

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS

The meeting was called to order by BILL BUNTEN at
Chairperson

1:30 ~~am~~/p.m. on Monday, February 7, 19 83 in room 514-S of the Capitol.

All members were present except: Representatives Duncan, Holderman and Lewis -- all
excused

Committee staff present: Marlin Rein -- Legislative Research
Lyn Entrikin-Goering -- Legislative Research
Bill Gilmore -- Legislative Research
Jim Wilson -- Office of the Revisor
LewJene Schneider -- Administrative Assistant
Charlene Wilson -- Committee Secretary

Conferees appearing before the committee:
Mr. David Monical -- Legislative Research Dept.

Others present: (Attachment I)

The meeting was called to order by the Chairman at 1:30 p.m.

The Chairman called upon David Monical of the Legislative Research Department to give the committee a review of system wide issues in the Regents' Institutions.

Mr. Monical referred to Budget Memo 83-8, Board of Regents' Institutions-- System Wide Summary and Issues, (Attachment II). Mr. Monical gave his presentation in sections, as are referred to in this Budget Memo. Questions were addressed following some sections and will be reflected in these minutes in the same manner.

With reference to the area on "formula funding" (p. 577 of the budget memo), Mr. Monical highlighted this by saying that some of the components of the Regents' formula funding system have been used by the Governor in determining some funding reductions on various campuses. This will be reflected later in this report regarding the Governor's Base Budget Reductions.

Representative Arbuthnot referred to General Fee Fund revenues and interest on endowment earnings and questioned how these get into a regent school's budget. Mr. Monical indicated that this is a particular instance of endowment earnings. Several of the institutions have properties and investments that were given to them prior to the creation of a specific endowment foundations. These are properties that were deeded specifically to the institutions and for certain legal reasons could not be transferred to the endowment association, per se. The total amount of interest earnings in this category is somewhere in the area of \$90,000.00 for the current year. This typically goes into the general use budget in the form of OOE. This does not include any gifts to the university from the respective endowment associations.

Section A, FY 83 Budget Adjustments: Mr. Monical stated that one thing the legislature should be aware of is that when the institutions make these reductions they view the allotment as temporary. There is a difference when you review a budget between whether it is viewed as a permanent on-going reduction or whether it is viewed as a temporary short-term deferral of expenditures. The institutions view this as the latter. With regard to staff salaries, Chairman Buntten asked if there was any institution that had to release any of its employees. Mr. Monical indicated that he was not aware of any. He went on to say that possibly what they had done was to defer hiring temporary employees but the most predominant procedure was to not fill vacant positions. With regard to student salaries, Chairman Buntten asked if all of the positions were at minimum wage or above. Mr. Monical indicated that all institutions are expected to compensate at the minimum wage. He added that they can provide higher salaries if they wish and some of them do, but to his knowledge, a freshman student may start at minimum wage or slightly greater and by the time they are a senior they may be making more than the minimum wage. Chairman Buntten asked where most of the \$4.8 million in OOE is not spent. Mr. Monical

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS,
 room 514-s, Statehouse, at 1:30 ~~a.m.~~ p.m. on Monday, February 7, 1983.

stated that typically what was done was that the capital outlay expenditures were cut back. Some institutions adopted a policy of no increases in their OOE for the department. There were a variety of factors that contributed to this. Chairman Bunten asked what the increase of OOE was from 1982 to 1983. Mr. Monical indicated that it had been 5.5%.

Representative Chronister, referring to the Governor's recommendation (p.581), asked why \$93,196.00 was reduced from the original figure. Mr. Monical responded that what possibly had happened is that the Governor took some transfers that go to the National Direct Student Loan program that were less than originally budgeted and allowed for those and he also possibly reduced the carried forward balance from FY83 to FY84 to zero.

Section B, Enrollment Adjustment Funding: With permission of the Chairman, Mr. Monical indicated that he would not take time to deal with this section due to the fact that Budget Memo 83-9 goes into this area in detail.

Section C, Unclassified Salary Increases: Chairman Bunten asked Mr. Monical to share with the committee how the 4% salary increase is arrived at as opposed to a 3% or 5% increase. Mr. Monical stated that he assumed that the Governor's recommendation is based on what the executive branch reasonably felt should be expended for salaries in the upcoming year. Representative Chronister asked what is included in the unclassified salary base. Mr. Monical indicated that it includes such areas as ranked faculty, seasonal and temporary employees, administrators who are unclassified, any budgeted graduate teaching assistant positions, extension personnel and anyone who is funded out of general use dollars for the agricultural experiment station. The key factor here is that the legislature has typically said we will increase the base by so many dollars. Within those dollars the institutions are to award salary increases to individuals on the basis of merit. Cost of living may be a factor in determining the allocations to an individual faculty member, or it may not. But the policy of the legislature has been that salary increases for unclassified staff at the Regents are to be based solely on the basis of merit and not on the basis of so much per cost of living and so much beyond. Because of this policy, a wide range of variation in the distribution of salary increases for various individuals will be seen with some individuals getting no increase at all and other individuals receiving a 20% increase. The biggest increases a faculty member will receive is when he is promoted from one rank to the next. The key factor here, being that by appropriating a 4% increase it does not mean that every individual is guaranteed the 4%. It simply means that the amount of dollars available to the institutions has been increased by that amount. Detailed reference was made to the tables in this section.

Section D, Unclassified Retirement Program Improvements: Representative Meacham asked Mr. Monical if the interim committee had given any consideration to the bill that would create a sliding scale, based on the number of years of service. Mr. Monical indicated that it had been brought up by some of the conferees but that no action had been taken. It was felt that it might take a joint committee to study this policy. Representative Solbach asked if TIAA-CREF is tax sheltered. Mr. Monical indicated that both the employer and employee contributions are tax sheltered. He went on to say that TIAA-CREF is a defined contribution whereas KPERS is a defined benefit. That is one reason that the issue of increasing the employer's contribution is considered to be so important, due to the fact that how much goes in determines how much they will get back.

Section G, Salary Shrinkage: Mr. Monical indicated that the Governor recommends no change in the base shrinkage rates for FY84. Pursuant to his base budget reductions, he does increase the amount of shrinkage, but he doesn't do it with regard to the 4% salary increases. To more fully explain this, Mr. Monical went on to say that the Governor recommends a 4% increase in salaries at the institutions. He kept the shrinkage rate that he assesses on the 4% the same as it has been. Therefore, the Governor recommends no change in these shrinkage rates. Then, the Governor has to reduce the institutions budgets systemwide by a total of \$14 million. When he recommends that reduction, he recommends the elimination of some positions, reduces some student salaries and he also increases the dollar amount of shrinkage. Therefore, the result is two separate issues regarding shrinkage. One is with respect to the base and it

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON WAYS AND MEANS,
 room 514-S, Statehouse, at 1:30 ~~xxx~~ p.m. on Monday, February 7, 1983

makes no change there. The other issue is with respect to the amount of money he has to reduce from the budget because of statewide fiscal considerations and then he does make some changes in shrinkage.

Section H, Other Operating Expenditures: Mr. Monical stated that the difference between the actual amount expended for OOE in the fiscal years 1977 through 1982 is shown on the table on p. 597 and it is evident that actual expenditures had exceeded budgeted expenditures for OOE. This happens as a result of salaries being underspent at the institutions. If there are salary savings the institutions take those dollars and spend them for other operating expenditures.

Section I, Utilities: Mr. Monical stated that during the 1976 session, the Legislature decided that utilities would be handled as a line item and would be funded as far as possible. This decision was made in part due to the rapidly rising costs of utilities. This would enable the institutions not to have to take resources from other areas of OOE. Representative Luzzati asked what the total amount of dollars is that the legislature has put in for energy conservation. Mr. Monical stated that system-wide it would be in the area of \$2.5 to \$3 million and then probably about another \$1 or \$1.5 million on various campuses. Representative Teagarden asked if all of the institutions are using the same sources of energy. Mr. Monical indicated that all of them use natural gas and electric sources but they have different vendors. Also, some of the costs depend on the condition of the buildings. Some of the campuses have very old buildings that are not very energy efficient, while on the other hand some of the campuses have relatively new buildings that utilize energy much more efficiently.

This concluded the review of Budget Memo 83-8 for today. The remainder of the memo will be reviewed at tomorrow's meeting.

Vice-Chairman Arbuthnot asked for a motion on the minutes of January 31, February 1, 2, and 3rd. Representative Rolfs moved that the minutes be approved. Representative Meacham seconded. Motion carried.

The meeting was adjourned at 3:30 p.m.

NAME	ADDRESS	REPRESENTING
1. Stanley Z. Kyrle	Topeka	Board of Regents
2. Pat B. Dallen	Topeka	Budget Division
3. Tom Kowen	Topeka	Board of Regents
4. Harry Dames	Topeka	Budget Division
5. Tom Mubman	Topeka	Budget Division
6. Fred Sudmann	Wichita	WSU
7. Russ Friedrich	Topeka	American Assn. of University Prof.
8. Louisa Schuck	Topeka	KAPE
9. Ruth Walker	"	Legislat
10. Anne Daniel	"	Senate
11. Nickie Stein	Topeka	Ks State Nurses' Assn.
12. John Mendoza	Topeka	DHR-Adv. Comm Mex Amer Affs
13. Chris Geave	Topeka	Assoc. Students of Ks
14. Mark Tallman	"	"
15. Bob Kelly	Topeka	Ks Independent College Assn.
16. Dave Topelior	Lawrence	Lawrence Journal-World
17. Bruce Sakner	Lawrence	AP
18. Loren Busby	Lawrence	Lippitt Institute
19.		
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21.		
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25.		

Budget Memo No. 83-8
Legislative Research Department

SUBJECT: Board of Regents' Institutions — Systemwide
Summary and Issues

Introduction

The following table summarizes the revised institutional estimates for FY 1983, requests for FY 1984, and the Governor's recommendation for each year for all of the institutions under the governance of the Board of Regents (excluding the Board office):

<u>Expenditure Summary</u>	<u>Agency Est. FY 83</u>	<u>Governor's Rec. FY 83</u>	<u>Agency Req. FY 84</u>	<u>Governor's Rec. FY 84</u>
Operating Expenditures:				
State General Fund	\$274,687,281	\$272,364,814	\$323,111,277	\$284,050,105
General Fees Fund	54,974,107	54,613,896	62,509,888	64,306,911
Land Grant Funds	6,055,705	6,320,161	6,424,782	6,424,782
Hospital Revenue				
Funds	50,176,874	50,176,874	54,087,167	54,242,167
Interest	<u>130,000</u>	<u>130,000</u>	<u>190,000</u>	<u>190,000</u>
General Use				
Funds	\$386,023,967	\$383,605,745	\$446,323,114	\$409,213,965
Other Funds	<u>166,794,876</u>	<u>166,659,882</u>	<u>180,343,895</u>	<u>177,342,210</u>
Subtotal	<u>\$552,818,843</u>	<u>\$550,265,627</u>	<u>\$626,667,009</u>	<u>\$586,556,175</u>
Capital Improvements:				
State General Fund	\$ 601,608	\$ 439,468	\$ 11,450,775	\$ —
Educational Building				
Fund	17,469,302	17,480,818	19,649,304	11,480,591
Other Funds	<u>8,226,330</u>	<u>8,181,925</u>	<u>4,184,591</u>	<u>4,046,578</u>
Subtotal	<u>\$ 26,297,240</u>	<u>\$ 26,102,211</u>	<u>\$ 35,284,670</u>	<u>\$ 15,527,169</u>
TOTAL	<u><u>\$579,116,083</u></u>	<u><u>\$576,367,838</u></u>	<u><u>\$661,951,679</u></u>	<u><u>\$602,083,344</u></u>
Percentage Change:				
All Funds	4.6%	4.1%	13.4%	6.6%
State General Fund	6.2	5.3	17.6	4.3
General Use Funds	5.4	4.7	15.6	6.7
F.T.E. Positions:				
Classified	8,650.0	8,650.0	8,696.1	8,515.8
Unclassified	7,887.3	7,887.3	7,966.2	7,772.2

The requested and recommended expenditures are based on a number of factors. Universities engage in many activities, but the three primary missions center on instruction, research, and public service. Of these, only the instructional function readily lends itself to any obvious measure of level of activity — enrollment.

