

2022-24 Postsecondary Education Budget Recommendation Operating Funds Request

The primary way that Kentucky finances its public postsecondary system and supports the teaching, research, and public service missions of individual colleges and universities is by providing state General Fund appropriations for campus operations. These funds, along with tuition and fee revenue, support education and general (E&G) expenditures on campus, including faculty and staff salaries, fringe benefits, student financial aid, utilities, building maintenance, libraries, student support services, and numerous other operating expenses. When available, these funds also finance strategic initiatives that support attainment of the state's student success goals and objectives of the Council's *2016-2021 Strategic Agenda for Postsecondary Education*.

- *Council staff recommends total General Fund appropriations of \$974,373,800 in fiscal year 2022-23 and \$996,873,800 in fiscal year 2023-24 to support public postsecondary institution operations.*

As can be seen in Table 1 below, the recommended total General Fund appropriations represent increases of \$68,171,500 in 2022-23 and \$90,671,500 in 2023-24, or 7.5% and 10.0% increases, respectively, compared to the 2021-22 net General Fund base.

Table 1: Components of 2022-24 Operating Funds Request

Funding Category	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
2021-22 Net General Fund ¹	\$906,202,300	\$906,202,300	\$906,202,300
Base Adjustments:			
KERS Subsidy Reductions	NA	(\$2,209,900)	(\$4,419,800)
Adjusted Net General Fund	\$906,202,300	\$903,992,400	\$901,782,500
Additional Budget Requests:			
Performance Funding	NA	67,500,000	90,000,000
Pension Relief Funds	NA	2,209,900	4,419,800
KSU Land Grant Match	671,500	671,500	671,500
Total Operating Funds Request	\$906,873,800	\$974,373,800	\$996,873,800
Dollar Change	\$671,500	\$68,171,500	\$90,671,500
Percent Change	0.1%	7.5%	10.0%

¹ Includes each institution's 2021-22 regular appropriation (net of 2021-22 debt service at UK and KSU), a \$200,000 special appropriation for KSU, and \$17,307,100 appropriated to the Postsecondary Education Performance Fund in 2021-22.

See Attachment A for a breakdown of the operating funds request by institution. Major components of the operating funds request include the beginning base funding, base

adjustments, and additional appropriations for performance funding, pension relief, and KSU's land-grant program. Each of these components is described in detail below.

Beginning Base

In recent budget years (i.e., the odd years preceding a new biennium), an institution's beginning base is the enacted General Fund appropriation in the second year of the current biennium (or in the event of a mid-year budget cut, the revised appropriation), minus any applicable debt service, plus any applicable earned performance funds. For the upcoming 2022-24 biennium, an additional calculation was required to determine the beginning base for each institution, due to a change in statute (KRS 164.092) that rendered the 2021-22 distribution of \$17,307,100 from the Postsecondary Education Performance Fund (PEPF) to the institutions a nonrecurring distribution.

In the enacted 2021-22 Budget of the Commonwealth (HB 192), the General Assembly appropriated \$17,307,100 to the PEPF in 2021-22. Those funds were distributed among postsecondary institutions using public university and KCTCS funding models in fiscal 2021-22, but rather than those funds being added to the recurring General Fund base of institutions that earned the funds, an amendment in Kentucky's Performance Funding Statute (KRS 164.092) stipulated that the amounts distributed from the performance fund in the previous year shall be included in the PEPF's base budget submitted by the Council in the postsecondary education biennial budget recommendation.

Table 2: Calculated Beginning Base by Institution

	A	B	C	(A + B + C)
Institution	2021-22 Total Appropriation	Debt Service Adjustments	Performance Adjustments	2021-22 Net General Fund
UK	\$272,330,200	(\$1,013,000)	(\$6,086,400)	\$265,230,800
UofL	130,129,300	0	(2,972,500)	127,156,800
EKU	74,444,100	0	(120,200)	74,323,900
KSU	27,386,100	(182,000)	0	27,204,100
MoSU	43,324,900	0	0	43,324,900
MuSU	47,024,700	0	0	47,024,700
NKU	55,150,200	0	(2,902,700)	52,247,500
WKU	78,345,400	0	(1,398,800)	76,946,600
KCTCS	179,262,400	0	(3,826,500)	175,435,900
Performance	0	0	17,307,100	17,307,100
Total	\$907,397,300	(\$1,195,000)	\$0	\$906,202,300

As can be seen in Table 2, net General Fund baseline numbers for fiscal year 2021-22 are calculated by subtracting applicable debt service and earned performance funds from each institution's 2021-22 total General Fund appropriation and returning \$17.3 million to the PEPF. The total appropriation figures are the sum of each institution's 2021-22 regular General Fund (which includes debt service at UK and KSU), a \$200,000 special appropriation for KSU, and applicable nonrecurring distributions from

the Performance Fund. The General Fund baseline calculated by CPE staff has been validated using numbers generated by Office of State Budget Director (OSBD) staff for the upcoming biennium.

