receives funds related to the administration of federal grants and is authorized to spend those funds to support agency operations. With the recent award of the GEAR UP grant, CPE can expect to receive these funds for the next several biennia.

Other Funds

The Council manages several other state funds, including the Equine University Program Trust Fund, the Revolving Loan Fund, and funds housed in the Technology Trust Fund (i.e., namely, KYVL receipts and smaller grants). The Equine Program receives funds collected by the state related to pari-mutuel betting. The funding, which has traditionally been about \$600,000 per year, is distributed equally to the five institutions with Equine programs (UK, UofL, MoSU, MuSU, and WKU) to help fund capital investments in their programs.

The Revolving Loan Fund (RLF) was created to provide start-up funds for expensive information technology programs at Kentucky public colleges and universities. In 2020-21, the Office of State Budget Director allowed CPE to use \$800,000 of the RLF to accommodate the \$2,000,000 Technology Trust Fund “fund swap”, which was implemented that year. HB 192 transfers the remaining balance of the fund to the state General Fund in 2021-22.

The Technology Trust Fund (TTF) receives state General Fund appropriations and Kentucky Virtual Library (KYVL) and KPEN receipts. The fund also receives interest earnings, smaller private grant funds, and funds from state government agencies on occasion. These funds will be spent in 2021-22 as allowed by terms of the funding.

The Office of State Budget Director has authorized use of the TTF to house the \$2.1 million, three-year grant from the James Graham Brown Foundation that CPE was recently awarded. This grant will be used to establish a Student Success Center at CPE. TTF resources of about \$600,000, largely from Technology Support savings accumulated over several years, will be used to initiate development of a Student Portal and to fund research and provide strategic guidance on how CPE and the postsecondary institutions can better address the needs of adult learners and achieve an even more positive impact on economic development in the Commonwealth of Kentucky.