Atch. II

Two types of enrollment data are frequently used in discussions of higher education — headcount and full-time equivalent. Headcount enrollment is simply an unduplicated count of the number of students enrolled at a particular time. Full-time equivalent enrollments are derived from the number of student credit hours in which students are enrolled. Typically the total number of student credit hours in a category is divided by a measure of full-time equivalency such as 15 for undergraduate credit hours, 9 for graduate credit hours, and 12 for professional school credit hours. Since some students attend on a part-time basis, full-time equivalent (F.T.E.) enrollment is often substantially less than headcount enrollment. Headcount and full-time equivalent enrollments by institution are displayed below. (Additional enrollment data are contained in the "other information" section of each institution's Budget Analysis.)

Headcount Enrollments

<u>Institution</u>	<u>Fall 1981</u>	<u>Fall 1982</u>	<u>Change</u>	<u>Percent Change</u>
University of Kansas	23,990	24,400	410	1.7%
Kansas State University	19,570	19,082	(488)	(2.5)
Wichita State University	16,954	17,187	233	1.4
Emporia State University	6,022	5,768	(254)	(4.2)
Pittsburg State University	5,436	5,438	2	—
Ft. Hays State University	5,607	5,513	(94)	(1.7)
Kansas Technical Institute	582	628	46	7.9
KSU Vet. Med. Center	412	415	3	0.7
KU Medical Center	2,377	2,348	(29)	(1.2)
TOTAL	<u>80,950</u>	<u>80,779</u>	<u>(171)</u>	<u>(0.2)%</u>

Full-Time Equivalent

<u>Institution</u>	<u>Fall 1981</u>	<u>Fall 1982</u>	<u>Change</u>	<u>Percent Change</u>
University of Kansas	22,020	21,974	(46)	(0.2)%
Kansas State University	17,637	17,313	(324)	(1.8)
Wichita State University	11,092	11,357	265	2.4
Emporia State University	5,063	4,795	(268)	(5.3)
Pittsburg State University	4,569	4,570	1	—
Ft. Hays State University	4,571	4,376	(195)	(4.3)
Kansas Technical Institute	482	513	31	6.4
KSU Vet. Med. Center	661	666	5	0.8
KU Medical Center*	—	—	—	—
TOTAL	<u>66,095</u>	<u>65,564</u>	<u>(531)</u>	<u>(0.8)</u>

* F.T.E. enrollments are not computed for the Medical Center.

Obviously, operating budget requests of the magnitude submitted by these institutions present many issues the Legislature may wish to consider. A number of these matters can be evaluated appropriately as systemwide policy issues since they have an impact upon more than one institution. These systemwide policy issues are reviewed and discussed in the sections which follow. Additionally, attention should be given to Budget Memo No. 83-9 which provides further information on enrollment adjustment issues. The individual budget analyses in Section One of this document address the requests unique to the individual campuses.

Following a brief background discussion on the financing of the Regents' institutions, the following systemwide issues will be reviewed.

<u>Section</u>	<u>Subject</u>
A	FY 1983 Budget Adjustments
B	Enrollment Adjustment Request (See Also Budget Memo No. 83-9)
C	Unclassified Salary Increases
D	Unclassified Retirement Program Improvements
E	Classified Salary Increases
F	Student Salary Increases
G	Salary Shrinkage
H	Other Operating Expenditures
I	Utilities
J	Equipment, Computers, Libraries
K	Servicing New Buildings
L	Student Tuition
M	Base Budget Reductions

Background

Financing of Budgets. The term "general use funds" is central to discussion of the financing of institutional operating budgets. This term refers to those funds which can be used to provide general financial support for campus operations. Basically, general use funds include State General Fund appropriations, General Fees Fund revenues (primarily tuition income), and interest on endowment earnings. For Kansas State University they also include certain federal land grant funds and for the University of Kansas Medical Center and the Kansas State University Veterinary Medical Center, the funds also include revenues from hospital and laboratory operations.

In contrast, "restricted use funds" are funds which must be used in a manner consistent with the conditions attached to the receipt of the funds. While subject to appropriation by the Legislature, the majority of the restricted use funds are treated as "no limit" appropriation accounts. That is, the institution has the authority to make expenditures from the fund subject to the limitation of available resources. Certain restricted use funds, such as the Sponsored Research Overhead Fund, are subject to expenditure limitations, and the institutions cannot expend resources in excess of the limitation without legislative approval. Other examples of restricted use funds include parking fees, student union fees, federal research grants, and income generated by campus revenue producing activities.

Since the primary legislative concern in the financing of institutional budgets is with general use funds, unless specifically stated otherwise, references to dollar amounts will be only to general use funds.

Budget Activity Structure. The budget activity structures employed by the universities follow a generally uniform format. The basic budget activities are the Educational Program, Institutional Support, Physical Plant Operations, Utilities, Research, Public Service, Scholarships and Fellowships, and Mandatory Transfers. The Educational Program can be further subdivided into the subactivities or programs of Resident Instruction, Academic Support, and Student Services.

Formula Funding. The expression "formula funding" refers to a set of formulas and procedures adopted by the State Board of Regents which institutions must use to submit their funding requests to the Board, the Governor, and ultimately, the Legislature. The budget requests for FY 1984 are the fifth requests submitted to the Legislature under formula funding procedures. While the data generated and procedures followed under formula funding are sometimes germane to legislative deliberations, it should be recognized that formula funding is primarily a mechanism used by the Board of Regents to assess the adequacy and appropriateness of institutional resource requests. Thus, while the legislative request is structured in terms of formula funding concepts, the formula approach does not take into account many of the factors which impinge on legislative appropriation decisions.

Formula funding is based on a series of formulas designed to measure relative funding needs within several program areas. The methodology employed uses comparable institutions ("peer institutions") in other states in an effort to provide "benchmarks" upon which to base funding at a particular Kansas institution. The system is actually comprised of separate formulas in each of seven major program areas: Academic Instruction, Research, Libraries and Audiovisual Services, Student Services, Academic Administration, Institutional Support, and Physical Plant. These formulas relate such factors as student credit hours, headcount enrollments, costs per credit hour, various weighting devices, and ratios within and among the program areas to estimate the total resources necessary to attain the appropriate peer group average.

The Board of Regents develops the legislative budget request for each institution by first determining the request for systemwide maintenance items (i.e., unclassified salaries, other operating expenditures, etc.) These items are normally treated as percentage increases to a specific base budget level. Following determination of the appropriate percentage maintenance increases, the current year base is increased to provide a maintenance adjusted request for the subsequent fiscal year. The Board then compares the maintenance adjusted estimate with the resources which would be generated if an institution were funded at the average of its peers. The relationship to the peers is then used as a factor in determining the type and amount of "program improvements" which the Board recommends. In some cases the program improvements are specific to institutions and in others they represent a systemwide attempt to reduce "deficits" with peer institutions.

Because all activities at all institutions are not comparable, some items may be requested as "individually justified program enhancements." For example, requests for new degree programs fall into this category because (under formula procedures) they generate no "resources" until they have been in operation two years.

In addition to developing a request for legislative appropriations based on the formula procedures, the Board also requests funding changes due to enrollment fluctuations. The 1981 Legislature adopted a policy of enrollment adjustment funding which incorporates some components and data elements of the Regents' formula procedure. The FY 1984 request for enrollment adjustment funding follows the legislative policy and is briefly discussed in Section B (following) and examined in more detail in Budget Memo No. 83-9.

Summary. From the legislative perspective, operating budget requests from Board of Regents' institutions can be viewed as containing four general components: systemwide maintenance increases (normally percentage increases applied to base budget levels); systemwide program improvements or enhancements common to two or more institutions; specific requests relating to individual campuses; and enrollment related budget adjustments. Principal funding sources are general and restricted use funds, with the former comprised primarily of State General Fund appropriations and tuition revenue.

Section A

FY 1983 Budget Adjustments

Two items reflecting adjustments to the approved FY 1983 budgets are appropriate items for systemwide consideration. The budgetary reductions requested by the Governor in July 1982 and formalized into allotments in December 1982 impacted all institutions. Because of the flexibility allowed agencies in allocating the budgetary recissions internally, it is appropriate to generally consider where these reductions occurred and their implications for other financing decisions in FY 1983 and FY 1984. The other item concerns requests for budgetary adjustments relating to estimates of income to the General Fees Fund for FY 1983. Requests have been submitted from four institutions for adjustments.

FY 1983 Budget Allotments. On July 1, 1982, the Governor requested state agencies to reduce the State General Fund supported portion of their state operations budget by 4.0 percent. In addition, the Governor requested that merit pay increases for classified employees also be withheld. The amount which the Governor requested the Board of Regents to reduce was ~~\$11,237,616~~, excluding classified merit pay. In reducing the budgets of the institutions under its control to achieve this amount, the Board reduced expenditures for the State Scholarship and Tuition Grant Programs by 4.0 percent (\$167,000); determined that, because of its special circumstance, the University of Kansas Medical Center should be reduced by only 2.5 percent (\$1,500,000); and required the remaining institutions to reduce their budgets by 4.3 percent (\$9,570,616). While the Board complied with the Governor's request to freeze merit increases for classified employees, it did not rescind previously granted salary increases for unclassified employees.

Although the final allotment amounts include both the requested 4.0 percent reduction, freezing of classified merit increases, and perhaps other items, the Legislature may wish to examine generally the areas where the Regents' institutions identified the reductions. It should be noted that the reductions, by object of expenditure, shown

below may very well change prior to the end of the fiscal year. However, they do serve to identify the areas in which the campuses determined that reductions could be made in the current year under the assumption that the reductions would not be made permanent, but would be for one year only.