Figures shown in the Total Appropriation column in Table 2 represent direct appropriations to each institution in 2021-22, which were obtained from the *2021-2022 Budget of the Commonwealth* (HB 192), plus any applicable distributions from the PEPF in 2020-21. Figures shown in the Debt Service Adjustments column were obtained from HB 192. Finally, figures shown in the Performance Adjustments column were calculated using the statutorily required performance funding models (KRS 164.092) and are the inverse of the Performance Fund distribution numbers that were submitted to the Governor and Office of State Budget Director by May 15, 2021. This calculation allows funds distributed to the postsecondary institutions in 2021-22 to be returned to the PEPF, which satisfies statutory requirements for determining the 2021-22 net GF baseline for each institution.

- *It is anticipated that performance funds earned in fiscal year 2021-22, specifically \$17,307,100 appropriated to the Postsecondary Education Performance Fund and distributed to Kentucky's public postsecondary institutions that year, will not become recurring to institutions that earned those funds, but rather returned to the Performance Fund for subsequent distribution each year of the 2022-24 biennium.*

Base Adjustments

Base adjustments are technical in nature and typically relate to changes in existing state obligations for postsecondary education, such as increases or decreases over time in General Fund bond supported debt service that is located at the institutions. For the upcoming 2022-24 biennium, CPE staff and Office of State Budget Director officials agree that appropriations for University of Kentucky and Kentucky State University debt service payments and KERS subsidy reductions (HB 8) represent necessary and appropriate base adjustments.

Debt Service

Prior to 1998, when General Fund supported bonds were issued to finance the construction of public postsecondary facilities, the resulting liability was accounted for at the institutional level and the General Assembly provided funding for debt service, which was included in campus base budgets and line-itemed in appropriations bills. Over time, as new debt was issued and mature debt retired, changes in debt service obligations occurred making periodic adjustments to the base necessary to reflect these changes. Following passage of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1), debt service for newer postsecondary projects (i.e., those constructed after 1997) has typically been located in the Finance and Administration Cabinet's budget.

In the enacted *2021-22 Budget of the Commonwealth* (HB 192), the University of Kentucky received \$14.0 million in General Fund supported bond funds for a *University of Kentucky, Sanders Brown Center on Aging* capital project and Kentucky State University received \$5.0 million for *KSU Roof Replacement*. Included in UK's General Fund appropriation in 2021-22 was debt service of \$1,013,000 to support the \$14.0 million in new bonds issued for that year; and included in KSU's General Fund

appropriation in 2021-22 was \$182,000 in debt service to support the bonds for their roof replacement.

- *It is anticipated that \$1,013,000 included in the University of Kentucky’s General Fund appropriation in 2021-22 to support new bonds for a University of Kentucky Sanders-Brown Center on Ageing capital project and \$182,000 included in Kentucky State University’s General Fund appropriation in 2021-22 to support new bonds for Roof Replacement capital project will be transferred to the Finance and Administration Cabinet in accordance with common practice.*

KERS Subsidy Reductions (HB 8)

Another category of base adjustments that is scheduled to occur during the 2022-24 biennium stems from statutorily required KERS subsidy reductions. In fiscal 2021-22, Kentucky comprehensive universities (except for NKU) and KCTCS transitioned to a fixed-dollar allocation method of determining employer pension contributions. Based on actuarial calculations, the General Assembly appropriated \$22,099,200 in total to participating institutions in the 2021-22 budget bill (HB 192), which was intended to cover 100% of the costs associated with that transition at each institution.

Beginning in 2022-23, Section 7(6)(b) of HB 8 calls for a reduction of 10% per year over five years of the pension subsidies provided in 2021-22. As can be seen in Table 3, the \$22.1 million KERS pension subsidy provided in 2021-22 is slated to be reduced by a total of \$2.2 million in 2022-23 and by \$4.4 million in 2023-24. The planned decrease in KERS pension subsidies will reduce the net General Fund base of impacted institutions each year of the upcoming biennium as shown in Table 3.