Budgetary Reductions

FY 1983 Allotments

<u>Institution</u>	<u>Staff Salaries</u>	<u>Student Salaries</u>	<u>Subtotal Salaries</u>	<u>Operating Expenditures</u>	<u>Utilities</u>	<u>Total</u>
KU	\$1,243,953	\$202,900	\$1,446,853	\$ 1,730,591	\$ —	\$ 3,177,444
KSU	2,429,627	46,957	2,476,584	394,601	—	2,871,185
WSU	600,000	40,000	640,000	645,745	35,000	1,320,745
ESU	357,018	80,000	437,018	185,046	28,738	650,802
PSU	339,735	56,778	396,513	235,147	—	631,660
FHSU	302,425	57,000	359,425	243,524	—	602,949
KTI	37,835	165	38,000	67,277	—	105,277
VMC	157,348	2,355	159,703	50,851	—	210,554
KUMC	222,864	—	222,864	1,277,136	—	1,500,000
TOTAL	<u>\$5,690,805</u>	<u>\$486,155</u>	<u>\$6,176,960</u>	<u>\$ 4,829,918</u>	<u>\$63,738</u>	<u>\$11,070,616</u>

Since the institutions viewed the requested reductions as temporary, they chose to reduce the budgets in the areas with greatest flexibility. Thus, over 40 percent of the reductions are in the area of other operating expenditures, even though this object of expenditure typically represents less than 20 percent of annual expenditures. In addition, student salaries were reduced quite substantially at several institutions, offsetting for the most part the 8.75 percent increase in student salary funds provided for FY 1983. Reductions in unclassified and classified staff salaries tended to vary according to the numbers of vacant positions at each institution as most adopted a policy of not, or only selectively, filling vacancies. The proposed reductions in utilities are somewhat questionable given that all of the institutions consider their FY 1983 utility budgets inadequate and anticipate requests for supplemental appropriations in this area.

In considering the impact of these reductions on current year activity and subsequent year's requests, it should be remembered that when the reductions were made the institutions viewed them as one-time reductions for the current year. Thus, the allocation of the reductions tend to represent short-term deferrals of expenditures, rather than long-term reductions to the base. Presumably, if the institutions were required to reduce their base budgets by amounts similar to these, they would choose to reconsider the areas in which the reductions have been taken and perhaps revise the allocations substantially.

General Fees Fund. Four institutions are requesting adjustments to the General Fees Fund based upon actual enrollments and tuition receipts for the fall of

1982. For two institutions, the University of Kansas and Wichita State, additional expenditure authority is requested for the costs associated with greater than anticipated enrollments. For two other institutions, Kansas State and Emporia State, State General Fund supplemental appropriations are requested to offset loss of estimated revenues due to fewer than anticipated students. The requests are shown below:

<u>Institution</u>	<u>General Fees Fund Adjustment</u>	<u>State General Fund Approp.</u>
KU	\$ 297,043	\$ —
WSU	188,362	—
KSU	(96,434)	96,434
ESU	(121,956)	121,956

The requests from the University of Kansas and Wichita State would increase current year expenditure authority by the amounts shown, while the requests from Kansas State and Emporia State would offset tuition revenue reductions with State General Fund appropriations and result in no increase in expenditure authority.

Legislative policy regarding these two types of requests has been somewhat mixed. While there has been sympathy for replacing revenue shortfalls so that mid-year budgetary reductions are not required, the approval of additional expenditure authority through the release of fees has not always been granted. Consideration of the shortfalls and increases at the four campuses for FY 1983 should also be examined in light of the budgetary reductions which the institutions have already been required to undergo. In a normal year when institutions have not had to reduce approved budgets, it might be reasonable to expect them to absorb enrollment increases and perhaps even make minor budget reductions due to enrollment shortfalls. However, given that the current year budgets have already been reduced by 4.3 percent, much of the flexibility which the institutions typically possess has been eliminated.

There are several other factors the Legislature may wish to consider regarding these requests. First, although headcount enrollments increased at both the University of Kansas and Wichita State (410 and 233 respectively), full-time equivalent enrollments actually declined by 46 F.T.E. at the University of Kansas and increased by 265 F.T.E. at Wichita State. Thus, in terms of a normal measure of instructional activity (full-time equivalent students) only Wichita State shows an increase. Therefore, regarding the release of fees the Legislature faces two basic decisions: whether or not to release fees at all and, if so, in what amounts.

In considering the estimated revenue shortfalls at Kansas State and Emporia State, the requests represent the net required after any increases in other areas of the General Fees Fund have been taken into account. Thus, while the actual enrollment related revenue shortfall at Kansas State was \$276,218, all but \$96,434 was offset by other increases over original estimates. The case is slightly different at Emporia State in that the revenue shortfall actually due to decreased enrollments is \$22,008, while the request is for \$121,956. The major component of this difference is caused by a \$100,000 posting error made in FY 1982 which overstated estimated fee collections in that year and correspondingly affected the estimates for FY 1983. This error was not recognized until the end of FY 1982 after the expenditure limitation for FY 1983 had already been established using estimates containing \$100,000 in resources which did not exist.

The impact of the above requests are not reflected in the institutional budget requests for FY 1984. It is assumed that past practice will be followed and when actual spring receipts to the General Fees Fund have been collected that the expenditure limitations for all institutions for FY 1984 will be adjusted accordingly.

Governor's Recommendation. The Governor recommends funding for none of the requests although the expenditure limitation at Emporia State is reduced by \$93,196 from the original \$3,047,865 to \$2,954,669.

Section B

Enrollment Adjustment Funding

Regents' Request. The FY 1984 budget requests from the Regents' universities include a total of \$1,197,614 for funding of actual changes in student credit hours which occurred at the institutions between FY 1979 and FY 1982 (Kansas Technical Institute is not included under this formula). This request is based upon the enrollment adjustment policy adopted by the 1981 Legislature which relates the cost of actual enrollment changes to the institutions' budgeted expenditures. If the costs exceed a 3 percent corridor around total general use expenditures for the Educational Program and Physical Plant, a funding adjustment is requested. The enrollment adjustment procedure determines a dollar amount to be requested and the institutions are allowed discretion over how they wish the request to be allocated (staff, operating expenditures, etc.). Shown below is the FY 1984 request for each institution.

FY 1984

Enrollment Adjustment Request

<u>Institution</u>	<u>F.T.E. Unclassified</u>	<u>F.T.E. Classified</u>	<u>Salaries and Wages</u>	<u>Other Operating Expenditures</u>	<u>Total Request</u>
KU	—	—	\$ (499,865)	\$ (77,611)	\$ (577,476)
KSU	14.0	8.0	408,192	158,620	566,812
WSU	25.1	14.5	890,280	282,000	1,172,280
ESU	—	—	(34,475)	—	(34,475)
PSU	4.0	0.5	133,000	54,422	187,422
FHSU	(2.0)	—	(110,115)	(6,834)	(116,949)
TOTAL	<u>41.1</u>	<u>23.0</u>	<u>\$ 787,017</u>	<u>\$ 410,597</u>	<u>\$1,197,614</u>

(Staff Note: Based upon staff review it appears that the requests at KSU and FHSU are in need of adjustment to correct technical errors. The correct amounts should be a \$149,819 reduction at FHSU and a \$560,158 increase at KSU. This would result in a total request of \$1,158,090. The enrollment adjustment procedure, the FY 1984 request, and issues concerning the procedures and request are discussed separately in Budget Memo No. 83-9.)

Governor's Recommendation. The Governor recommends funding for enrollment changes as requested by the institutions. This recommendation totals \$1,197,614 and provides for an additional 64.1 F.T.E. positions.

Section C

Unclassified Salary Increases

Introduction. The FY 1984 budget requests from the Board of Regents' institutions include an additional \$15,735,685 (excluding benefits) to provide a 9.0 percent increase in unclassified salaries. For FY 1984 the Governor recommends a 4.0 percent salary increase totaling \$6,991,751. The systemwide requests and the Governor's recommendation are shown below.

FY 1984

Unclassified Salary Increases

<u>Institution</u>	<u>FY 1983 Base</u>	<u>FY 1984 Request</u>	<u>Governor's Recommendation</u>
KU	\$ 49,204,578	\$ 4,432,583	\$ 1,968,183
KSU	49,483,505	4,453,535	1,979,340
WSU	21,158,901	1,904,345	846,356
ESU	9,690,840	872,176	387,634
PSU	9,194,974	827,546	367,798
FHSU	8,484,164	763,575	339,366
KTI	1,295,541	116,599	51,821
VMC	2,475,616	222,813	99,025
KUMC	23,805,703	2,142,513	952,228
Total	<u>\$174,793,822</u>	<u>\$15,735,685</u>	<u>\$ 6,991,751</u>

Within the additional salary dollars authorized for expenditure, the Regents' institutions have flexibility over how these funds are allocated. In essence, the salary increase dollars provided to the institutions are to be distributed to staff on the basis of merit. This is in contrast to the manner in which classified personnel salary increases have traditionally been provided. In the past, funds have been authorized to upgrade the pay plan (cost-of-living increases) for all classifications in addition to any expenditures authorized for merit adjustments. In this regard, as part of the response to the FY 1983 fiscal crisis, the Governor directed state agencies to withhold the granting of merit increases to classified employees for FY 1983. Thus, no merit increases were available to classified employees at the Regents' institutions (the only increase being a 6.5 cost-of-living adjustment), while unclassified employees received benefit of the full 7.5 percent base budget increase approved by the 1982 Legislature.

Special Salary Appropriation. The 1982 Legislature deviated from past practice regarding unclassified salary increases and appropriated \$900,000 to the Board of Regents' for allocation to the institutions in the "special need" areas of business, engineering, and computer science. In the past, institutions had been expected to address these needs through the overall flexibility afforded them in the determination of appropriate salary increases for specific unclassified staff in specific departments. The allocations of the special salary supplemental appropriation to each institution were based upon the institution's percentage of the system total budgeted unclassified salary base in business, engineering, and computer science. Within the allocations, the institutions had flexibility over the distribution of these funds to faculty in the impacted areas. The allocation percentages and dollar amounts are shown below.

FY 1983 Allocation of Special Salary
Enrichment Appropriation

<u>Institution</u>	<u>Percent</u>	<u>Allocation</u>	<u>Percent Increase from FY 1982 Base</u>
KU	28.9%	\$260,100	0.6%
KSU	33.6	302,400	0.7
WSU	19.0	171,000	0.9
ESU	4.4	39,600	0.4
PSU	6.5	58,500	0.7
FHSU	3.3	29,700	0.4
KTI	4.3	38,700	4.1
Total	<u>100.0%</u>	<u>\$900,000</u>	<u>0.7%</u>

Systemwide, the special salary enrichment represented a 0.7 percent increase over the total FY 1982 unclassified salary base of these institutions (\$135,134,960). However, the increase was only to be granted to faculty in the areas of business, engineering, and computer science. As a result, the \$900,000 was distributed to 527 faculty at the seven institutions and resulted in an average 5.7 percent increase over FY 1982 base salaries for these positions. Assuming the appropriated increase of 7.5 percent allocated to these positions, these 527 faculty received average salary increases of 13.6 percent for FY 1983.

The Legislature should note that while special salary appropriations such as this provide considerable benefit to the disciplines impacted, salary market pressures are not only a function of academic discipline, but also a function of individual quality, regardless of discipline. Thus, if the Legislature is to continue its policy of providing merit increases to Regents' faculty, it should recognize that merit is not a function of the marketability of specific disciplines, but of the marketability of outstanding faculty members.

Institutional Salary Policies. In reviewing the FY 1984 request, it is appropriate to examine the manner in which institutions have allocated salary increase funds for the current fiscal year. The institutions are allowed to distribute the average annual increase (and within constraints the special allocation) in varying percentages rather than on a flat average basis. This procedure recognizes the need for flexibility in the recruiting and retention of faculty members. The institutions are expected to distribute the funds budgeted on a merit basis with the result that faculty members who have excelled could receive a 20 percent or greater increase, while others, who have not progressed as rapidly, could receive less than the average salary increase budgeted. The following data illustrate for FY 1983 the distribution of unclassified salary increases (including the special \$900,000 allocation).

FY 1983 Distribution of Unclassified Salary Increases:
Full-Time Continuing Unclassified Staff

<u>Inst.</u>	<u>No</u> <u>Incr.</u>	<u>.1</u> <u>to</u> <u>4.9%</u>	<u>5.0</u> <u>to</u> <u>6.9%</u>	<u>7.0</u> <u>to</u> <u>8.9%</u>	<u>9.0</u> <u>to</u> <u>11.9%</u>	<u>12.0</u> <u>to</u> <u>19.9%</u>	<u>20.0%</u> <u>and</u> <u>Above</u>	<u>No.</u>	<u>Avg.</u> <u>Dollar</u> <u>Incr.</u>	<u>Percent</u> <u>Increase</u>
KU	22	53	228	547	331	162	21	1,364	\$2,415	8.9%
KSU	14	29	110	622	285	154	16	1,230	2,506	9.1
WSU	5	36	103	294	124	63	5	630	1,993	8.5
ESU	3	5	37	147	49	37	1	279	2,116	8.7
PSU	0	9	35	149	63	19	2	277	2,056	8.3
FHSU	2	10	11	33	124	45	14	239	2,413	10.8
KTI	0	0	0	4	13	22	1	40	2,045	9.3
VMC	1	1	1	44	21	4	0	72	2,891	8.8

This distribution of salary increases has two aspects. First, the average increases for continuing faculty tend to be in excess of the percentage increase budgeted. For FY 1983 the institutions received a 7.5 percent base increase (10.2 percent at Fort Hays in recognition of average salary deficiencies) and the allocation of the special merit adjustment which equated systemwide to approximately 0.7 percent (see above). Even when the special allocation is considered, the average increases tend to remain in excess of the budgeted increases. To a great extent the additional increase reflects turnover savings and minimal increases allocated to some unfilled positions. Second, in all cases, the number of unclassified staff receiving salary increases at, or in excess of, the appropriated amount is larger than the number who received less. Even more striking, over 38 percent of the full-time continuing unclassified staff received salary increases for FY 1983 in excess of 9.0 percent. Two conclusions can be drawn. First, the greater the salary turnover savings, the more an institution can allocate for salary increases (perhaps creating an incentive to hold vacant positions "open"). Second, while resources may be constrained, institutions still have the flexibility to award extraordinary increases, e.g., the fact that 13.7 percent of the full-time continuing staff in the above institutions received increases in excess of a 12.0 percent increase in salary.

Institutional Comparison. The budgeted average salaries for faculty in the six universities (excluding KTI, KUMC, and the VMC) reflect a systemwide nine-month

average faculty salary of \$26,851 for FY 1983, an increase of \$2,072 or 8.4 percent above the level reported for FY 1982. As noted in the previous section, the average unclassified salary increase tends to be larger than budgeted due to the number and salary levels of personnel employed in FY 1982 who terminated in FY 1983. The average salaries (12 month converted to nine month) shown below include all faculty and staff budgeted for FY 1983, not just those who were also on the staff in FY 1982 (as shown in the previous section).

FY 1983 Budgeted Academic Year Average Salaries
All Ranks

<u>Institution</u>	<u>Faculty Only</u>		<u>All Unclassified</u>	
	<u>Number</u>	<u>Average Salary</u>	<u>Number</u>	<u>Average Salary</u>
KU	1,063	\$ 30,265	1,484	\$ 27,575
KSU	1,344	26,243	1,456	25,805
WSU	536	25,015	669	24,709
ESU	207	25,593	308	24,693
PSU	265	24,211	309	24,512
FHSU	260	23,508	296	24,036
Total*	3,675	\$ 26,851	4,522	\$ 25,944

* The total average salaries shown are weighted to reflect the number of unclassified positions at each institution.

The comparison of average faculty salaries by institution deserves some additional comment. One would reasonably expect that the larger institutions would have higher salaries given differences in institutional roles, levels of advanced instruction, and the fact they must be salary competitive in academic professions in which the three smaller institutions do not offer instruction. The difference between the average budgeted faculty salaries at the University of Kansas and Kansas State University is accounted for, in part, by the relatively large number of faculty in the instructor rank at Kansas State, reflecting the substantial number of staff in cooperative extension and agricultural research. The similarity of average faculty salaries at Emporia and Wichita State also appears to be the result of the distribution of faculty by rank, although, in this instance the similarity is caused by the relatively large number of professors at Emporia and the relatively small number at Wichita State. Because of the impact which average salary by rank has on aggregate average salaries, the FY 1983 budgeted average salaries by rank (12 months converted to 9 months) are shown below for each university.

FY 1983 Budgeted Academic Year Average Faculty Salaries
By Rank

<u>Inst.</u>	<u>Professor</u>		<u>Associate Professor</u>		<u>Assistant Professor</u>		<u>Instructor</u>	
	<u>No.</u>	<u>Avg.</u>	<u>No.</u>	<u>Avg.</u>	<u>No.</u>	<u>Avg.</u>	<u>No.</u>	<u>Avg.</u>
KU	525	\$35,926	323	\$26,033	198	\$23,116	17	\$18,557
KSU	444	33,642	349	26,019	403	21,500	148	17,484
WSU	109	34,401	149	26,883	207	21,820	71	15,999
ESU	96	28,369	71	24,367	36	21,424	4	18,270
PSU	84	28,392	88	24,499	62	20,931	31	18,267
FHSU	82	28,263	74	23,516	66	20,568	38	19,356
TOTAL*	<u>1,340</u>	<u>\$33,563</u>	<u>1,054</u>	<u>\$25,732</u>	<u>972</u>	<u>\$21,795</u>	<u>309</u>	<u>\$17,521</u>

* The total average salaries shown are weighted to reflect the number of faculty in each rank at each institution.

Previous Years' Increases. The following table provides a comparison of the budgeted salary increases appropriated by the Legislature and two measures of inflation for FY 1973-FY 1983.

Percent Increase Authorized For
Unclassified Salary Adjustments

<u>Fiscal Year</u>	<u>KU</u>	<u>KSU</u>	<u>WSU</u>	<u>ESU</u>	<u>PSU</u>	<u>FHSU</u>	<u>CPI-U</u>	<u>PCE</u>
1973	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.2%
1974	5.5	5.5	5.5	5.5	5.5	5.5	9.0	8.1
1975	10.0	11.0	10.0	11.0	11.0	11.0	11.1	9.7
1976	10.0	10.0	10.0	10.0	10.0	10.0	7.1	6.0
1977	8.0	8.0	8.0	8.0	8.0	9.0	5.8	5.3
1978	6.0	6.0	6.0	6.0	6.0	7.0	6.7	6.1
1979	7.0	7.0	7.0	7.0	7.0	7.0	9.4	8.1
1980	6.5	6.5	6.5	6.5	6.5	6.5	13.3	9.8
1981	9.0	9.0	9.0	9.0	9.0	9.0	11.6	9.7
1982	7.0	7.0	7.0	7.5	7.0	9.0	8.7	7.2
Inc. 72-82	<u>103.9%</u>	<u>105.9%</u>	<u>103.9%</u>	<u>105.9%</u>	<u>105.9%</u>	<u>113.6%</u>	<u>129.0%</u> ^a	<u>104.0%</u> ^a
1983	7.5	7.5	7.5	7.5	7.5	10.2	5.5 ^a	5.5 ^a
Inc. 72-83	<u>119.2%</u>	<u>121.3%</u>	<u>119.2%</u>	<u>121.3%</u>	<u>121.3%</u>	<u>135.4%</u>	<u>141.6%</u>	<u>115.2%</u>

a) Estimated.

(Staff Note: Several comments are required to appropriately interpret the above table. First, the appropriated increases for FY 1983 exclude allocation of the \$900,000 in special salary enrichment funding. Second, the two measures of inflation used are the Consumer Price Index for All Urban Consumers (U.S. City Average) and the Personal Consumption Expenditures component of the Gross National Product - Deflator. The percentages displayed for these two measures represent the percent change in the 12-month average index from one fiscal year to the next. Both measures are displayed because the CPI-U tends to overemphasize the housing costs component while the PCE treats housing in a more conservative fashion.)

As shown in the above table, at various times in the past 11 years efforts have been made to recognize individual campus needs. These differential salary adjustments have been designed primarily to upgrade salaries at Fort Hays State University. In addition, through FY 1982 and as estimated for FY 1983, the cumulative appropriated salary increases have fallen within the range of the two measures of inflation, that is, the cumulative percentage salary increases are less than inflation as measured by the CPI-U and have exceeded inflation as measured by the PCE. However, it should be noted that no claims are being made concerning the adequacy of unclassified salaries in FY 1972. If the salaries, according to some criterion, were inadequate in that year, even if they have kept up with inflation, presumably they would be inadequate in FY 1983. The table is designed to reflect relative salary increases in the intervening period since the FY 1972 base year.

It was noted above that, due to several factors, institutions have the flexibility to provide average salary increases to continuing faculty which are in excess of the appropriated salary increases. This is because, in part, the universities typically have savings from personnel turnover which can be used to supplement appropriated salary increases. The table below displays the average percentage increases provided to full-time continuing staff and include allocation of the \$900,000 in enrichment funds for FY 1983.

Average Percentage Increase For
Full-Time Continuing Unclassified Staff

<u>Fiscal</u> <u>Year</u>	<u>KU</u>	<u>KSU</u>	<u>WSU</u>	<u>ESU</u>	<u>PSU</u>	<u>FHSU</u>
1973	5.7%	5.3%	5.4%	6.7%	5.5%	5.7%
1974	6.4	6.4	6.0	5.6	5.9	5.8
1975	10.5	11.2	10.3	11.4	11.3	10.9
1976	10.5	10.2	9.1	10.2	10.0	11.0
1977	8.5	8.2	7.9	8.0	8.3	10.4
1978	6.4	6.3	6.0	6.0	6.1	7.7
1979	7.4	7.4	7.3	7.1	7.3	8.0
1980	6.9	6.8	6.7	6.5	6.9	6.7
1981	9.6	9.5	9.5	10.2	9.0	8.8
1982	8.0	7.7	7.6	7.8	7.5	9.0
Inc. 72-82	<u>115.6%</u>	<u>113.6%</u>	<u>107.2%</u>	<u>114.5%</u>	<u>111.0%</u>	<u>123.6%</u>
1983	8.9	9.1	8.5	8.7	8.3	10.8
Inc. 73-83	<u>134.8%</u>	<u>133.0%</u>	<u>124.8%</u>	<u>133.2%</u>	<u>128.5%</u>	<u>147.7%</u>

A comparison of the average increases with those appropriated reveals a relatively consistent pattern of average percentage increases in excess of appropriated percentage increases. Further, while in FY 1982 the cumulative percentage increases were substantially less than inflation as measured by the CPI-U, if a 5.5 percent increase in the CPI-U is assumed for FY 1983, the gap between the average increases and this measure of inflation will have lessened considerably. In addition, the growth in average salary increases is significantly higher than the growth in the index of Personal Consumption Expenditures over the same period.

In comparing percentage salary increases with inflation, therefore, attention should be given to the index used to measure inflation as salary increases have exceeded inflation with respect to one index (PCE) and lagged behind inflation with respect to another (CPI-U). However, if deficiencies in salaries existed prior to FY 1973, there is little to indicate that these deficiencies have been resolved through increases in salaries substantially greater than inflation.