Table 3: Planned Reduction in KERS Pension Subsidies (HB 8)

Campus	Fiscal Year 2021-22	Fiscal Year 2022-23	Subsidy Reduction	Fiscal Year 2023-24	Subsidy Reduction
EKU	\$8,909,700	\$8,018,700	(\$891,000)	\$7,127,800	(\$1,781,900)
KSU	558,200	502,400	(55,800)	446,600	(111,600)
MoSU	4,913,000	4,421,700	(491,300)	3,930,400	(982,600)
MuSU	3,270,900	2,943,800	(327,100)	2,616,700	(654,200)
WKU	3,592,500	3,233,300	(359,200)	2,874,000	(718,500)
KCTCS	854,900	769,400	(85,500)	683,900	(171,000)
Totals	\$22,099,200	\$19,889,300	(\$2,209,900)	\$17,679,400	(\$4,419,800)

Subsidy 100% 90% 80%

- *It is anticipated that the net General Fund base of five comprehensive universities (excludes NKU) and KCTCS will be reduced in total by \$2,209,900 in 2022-23 and \$4,419,800 in 2023-24 in accordance with HB 8 statutory requirements and as shown in Table 3 above.*

Additional Budget Requests

Over the past five months, CPE staff has engaged in a collaborative process with multiple stakeholders to identify funding components and request amounts to include in

the Council’s 2022-24 biennial budget recommendation that address the most pressing resource needs of Kentucky’s public postsecondary system and provide the highest and best return on the state’s investment. Following numerous discussions between and among Council members, campus presidents, chief budget officers, and CPE senior staff, there is consensus that the highest priorities for the 2022-24 biennium are additional appropriations for performance funding and pension relief, as part of the Operating Funds request, and General Fund debt supported bond funds (or cash) for asset preservation, as part of the Capital Investment request.

As can be seen in Table 4 below, CPE staff recommends that the Council’s Operating Funds request include new funding for three components: (1) performance funding; (2) pension relief funds; and (3) KSU’s land-grant program. The performance funding request is well aligned with the state’s student success goals and the objectives and strategies identified in the Council’s *2016-2021 Strategic Agenda for Postsecondary Education*. The pension relief funds will help five comprehensive universities and KCTCS avoid reductions in HB 8 subsidies over the biennium. The request for KSU’s land-grant funding is necessary to meet a federal matching requirement.

Table 4: Components of 2022-24 Operating Funds Request

Funding Component	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Additional Budget Requests:			
Performance Funding		\$67,500,000	\$90,000,000
Pension Relief Funds		\$2,209,900	\$4,419,800
KSU Land-Grant Program	\$671,500	671,500	671,500
Total Additional Requests	\$671,500	\$70,381,400	\$95,091,300

Additional information about each of these funding components is provided below.

Performance Funding

On March 21, 2017, Kentucky’s Performance Funding Bill (SB 153), which had passed both the House and Senate with no changes, was signed into law by the Governor. The newly created statute (KRS 164.092) represented the culmination of a six-month effort by a working group of campus presidents, the Council president, and the Governor and legislative leaders (or their representatives), to develop a rational model for distributing state General Fund appropriations among public universities and KCTCS institutions.

Now in their fifth year of operation, university and KCTCS funding models were used to distribute \$42.9 million in fiscal year 2017-18, \$31.0 million in 2018-19, \$38.7 million in 2019-20, \$15.0 million in 2020-21, and \$17.3 million in 2021-22 among the institutions, using rational criteria imbedded in the funding formulas. In terms of process, the General Assembly appropriated funds to the Postsecondary Education Performance Fund (PEPF) in each of those years, CPE and KCTCS staffs ran the funding models and certified the resulting distribution of funds to the Office of the State Budget Director, and distributions to institutions were made through the quarterly allotment process.

Since the adoption of performance funding, the number of degrees and credentials produced by Kentucky postsecondary institutions has grown at an average annual rate of 3.4 percent, which exceeds the growth rate needed (i.e., 1.7% per year) for the state to achieve its goal of increasing educational attainment of working age adults to 60% by the year 2030. In addition, numbers of underrepresented minority degrees and credentials and completions in STEM+H fields are growing at unprecedented rates.

- *Council staff recommends appropriations of \$67,500,000 in 2022-23 and \$90,000,000 in 2023-24 for performance funding to provide incentives for institutions to increase student success and course completion outcomes and continue making progress toward the state's 60X30 attainment goal.*

If the requested appropriations are authorized, it is anticipated that the funds will be placed in the Performance Fund, pending application of the funding models by CPE and KCTCS staffs and distribution among institutions based on statutorily defined formulas.

In addition to encouraging desired student outcomes, state investment in performance funding will help institutions and the Council maintain affordability for Kentucky students and families. Over the past decade, reductions in state support and mandated increases in employer-paid pension contributions have strained campus budgets and placed upward pressure on tuition and fees. Despite Council adopted tuition ceilings, published in-state sticker prices have increased over the past decade. Additional funding for campus operations will help institutions and the Council minimize tuition increases and maintain affordability and access.