Section D

Unclassified Retirement Program Improvements

Introduction. For FY 1984 the Regents' institutions are requesting \$1,621,303 to provide a 1.0 percent increase in the state's contribution to the retirement program for unclassified employees. This would raise from 5.0 to 6.0 percent of salary the state's current service contribution to the TIAA-CREF or other approved retirement programs. TIAA (Teachers Insurance and Annuity Association) and CREF (College Retirement Equities Fund) are nonprofit companion organizations that comprise a nationwide retirement system for employees of colleges, universities, and other nonprofit and tax-exempt educational and scientific organizations.

The dollar amounts for the requested retirement program improvements for each institution are shown below.

<u>Institution</u>	<u>FY 1984 Request</u>
KU	\$ 438,012
KSU	469,410
WSU	197,938
ESU	97,013
PSU	81,372
FHSU	87,201
KTI	14,120
VMC	20,522
KUMC	215,715
TOTAL	<u>\$1,621,303</u>

The Governor does not recommend funding to increase the state's contribution for unclassified employee retirement by 1.0 percent.

Regents' Retirement Program. At present the only basic retirement programs in which Regents' unclassified staff participate are TIAA-CREF or KPERS. However, there is no statutory prohibition against the Board approving other retirement programs meeting statutory provisions. Because TIAA-CREF is the program participated in by the vast majority of unclassified staff, it will be described in more detail.

TIAA-CREF is a defined contribution plan that, unlike KPERS, provides benefits to an employee upon retirement based on the accumulations in the employee's individual retirement plan. The plan is basically a money purchase retirement program since the benefits payable under the plan are equal to the amount which can be purchased by the sum of money accumulated in an employee's account at retirement. The TIAA-CREF program involves the actuarial conversion of an accumulated sum of money into a monthly retirement benefit. The TIAA-CREF system permits annuity premiums to be invested, through TIAA, in fixed dollar obligations, and through CREF, in common stocks. The purpose of this dual system is to provide a combined income that is more responsive to economic change than a fixed dollar annuity alone and less volatile than a variable annuity alone.

One of the desirable features (from the employee's perspective) is that once fully vested all TIAA-CREF contributions, including the employer's, move with the employee to another TIAA-CREF institution. This full vesting allows TIAA-CREF participants to move freely among all of the educational institutions that have TIAA-CREF plans without losing any retirement benefits.

At present, the universities contribute 5.0 percent of salary and the employee contributes 5.0 percent. The employee can also make extra payments to TIAA-CREF annuities at any time. Additionally, subject to administrative rules and regulations, employees may make additional contributions under a tax sheltered annuity program. Such an option provides a tax deferral on those additional amounts contributed.

Issues. In submitting this request, the Regents' institutions contend that retirement program benefits (as well as others in Kansas) have lagged behind those in other public universities across the country. Improvements in retirement program contributions have been requested previously of the 1980 and 1981 Legislatures, but the requested improvements were not granted. In addition, it is maintained that increases in retirement benefits are mutually advantageous to both the state and the employee. To the state, because it costs less to increase a benefit 1 percent than to increase salary by 1 percent and to the employee because the increased contribution is nontaxable.

In considering this request, the Legislature should note that it requires a substantive statutory change to increase either the employer's or employee's mandatory contributions to the TIAA-CREF program. K.S.A. 74-4925 specifically cites 5 percent contributions for both employer and employee. Therefore, in order to implement the Regents' request, an amendment to the statute authorizing TIAA-CREF type programs would be necessary.

Interim Activity. During the 1982 Interim the Special Committee on Ways and Means was charged to "review the fringe benefit programs available to state employees . . . and, specifically the rate of state contributions to TIAA-CREF and the

current restrictions on eligibility for such retirement plans" (Proposal No. 31). In carrying out this charge the Committee heard extensive testimony from Regents' faculty and staff and reviewed materials presented to them on the relationship of state retirement contributions for faculty in Kansas as compared with other states. The Committee recommendations specifically reject the Regents' request to raise the current state retirement contribution from 5 percent to 6 percent. However, the Committee also recommended to the Board of Regents that it "strongly consider" expanding the base retirement options currently available for unclassified staff to include other vendors as well as TIAA-CREF. In addition, the Committee recommended that the Board consider and develop proposals to implement early retirement, semi-retirement, and part-time employment plans for unclassified employees so as to increase institutional flexibility. Finally, because of the importance of fringe benefit matters to all state employees, the Committee recommended the creation of a Joint Committee on State Employee Compensation and Benefits to provide a mechanism to review fringe benefit and compensation matters in a detailed and on-going manner.

Section E

Classified Salary Increases

For FY 1984 the Regents' institutions are requesting \$6,043,583 to provide a 7.0 percent salary increase (excluding benefits) for classified employees. The FY 1983 classified employee base budget, the requested increases, and the Governor's 4.0 percent recommendation for each institution are shown in the following table.

<u>Institution</u>	<u>FY 1983 Base</u>	<u>FY 1984 Request</u>	<u>Governor's Recommendation</u>
KU	\$ 15,834,200	\$ 1,104,185	\$ 633,368
KSU	14,122,887	988,586	564,915
WSU	6,491,685	454,411	259,667
ESU	3,023,543	211,648	120,942
PSU	3,144,561	237,741*	125,782
FHSU	2,657,447	185,021	106,298
KTI	464,708	32,530	18,588
VMC	1,716,868	120,180	68,675
KUMC	38,704,025	2,709,281	1,548,161
TOTAL	<u>\$ 87,159,924</u>	<u>\$ 6,043,583</u>	<u>\$ 3,446,396</u>

* Overstated by \$17,622.

This request is made pursuant to instructions issued by the Division of the Budget in June 1982 which directed all agencies to submit their FY 1984 budget requests under the assumption of providing a 7.0 percent salary increase consisting of a 5.75 percent cost of living increase and a 1.25 percent increase for merit. These instructions represent the second year in which directions have departed from previous practice where agencies were only to include within their individual budget requests funding to provide merit increases for classified employees. Cost of living increases

adjustments to the pay plan) had typically been appropriated separately and, following the end of the legislative session, allocated to agencies by the State Finance Council. Since the issue of classified salary increases is a matter affecting all state agencies, and is not unique to the Regents' institutions, no analysis will be presented regarding this request except to note that in partial response to FY 1983 fiscal concerns, the Governor withheld all merit increases for classified employees.

Section F

Student Salary Increases

Introduction. A total of \$562,221 is requested for FY 1984 to provide a 9.0 percent increase (exclusive of benefits) in salary funds for student hourly employees. This request is not specifically tied to an increase in minimum wages, but is requested in a manner to allow institutions the option of raising hourly wage rates, increasing the number of hours worked, or both. Shown below is the FY 1983 base budget for student hourly employees, the requested increase, and the Governor's recommendation for a 4.0 percent increase.

<u>Institution</u>	<u>FY 1983 Base</u>	<u>FY 1984 Request</u>	<u>Governor's Recommendation</u>
KU	\$ 1,474,335	\$ 132,691	\$ 58,973
KSU	1,376,348	123,870	55,053
WSU	930,514	83,751	37,220
ESU	728,053	65,525	29,122
PSU	552,760	49,756	22,110
FHSU	707,677	63,691	28,307
KTI	28,351	2,551	1,134
VMC	71,079	6,397	2,843
KUMC	377,657	33,989	15,106
TOTAL	<u>\$ 6,246,774</u>	<u>\$ 562,221</u>	<u>\$ 249,868</u>

Governor's Recommendation. The Governor recommends a 4.0 percent increase in funding for student hourly employees to be included within the institutional budgets. In addition, the Governor recommends a State General Fund appropriation of \$700,000 to the Board of Regents' office for creation of a student work-study program. While the Governor's Budget Report indicates that the program funded with the \$700,000 is designed to enable students to partially defray increased tuition costs, no details regarding the program or its implementation are included. Therefore, it is not clear whether the program is for students attending public or independent institutions or both; whether the program is for students at all institutions or only the Regents' institutions; whether funding will be provided to the institutions (and if so on what basis) or directly to the students; and whether the program is to be matched from some other source of funds. If the program is applied only to students at Regents' institutions, the \$700,000 represents an 11.2 percent increase over the FY 1983 student salary base (in addition to the recommended 4.0 percent base increase).

Issues. For the three fiscal years preceeding FY 1983, the Legislature appropriated increases in funding for student hourly employees in order to maintain the minimum student hourly wage at the same level as the federal minimum wage. This

policy was followed, in part, because of federal requirements that students enrolled in the College Work-Study Program be paid at the federal minimum wage and the perception that it would be unfair to pay differential minimum rates. This policy was followed even though the institutions have always had the discretion to compensate non-work study students at whatever hourly wage rate they wished. However, the federal minimum wage has been frozen at \$3.35 since FY 1982 so the 8.75 percent increase granted for FY 1983 allowed the institutions additional flexibility in increasing wages or the number of hours worked.

The request for FY 1984 is also based on allowing institutional discretion over increasing hours or wages. It is further compounded by the 20 percent tuition increase scheduled to go into effect in the fall of 1983. The requested 9.0 percent increase in resources for student hourly employees is designed, in part, to offset the impact of the tuition hike.

However, there are several factors which the Legislature may wish to consider with regard to this request. In responding to the Governor's requested FY 1983 budgetary reductions, all of the institutions except the Medical Center chose to reduce the budgets for student hourly employees in the current fiscal year. These reductions totaled \$486,155 systemwide, as compared with the \$493,617 in additional funds approved for FY 1983 to provide an 8.75 percent increase. (This 8.75 percent increase represented the largest appropriated percentage increase to any group of state employees and does not include any specific institutional additions.) However, even though the institutions reduced student salary budgets in the current year, because of enrollment declines the amount budgeted per F.T.E. student enrolled was at least equal to FY 1982 budgeted expenditures per F.T.E. student for all but one institution. The following table identifies budgeted student salary expenditures per F.T.E. enrollment. Shown are the FY 1982 budgeted base per F.T.E., the original FY 1983 base per budgeted F.T.E., the reduced FY 1983 base per actual fall 1982 F.T.E., and the FY 1984 request per fall 1982 F.T.E. for each university.

Student Salary Comparison

<u>Institution</u>	<u>FY 1982 Base Per Actual F.T.E.</u>	<u>FY 1983 Base Per Budgeted F.T.E.</u>	<u>FY 1983 Reduced Base Per Actual F.T.E.</u>	<u>FY 1984 Request Per Estimated F.T.E.</u>
KU	\$ 57.81	\$ 66.95	\$ 57.86	\$ 73.13
KSU	69.19	78.05	76.79	86.65
WSU	80.05	83.89	78.41	89.31
ESU	132.23	143.80	135.15	165.50
PSU	105.21	120.98	108.53	131.84
FHSU	142.36	154.82	148.69	176.27
Weighted Average	\$ 79.79	\$ 88.83	\$ 82.10	\$ 97.68
Institutional Average	\$ 97.81	\$108.08	\$100.91	\$120.45
Total F.T.E.	64,952	64,952	64,385	64,385

Consideration of the above table serves to highlight two issues. The first concerns the impact of the requested 9.0 percent increase in the base for FY 1984. If the requested and base amounts are adjusted for F.T.E. enrollments (last two columns above), the requested increases per F.T.E. student over the reduced FY 1983 base range from a low of 12.8 percent to a high of 26.4 percent. When the request is compared to the original FY 1983 budget (column 2), the increases per F.T.E. range from 6.5 percent to 15.1 percent. What this indicates is that if enrollments are not considered and a flat percentage increase is applied to a base dollar amount, some institutions will have relatively more to spend per student than others due to changes which occur between budgeted and actual enrollments. To help control this phenomenon, the Legislature may wish to consider providing percentage increases for salaries per F.T.E. student rather than the salary dollar base. This would help insure that institutions which are declining in enrollment do not have relatively more to spend than institutions which are increasing in enrollment.