Pension Relief Funds

As previously described, Kentucky comprehensive universities (except for NKU) and KCTCS transitioned to a fixed-dollar allocation method of determining employer pension contributions in 2021-22. The General Assembly appropriated \$22.1 million to cover 100% of estimated transition costs that year, but also enacted HB 8, which calls for 10% reductions in the subsidies each year of the biennium. These are essentially budget cuts for participating institutions.

- *Council staff recommends appropriations of \$2,209,900 in 2022-23 and \$4,419,800 in 2023-24 to maintain the KERS pension subsidies at their 2021-22 levels at five comprehensive universities and KCTCS.*
- *In addition, staff recommends that the requested appropriations for 2022-23 and 2023-24 be allocated among participating institutions in amounts that exactly offset planned KERS pension reductions at each institution as shown in Table 5 below.*

If the requested appropriations are authorized, the KERS pension subsidies at each participating institution would be maintained at the 2021-22 funding level. This would negate the scheduled budget cuts, reduce stress on campus budgets and help the institutions and the Council maintain affordability for Kentucky citizens. It would provide resources needed for the institutions to pursue student success goals and compete more fairly in performance funding.

Table 5: Allocation of Requested 2022-24 Pension Relief Funds

Institution	Fiscal Year 2022-23	Fiscal Year 2023-24
Eastern Kentucky University	\$891,000	\$1,781,900
Kentucky State University	55,800	111,600
Morehead State University	491,300	982,600
Murray State University	327,100	654,200
Western Kentucky University	359,200	718,500
KCTCS	85,500	171,000
Totals	\$2,209,900	\$4,419,800

KSU Land Grant Match

Kentucky State University is an 1890 Land-Grant Institution. As such, it is eligible to receive federal grant funds appropriated by Congress each year to support land-grant research and extension activities. These funds must be matched dollar-for-dollar by the state to ensure that KSU will continue to receive its full allotment of federal funds. The matching requirement is an obligation of the state, not Kentucky State University. Other sources of federal funds and tuition and fee revenue cannot be used to meet the match.

In 2021-22, KSU is eligible to receive \$8,881,900 in United States Department of Agriculture (USDA) administered grants to support its land-grant program. Currently, KSU has \$8,210,400 in General Fund appropriations in its base to meet the matching requirement, resulting in a funding gap of \$671,500.

- *CPE staff recommends appropriations of \$671,500 in fiscal year 2022-23 and \$671,500 in 2023-24 to provide a sufficient amount of recurring state General Fund to meet the federal matching requirement for Kentucky State University's land-grant program.*
- *In addition, because KSU's land-grant program is under matched in the current year, staff recommends an appropriation of \$671,500 in fiscal year 2021-22 (i.e., a current-year appropriation) to complete the state's matching obligation for 2021-22.*

If the requested funds are authorized, it is recommended that they be appropriated directly to Kentucky State University. Since KSU's land-grant program has been designated as a mandated program by the Kentucky General Assembly and the Council on Postsecondary Education, it is anticipated that the total amount of state funds provided to the program in the upcoming biennium will be line-itemed in the 2022-24 budget bill and excluded from the institution's allocable resources in upcoming iterations of the performance funding model.

Finally, if these funds are authorized, they will reinforce the effectiveness and impact of outreach, service, and applied research of KSU's land-grant program.

Endorsements

Additional Pension Funding

As previously mentioned, Kentucky comprehensive universities (except for NKU) and KCTCS transitioned to a fixed-dollar allocation method of determining employer pension contributions in 2021-22. The General Assembly appropriated \$22,099,200 in total to participating institutions in the 2021-22 budget bill (HB 192), which was intended to cover 100% of the costs associated with that transition at each institution.

Several institutions have indicated to Council staff that the salary base estimates used to determine their KERS pension subsidy amounts for 2021-22 ended up being different from their actual KERS salary bases, which resulted in an appropriation in 2021-22 that covered less than 100% of the cost of transitioning to the fixed-dollar allocation method.

If the Governor and General Assembly determine that the KERS pension subsidy appropriated to a comprehensive university or KCTCS in fiscal year 2021-22 was insufficient to cover 100% of the fixed-dollar allocation method transition cost, the Council will support any additional funding that the legislature may provide to make those institutions whole and subsidize 100% of the transition cost.

- *The Council supports and endorses any current-year appropriations as may be necessary to fully cover the cost of transitioning to a fixed-dollar allocation method of determining pension contributions in 2021-22 among participating KERS institutions.*