The second consideration has to do with the distribution of the salary dollars themselves. While there may be some justification for providing the smaller institutions with relatively more salary dollars per student than the larger institutions (in part due to their locations), it is questionable that there should be such variations in dollars per F.T.E. among institutional types. For example, as requested for FY 1984, what is the rationale for Fort Hays and Emporia having 34 and 26 percent, respectively, more salary dollars per F.T.E. student than Pittsburg. Further, why should Fort Hays and Emporia have over twice as much per F.T.E. for student salaries than the University of Kansas. These relationships suggest that the Legislature may wish to consider not only increasing dollars available for student salaries, but perhaps also the distribution of the funds among the various campuses.

Section G

Salary Shrinkage

Introduction. All organizations experience turnover in personnel and when turnover occurs, potential salary savings result. This is due to the fact that a position may be vacant for a period of time before a replacement is hired, and the replacement might be hired at a lower salary than was paid to the former employee. In budgeting institutional expenditures, potential turnover salary savings are recovered through a "shrinking" of an institution's salary budget to reflect anticipated turnover. Thus, the funding actually provided may be less than required to fully finance an institution's salary budget under the assumption that turnover salary savings will be sufficient to make up the difference and provide the institution with the remaining necessary resources.

As a result of this practice, an important budgetary issue becomes whether, and at what rate, shrinkage should be assessed. While there is a clear rationale for assessing shrinkage on classified salaries because of civil service requirements concerning the ranges and steps at which new employees are hired, the rationale is less clear in the case of unclassified employees (principally faculty) at the universities.

Within the dollars available and the limitations on positions, universities are expected to employ unclassified staff. There are no requirements concerning salary classifications and the rate of salary at which incoming personnel are hired. Although there typically are salary savings due to turnover in unclassified personnel, the actual turnover may vary greatly due to university policies. As a result, the amount of shrinkage assessed on unclassified salaries tends to be much more arbitrary than that assessed on classified salaries. Further, because salaries for unclassified staff are based upon merit exclusively, turnover savings are frequently used to fund extraordinary salary increases for exceptional faculty as a result of performance or promotion.

The Regents' Request. For FY 1984 the Regents' institutions request that salary shrinkage rates be maintained at the same level as in FY 1983. These same rates have been employed for the last six fiscal years and are shown below for both unclassified and classified salaries.

Requested FY 1984
Salary Shrinkage Rates

<u>Institution</u>	<u>Unclassified</u>	<u>Classified</u>
KU	2.0%	5.0%
KSU	2.0	5.0
WSU	1.5	4.0
ESU	1.0	2.0
PSU	1.0	2.0
FHSU	1.0	2.0
VMC	2.0	5.0
KUMC	2.0	5.0

What these rates mean is that actual salary dollars provided will be the appropriate percentage less than the base budget. For example, if the unclassified salary base is \$1,000,000 and shrinkage is 2.0 percent, the actual dollars available for expenditure are \$980,000. If a 10.0 percent salary increase is provided, the additional resources actually made available would be \$98,000 (the \$100,000 increase less the 2.0 percent shrinkage), but still a net increase over the shrinkage adjusted base of 10.0 percent. Therefore, all other things being equal, if shrinkage is increased it reduces the amount of salary dollars available to the institution for its operation. Further, if shrinkage is unduely high, it may force an institution to keep vacant positions open in order to have sufficient salary resources to compensate those employed.

The FY 1984 requests from the Regents' institutions provide for a 9.0 percent increase in unclassified salaries and a 7.0 percent increase in classified salaries with retention of the existing shrinkage rates. The following table shows the total requested salaries for FY 1984 and the amount requested for reduction through maintenance of existing shrinkage rates.

FY 1984
Requested Salaries and Shrinkage

Unclassified			
<u>Institution</u>	<u>Salaries</u>	<u>Shrinkage</u>	<u>Net</u>
KU	\$ 53,637,161	\$ (1,073,096)	\$ 52,564,065
KSU	53,937,040	(1,078,751)	52,858,289
WSU	23,063,246	(345,950)	22,717,296
ESU	10,563,016	(105,630)	10,457,386
PSU	10,022,520	(100,223)	9,922,297
FHSU	9,247,739	(88,807)	9,158,932
VMC	2,698,429	(53,969)	2,644,460
KUMC	26,197,441	(523,273)	25,674,168
TOTAL	<u>\$189,366,592</u>	<u>\$ (3,369,699)</u>	<u>\$185,996,893</u>

Classified			
<u>Institution</u>	<u>Salaries</u>	<u>Shrinkage</u>	<u>Net</u>
KU	\$ 16,938,385	\$ (846,919)	\$ 16,091,466
KSU	15,111,473	(755,573)	14,355,900
WSU	6,946,096	(277,843)	6,668,253
ESU	3,235,191	(64,704)	3,170,487
PSU	3,382,302	(67,659)	3,314,643
FHSU	2,842,468	(54,619)	2,787,849
VMC	1,837,048	(91,852)	1,745,196
KUMC	41,501,540	(2,075,077)	39,426,463
TOTAL	<u>\$ 91,794,503</u>	<u>\$ (4,234,246)</u>	<u>\$ 87,560,257</u>

Because the institutions are requesting maintenance of existing shrinkage rates, the net increases requested (after allowance for shrinkage) are 9.0 percent for unclassified and 7.0 percent for classified salaries. The amounts shown above in the "Net" column are the amounts necessary to fund the requested salary budgets under existing shrinkage rates. (Staff Note: For FY 1983 the Legislature increased the shrinkage on unclassified salaries at Emporia State by \$200,000. Emporia is requesting restoration of the \$200,000 and its transfer to other operating expenditure. See The Budget Analysis on Emporia State University for further discussion.)

Governor's Recommendation. The Governor recommends continuation of the existing shrinkage rates with regard to the recommended 4.0 percent increases in unclassified and classified salaries. However, in his recommendations regarding base budget reductions (see Section M), the Governor recommends significant increases in the dollar amount for shrinkage at each campus. These increased shrinkage amounts are not related to adjustments in the budgeted percentages, but represent mechanisms to further reduce expenditures for FY 1984.

Section HOther Operating Expenditures

Introduction. For FY 1984, the Regents' institutions are requesting a 10.0 percent increase in other operating expenditures (11.0 percent for hospital operations at the Medical Center). The Governor recommends a 7.0 percent increase. The FY 1983 base other operating expenditure budgets, requests for FY 1984, and the Governor's recommendations are shown below by institution.

<u>Institution</u>	<u>FY 1983 Base</u>	<u>FY 1984 Request</u>	<u>Governor's Recommendation</u>
KU	\$ 14,380,356	\$ 1,439,018	\$ 1,006,636
KSU	11,566,129	1,156,621	809,626
WSU	5,610,960	561,102	392,766
ESU	2,471,294	247,129	172,991
PSU	2,311,242	231,130	161,784
FHSU	2,453,779	245,377	171,765
KTI	625,441	62,544	41,872
VMC	1,535,033	153,503	107,453
KUMC	26,690,136	2,859,207	1,546,813*
TOTAL	<u>\$ 67,644,370</u>	<u>\$ 6,955,631</u>	<u>\$ 4,411,706</u>

* The Governor's recommendation equates to a 5.8 percent increase.

Other operating expenditures (O.O.E.) are used to purchase all commodities, goods, and services other than utilities used by the universities. Expenditures from O.O.E. budgets can include everything from major pieces of scientific equipment to library books to chalk.

Budgeting Procedures. While most state agencies are required to submit detailed proposals showing how they wish to expend other operating funds, including identification of items by object of expenditure, such is not the case with the Regents' institutions. Under present budgeting procedures, O.O.E. increases are treated as additions to a base budget and, within available resources, institutional expenditures are constrained only by state purchasing requirements.

In addition, although State General Fund appropriations for salaries and other operating expenditures must be expended on items in those categories, such is not the case with expenditures from the General Fees Fund, which can be expended in either category. Thus, if salary expenditures are less than budgeted, an institution has the flexibility to increase its O.O.E. expenditures. Such a practice is frequently the case, as actual personnel turnover salary savings may often be in excess of the budgeted turnover salary savings (shrinkage) as applied to the gross salaries at each institution.

Actual and Budgeted Expenditures. By comparing the actual general use expenditures for other operating expenditures with those budgeted, it is possible to see whether institutions have had additional resources available for O.O.E. due to savings in other areas. The following table shows the difference between legislatively approved

O.O.E. expenditures and actual O.O.E. expenditures. This is derived by comparing the approved budget for each fiscal year (adjusted for supplemental appropriations and one-time only items) with actual expenditures. The percentage change column shows the percentage increase/decrease which actual expenditures represented over budgeted expenditures.

Year	KU		KSU		WSU	
	Difference	Percent	Difference	Percent	Difference	Percent
1977	\$ 265,379	3.1%	\$1,714,992	24.7%	\$ 322,080	9.3%
1978	377,165	4.1	1,646,414	20.9	370,232	9.5
1979	549,170	5.0	2,098,860	23.1	470,309	10.9
1980	480,349	4.2	1,695,182	18.3	302,912	6.8
1981	(44,348)	(0.4)	2,077,981	21.4	305,441	6.2
1982	(347,426)	(2.6)	2,246,080	21.0	456,104	8.7

Year	ESU		PSU		FHSU	
	Difference	Percent	Difference	Percent	Difference	Percent
1977	\$ 269,531	16.2%	\$ (17,683)	(1.1)%	\$ 121,651	8.4%
1978	363,860	20.4	70,263	4.6	87,307	5.7
1979	351,768	17.2	114,483	6.2	51,804	2.6
1980	516,323	25.5	180,604	9.3	60,977	3.1
1981	486,863	22.9	101,944	4.6	87,004	4.1
1982	440,482	19.5	62,324	2.9	146,410	6.4

The 1981 Legislature responded to the figures shown in the above table with regard to Kansas State and Emporia State. The response took two forms: at Emporia State salary shrinkage was increased by \$200,000 for FY 1983 due to the long-term pattern of salary underspending; at Kansas State, where the increased O.O.E. expenditures are primarily in extension and research, the University was requested to include in its FY 1984 budget proposals to bring budgeted and actual expenditures into closer correspondence. As a result of legislative action, the Emporia State budget was reduced by \$200,000 for FY 1983. The University is requesting, for FY 1984, restoration of the \$200,000 to its base budget and its transfer from salaries to other operating expenditures. In the case of Kansas State University, the FY 1984 request includes a proposal for a permanent base transfer of \$600,000 from salaries to other operating expenditures along with the elimination of 25.9 unfilled full-time equivalent positions.

The updated figures in the above table indicates that the overall trends prior to FY 1982 continued in FY 1982 with the exception of the University of Kansas. Here a relatively substantial transfer from other operating expenditures to salaries was required to provide full funding of the salary budget.

What the above table indicates is that, even though appropriated increases for other operating expenditures have not exceeded 7.5 percent in any of the last six years, the universities have been able, with few exceptions, to supplement the appropriated increases with savings in other areas. This supplement is also in addition to any specific other operating expenditure additions approved by the Legislature —

such as library improvements, payments for increased telephone rates and equipment purchases. In addition, during FY 1982 the universities had available an additional \$936,266 for other operating expenditures not reflected in the above due to a one-time only release of tuition income. In considering requests for additional other operating expenditures based upon the relatively modest appropriated percentage increases to the budgeted base, the Legislature should note that typically, actual other operating expenditures exceed those budgeted.

Distribution. The current procedure of requesting and appropriating a uniform percentage increase to a base budget level has the advantage of simplicity. However, should there be inequities in the budgeted base levels then this approach does nothing more than perpetuate those inequities by applying the same percentage increase to all. Further, because institutions request and sometimes have approved program improvements with substantial other operating expenditure components, the relationships among the institutional base budgets can be further distorted.

The following table relates other operating expenditures in the Institutional Support and Educational Programs to full-time equivalent enrollment. The Institutional Support and Educational Programs of the universities are the most closely related to student enrollment, as Research, Public Service, and Physical Plant other operating expenditures tend to be related to factors other than enrollment. The table displays (per F.T.E.) the original FY 1982 budget, actual FY 1982 expenditures, approved FY 1983 budget, the FY 1983 budget after reductions due to the allotment procedure, and the FY 1984 request.

<u>Institution</u>	<u>FY 1982 Budget</u>	<u>FY 1982 Actual</u>	<u>FY 1983 Budget</u>	<u>FY 1983 Reduced</u>	<u>FY 1984 Request</u>
KU	\$474.04	\$464.52	\$516.86	\$459.83	\$588.76
KSU	406.90	387.68	424.50	423.76	510.84
WSU	410.93	432.79	412.55	360.30	480.73
ESU	378.41	451.56	411.62	399.01	537.18
PSU	380.61	422.77	413.24	373.64	481.69
FHSU	426.10	466.06	456.12	426.19	532.81
Weighted Avg.	\$427.83	\$434.40	\$454.20	\$419.64	\$533.51
Inst. Avg.	\$412.83	\$437.56	\$439.15	\$407.12	\$522.00
F.T.E.	64,693	64,952	64,952	64,385	64,385

The table highlights several issues with respect to financing of other operating expenditures. First, using a uniform measure, such as F.T.E. enrollment, reveals substantial differences in the amounts budgeted among the campuses. Second, as enrollments decline, the resources available per F.T.E. student increase if there is not a corresponding reduction in other operating expenditures. Conversely, an institution which is experiencing growth may fall behind in its O.O.E. resources per student. Third, the budgetary reductions due to the imposition of the allotment system had a mixed effect on the institutions depending on whether enrollments increased or decreased, where the institutions chose to make reductions (salaries or other operating expenditures), and increases originally authorized by the Legislature for FY 1983. Thus, comparing the reduced FY 1983 budget with the original FY 1982 (Column 4 and

Column 1) budget shows that expenditures per F.T.E. are lower for FY 1983 at KU, WSU, and PSU, even at FHSU, and higher at KSU and ESU. Finally, it can be observed that the FY 1984 request (both the 10.0 percent across the board and the special improvements), coupled with a decline in F.T.E. enrollments at all institutions except WSU and PSU, will result in substantial increases per F.T.E. over the originally approved FY 1983 budget. The weighted average for all of the universities indicates an increase of 17.5 percent over the originally budgeted average of \$454.20 for FY 1983.

Historical Analysis. The requested 10.0 percent increase for other operating expenditures for FY 1984 is justified, in part, by the institutions with the claim that appropriated increases for O.O.E. have failed to keep up with inflation. While it is quite true that the appropriated increases to the base have failed to keep up with inflation, this argument ignores the impact of any program improvement funding or special allocations for other operating expenditures. When these increases are considered the difference between growth in other operating expenditures and inflation becomes less significant.

The primary device for measuring inflation in universities is the Higher Education Price Index developed by staff at the National Center for Educational Statistics and now produced by Research Associates of Washington. This index is more appropriate than the Consumer Price Index for reflecting price changes facing colleges and universities because it more accurately reflects the goods and services an institution purchases, rather than those purchased by an individual or household.

From Fiscal Year 1977 through Fiscal Year 1982 the percentage growth in the overall index was 53.6 percent. However, the subindexes which reflect changes in the price of other operating expenditures exhibited different rates of growth: 50.3 percent for services; 57.3 percent for supplies and materials; 48.8 percent for equipment; and 61.4 percent for books and periodicals. Over this same period, the appropriated base increases for other operating expenditures grew by 37.6 percent. Yet, the appropriated percentage increases to the base do not take into account other appropriations for O.O.E. nor do they reflect the impact of enrollment changes on other operating expenditures per student.

The following table identifies percentage changes in other operating expenditures for the Institutional Support and Educational Programs between FY 1977 and FY 1982. Shown are the percentage changes in budgeted O.O.E. and actual O.O.E. expenditures both in total dollars and dollars per F.T.E. student.

Percentage Change In O.O.E.
FY 1977 - FY 1982

	<u>Total Dollars</u>		<u>Dollars Per F.T.E.</u>	
	<u>Budgeted</u>	<u>Actual</u>	<u>Budgeted</u>	<u>Actual</u>
KU	53.4%	55.0%	41.4%	47.9%
KSU	55.2	45.8	51.1	41.9
WSU	49.1	54.4	45.9	38.5
ESU	38.6	37.2	46.9	38.1
PSU	28.1	36.3	30.9	34.6
FHSU	57.8	58.1	53.1	57.6
Weighted Average	50.4%	49.8%	45.4%	43.8%

By comparing the percentage changes shown in this table with the above noted percentage changes in the Higher Education Price Index, the claim that institutional O.O.E. purchasing power has been substantially eroded due to inflation becomes less obvious. In terms of total dollars budgeted and actually expended, only two institutions failed to have growth approximately equal to the Higher Education Price Index or its subindexes (except for books and periodicals). When enrollment changes are taken into account, the institutions lost ground to inflation, but the loss of purchasing power is not as severe as it appeared when only increases in the base were taken into account. Further, the above analysis does not account for any budgetary shifts which may have occurred over the five-year period where resources may have been shifted from Institutional Support and the Educational Program to other areas.

Section I

Utilities

Introduction. For FY 1984 the institutions are requesting a total increase in general use funds of \$3,462,702 to provide for a 20.0 percent increase in utility expenditures. (This excludes any requested increases for servicing new buildings which are discussed below in Section K). Shown below are the FY 1983 base utility budgets, the requested systemwide increase, and the Governor's recommendations for a 20.0 percent increase as requested.

<u>Institution</u>	<u>FY 1983 Base</u>	<u>FY 1984 Request</u>	<u>Governor's Recommendation</u>
KU	\$ 4,689,982	\$ 937,997	\$ 937,997
KSU	3,582,874	716,575	716,575
WSU	1,724,321	344,864	344,864
ESU	718,446	143,689	143,689
PSU	667,296	133,459	133,459
FHSU	768,660	153,732	153,732
KTI	66,400	13,280	13,280
VMC	1,187,303	237,461	237,461
KUMC	3,908,223	781,645	781,645
TOTAL	<u>\$ 17,313,505</u>	<u>\$ 3,462,702</u>	<u>\$ 3,462,702</u>

(Staff Note: The above figures for the FY 1983 base do not include any possible supplemental requests. Further, the base amounts for Wichita State and Emporia State are not reduced by the Governor's proposed allotments. The Governor's allotments lower the base at Emporia State by \$28,738 and at Wichita State by \$35,000.)

Legislative Practice. The current legislative policy of providing separate line item appropriations for utilities began in the 1976 Session. With the exception of the 1982 Session, when 75 percent of the requested supplemental requests were appropriated, this policy has been followed consistently. The policy, as reflected in the subcommittee report of the House Ways and Means Committee reads as follows:

1. Appropriations for utilities should be by separate line item to permit close monitoring of appropriations and expenditures.
2. Utility costs should be fully funded and the institutions should not be required to shift funds from other purposes in order to finance utilities.
3. Legislative budget review should focus on consumption to insure campuses are making efforts to limit consumption.

Under procedures developed over past legislative sessions, the Regents institutions will submit a supplemental FY 1983 request should additional funds be required to pay for utilities costs in the current fiscal year.

A comment is necessary concerning the actions of the 1982 Legislature in appropriating 75 percent of the FY 1982 supplemental request. This action assumes that the FY 1982 base budgets of the institutions were equally adequate (or inadequate). Because of legislative budgeting practices for utilities, such was (is) not the case. In recent years, the upcoming fiscal year base has not been adjusted to reflect supplemental appropriations in the current year as it was assumed the outgoing year expenditures would be considered by the next legislative session. If the Legislature wishes to discontinue the practice of adjusting current year utilities, it would be necessary to establish an appropriate base for the upcoming fiscal year.

Estimating Utility Costs. Depending on the circumstances, the 1982 Legislature made both reductions and additions to the utility budgets of the campuses. In addition, any remaining balances were lapsed at the end of the fiscal year. Shown below are actual utility expenditures for FY 1981 and FY 1982 and available resources to fund FY 1983 utility charges. (KTI is excluded because its utilities are not a line item appropriation and the Medical Center is excluded because of its special circumstances.)

Inst.	Actual Expenditures FY 81	Actual Expenditures FY 82	Base Budget FY 83	Difference FY 83 Base FY 82 Exp.	Percent Difference FY 83-FY 82
KU	\$ 4,375,071	\$ 4,755,621	\$ 4,689,982	\$ (65,639)	(1.4)%
KSU	3,004,835	3,155,210	3,582,874	427,664	13.6
WSU	1,243,671	1,640,025	1,724,321*	84,296	5.1
ESU	579,664	676,293	718,446*	42,153	6.2
PSU	531,962	672,820	667,296	(5,524)	(0.8)
FHSU	534,350	672,946	768,660	95,714	14.2
VMC	946,511	1,147,799	1,187,303	39,504	3.4
Total	<u>\$11,216,064</u>	<u>\$12,720,714</u>	<u>\$13,338,882</u>	<u>\$ 618,168</u>	<u>4.9%</u>

* As part of the resource reduction imposed by the allotment system, the Governor recommends reducing utilities at WSU by \$35,000 and at ESU by \$28,738.

A consideration of the above data indicates that supplemental utility appropriations will be required for most institutions in FY 1983. While the base budget for FY 1983 was increased 10 percent over the FY 1982 base, the FY 1983 appropriation was not adjusted upward to reflect supplemental appropriations in FY 1982. It is likely that the FY 1983 supplemental request will be rather substantial given recent cost increases for natural gas and the relatively small increase in the FY 1983 budget over FY 1982 actual expenditures.

Energy Conservation. In spite of the efforts to conserve energy on the campuses, energy costs continue to escalate. The Legislature has provided, at various times in the past, funding for energy conservation studies and specific capital improvements designed to reduce energy consumption or improve the efficiency of energy utilization. Yet, in spite of these efforts, energy costs continue to increase at a dramatic rate primarily due to increases in the per unit price. The conservation measures, therefore, result not so much in actual dollar savings as in the avoidance of even more substantial cost increases.

The following table displays information relating to the consumption and costs of energy on the various campuses. It shows the amount of BTUs (British Thermal Units) used per gross square foot of building space per degree day. This measure controls for differences in the amount of space (but not space type) among the campuses and for fluctuations in climate from year to year and in different parts of the state. Also displayed is the cost of energy per million BTU and the cost of energy per gross square foot. The data are based on actual usage for FY 1979-FY 1982 and estimates for FY 1983.

BTUs Per GSF Per Degree Day

	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Percent Change FY 79 - FY 83</u>
KU	27.36	28.78	29.17	28.41	27.03	(1.2)%
KSU	36.91	36.76	36.77	36.71	35.89	(2.8)
WSU	28.83	27.18	24.49	26.42	26.40	(8.4)
ESU	14.78	15.57	14.54	16.53	15.35	3.9
PSU	16.35	15.54	15.10	15.80	16.20	(1.0)
FHSU	10.33	12.45	11.84	14.13	13.47	30.4

Energy Cost Per Million BTU

KU	\$ 3.57	\$ 3.71	\$ 4.99	\$ 5.75	\$ 6.90	93.3%
KSU	2.37	2.44	3.48	3.57	4.27	80.2
WSU	3.23	4.16	4.98	6.00	6.96	115.5
ESU	4.14	4.20	5.60	6.43	7.88	90.3
PSU	3.37	4.09	5.55	6.41	7.69	128.2
FHSU	5.27	4.87	6.39	6.29	6.29	19.4

Cost of Energy Per GSF

KU	\$ 0.74	\$ 0.72	\$ 0.93	\$ 1.07	\$ 1.25	68.9%
KSU	0.68	0.62	0.84	0.86	1.02	50.0
WSU	0.69	0.71	0.78	1.05	1.25	81.2
ESU	0.45	0.43	0.56	0.67	0.79	75.6
PSU	0.41	0.38	0.50	0.60	0.79	92.7
FHSU	0.34	0.38	0.45	0.55	0.55	61.8

The above information was collected by the Board of Regents' office for the first time in the summer of 1982. As can be seen, increases in consumption, as measured by BTU per GSF per degree day, have been substantially less or even declined with respect to costs per million BTU or per GSF. By comparing these measures among the campuses it appears that Wichita State has made the greatest effort in reducing consumption while Fort Hays has experienced the most substantial increase (yet Fort Hays still has the lowest consumption rate among the institutions.)

What becomes evident through examination of these data, is that even if consumption remained constant over this period, energy costs still would have increased a minimum of 50 percent due to changes in the price per unit of energy. In reviewing this information the Legislature may wish to consider making more extensive use of consumption measures (such as BTU per GSF per degree day) in evaluating the effectiveness of energy conservation activities on the campuses. It should be noted, however, that conservation of energy beyond a certain point suffers from diminishing returns. That is, at some point, it may not be economically feasible to expend resources for conservation as the cost may outweigh the savings. Further, because of

specific programs and buildings on the campuses, there may also be points beyond which further reductions in consumption are no longer feasible.

Section J

Equipment, Computers, Libraries

Introduction. The Board of Regents has authorized the institutions to request a total of \$1,306,000 for FY 1984 for purchase of equipment, additional support for computer operations, and for library acquisitions. These requests are not based on specific justifications from each campus, but on the Board's overall assessment of need for additional funding in these areas. Therefore, these requests will be treated as a systemwide issue rather than as requests specific to each campus. Shown below are the Board approved requests by campus and area.

<u>Institution</u>	<u>Equipment</u>	<u>Computers</u>	<u>Libraries</u>	<u>Total</u>	<u>Percent Increase Over FY 83 Budgeted O.O.E.</u>
KU	\$ 175,000	\$ 175,000	\$100,000	\$ 450,000	3.1%
KSU	100,000	250,000	100,000	450,000	3.9
WSU	40,000	40,000	60,000	140,000	2.5
ESU	—	—	—	*	—
PSU	25,000	20,000	25,000	70,000	3.0
FHSU	25,000	20,000	—	45,000	1.8
KTI	100,000	26,000	25,000	151,000	24.1
TOTAL	<u>\$ 465,000</u>	<u>\$ 531,000</u>	<u>\$310,000</u>	<u>\$1,306,000</u>	<u>3.5%</u>

* While the Board did not approve specific increases for Emporia State, it requested that the \$200,000 in excess salary shrinkage assessed for FY 1983 be restored in FY 1984 and transferred to other operating expenditures for support of these three areas.

As can be seen in the last column, these requests would add approximately 3.5 percent to the FY 1983 base budgets for other operating expenditures in addition to the requested 10 percent systemwide base increase.

Governor's Recommendation. The Governor does not recommend the additional special funding requested by the institutions for equipment, computers, and library acquisitions. However, the Governor does recommend a State General Fund appropriation of \$1.5 million to the Board of Regents' office for research and development grants to the state universities. These grants are to be for projects designed to encourage private investment and creation of new jobs in high technology areas. The awards will be made on the basis of proposals submitted to the Board of Regents and are subject to a 50.0 percent match from private sources to be identified in the grant proposal. Presumably the grants would be used for equipment, faculty release time, and other associated research costs. The Governor's Budget Report

provides no further details as to the nature and implementation of this program. If the Legislature approves this recommendation it may wish to consider establishing separate accounts on each campus for the receipt of these, and the matching, funds. This would allow for ease of legislative oversight as to the proposals funded and the expenditures made from the grants.

Rationale. When the institutions submitted their original FY 1984 budget requests to the Board of Regents, each one included requests for additional funding for instructional and scientific equipment, computer center operations, and library acquisitions. Rather than reviewing and considering these requests on a campus by campus basis, the Board determined that the need for additional resources was systemwide and, within a total dollar amount, directed the institutions to request funding for each area. The result is this request to the 1983 Legislature for additional other operating expenditures over and above the requested systemwide increase.

The basic justification for the requests is that resources provided for other operating expenditures have not kept pace with inflation, resulting in a deterioration of purchasing power in these three areas. The request for additional equipment funding is designed to increase the basic capital outlay budget for scientific and instructional equipment. Depending on the campus, the request for additional computer funding will either be used to purchase additional equipment, expand operations, or both. Because the computer centers are budgeted as a service clearing operation, funding is provided as other operating expenditures even if it involves the addition of personnel. Finally, the request for libraries is to increase the acquisitions budgets for both books and periodicals to maintain the collections in the face of rapidly escalating costs. However, it should be remembered that these requests are not justified in terms of specific enhancements related to existing resources on each campus, but in terms of a general rationale that existing resources are inadequate.

Policy Issues. As noted above in the discussion of the requested 10.0 percent increase in other operating expenditures (Section H), the institutions have not lost as much purchasing power to inflation when total expenditures are considered, rather than just appropriated base increases. Further, the Legislature has provided, as a matter of policy, one-time appropriations for specific major items of equipment, computer support and library acquisitions. The impact of these one-time only appropriations in intervening years is lost when only two specific fiscal years are considered (as was the case in Section H).

Since FY 1977 the Legislature has appropriated \$2,972,336 in one-time only funding for equipment and library acquisitions on a systemwide basis. These appropriations have typically been unrelated to specific items on the campuses, but provided in general recognition of overall needs and institutions have been allowed discretion over their expenditure. Further, \$515,445 has been provided on a one-time only basis to specific campuses primarily for purchase of various items of equipment. In addition to the almost \$3.5 million in one-time appropriations, the Legislature has also provided \$1,367,863 in additional base funding for libraries and computer center support. These appropriations become part of the base and are increased annually by the appropriate percentage increase in other operating expenditures. In addition, specific base improvements for other operating expenditures in the areas of equipment, computers, and libraries totaled \$1,364,527 from FY 1978 through FY 1983. When combined with the systemwide funding this brings to \$2,732,390 the additional resources added to the base - excluding any base increases in intervening years.

The amounts noted in the preceding paragraph exclude any equipment purchases associated with the construction of new facilities or with other operating support generated through new or expanded programs. Thus, the \$6,220,171 in appropriations identified over the last six fiscal years for equipment, computers, and libraries represents the most conservative estimate of the additional resources provided by the Legislature in these areas. Because utilities have been funded as a line-item, increases in utility costs have not eroded the O.O.E. base and the Legislature has provided special funding of \$706,280 for telephone rate increases and \$181,919 for student union rentals in order to preserve the base from cost increases in these areas.

To assist the institutions in budgeting for major equipment purchases, the 1981 Legislature created a special equipment reserve fund on each campus to which any operating savings in the current year could be transferred and expended in future years. Expenditures from the fund were to be limited to equipment replacement and acquisition and the fund was to provide institutions an incentive to budget for major equipment items over several fiscal years rather than to expend all available resources each year. To date, no institution has transferred any resources into these funds.

Based on the above, the Legislature may wish to re-examine its periodic practice of providing systemwide program enhancements for other operating support in the areas of equipment, computers, and libraries. Such practices ignore the internal budgetary priorities of the institutions (e.g., one institution may decide to provide relatively greater support to its library than another) and differences in missions and programs among the campuses (one campus may not require proportionately as large a computer center as another). As an option the Legislature may wish to request the institutions and the Board to develop more detailed requests for each campus relating requested resources to existing programs and resources. Further, if the Legislature is concerned about the internal allocation of additional resources among the campuses it may wish to appropriate for equipment purchases on a line item basis to insure that the funding is not allocated to other areas. Perhaps, if a line item appropriation was made for equipment the Legislature might also wish to establish a minimum unit price for equipment purchased with those resources and require external matching funding for those items purchased. Alternatively, appropriations could be made to the Board for allocation to the institutions based on specific proposals for additional resources, rather than general pro-rata allocations.

Section K

Servicing New Buildings

Introduction. The FY 1984 requests from the institutions include a total of \$1,696,302 for costs associated with the servicing of new buildings. The requests include funding for the addition of 30.1 F.T.E. classified positions and partial year salary funding for positions added in FY 1983. Shown below are the requests from each institution.

FY 1984 Requests
Servicing New Buildings

<u>Institution</u>	<u>Classified F.T.E.</u>	<u>Salaries</u>	<u>O.O.E.</u>	<u>Utilities</u>	<u>Total</u>
KU	4.5	\$ 58,119	\$ 16,893	\$ 332,675	\$ 407,687
KSU	14.5	207,370	54,869	269,093	531,332
WSU	1.0	127,075	35,275	200,902	363,252
PSU	3.1	38,950	11,701	66,668	117,319
KUMC*	7.0	96,614	26,890	153,208	276,712
TOTAL	30.1	\$528,128	\$145,628	\$1,022,546	\$1,696,302

* Does not include \$148,958 in supplemental funding for utilities costs in FY 1983.

Governor's Recommendation. The Governor recommends the amounts and positions as requested with three exceptions. First, in the case of Pittsburg State University the Governor recommends the addition of 6.0 F.T.E. classified positions rather than the 3.1 F.T.E. classified positions requested by the University. However, no additional salary funding is provided for the 2.9 F.T.E. positions nor is any information provided as to why they are recommended. Second, in the case of Wichita State University the Governor does not recommend the additional 1.0 F.T.E. classified position (\$15,593 including benefits) requested by the University. Third, the Governor does not recommend funding for the \$148,958 supplemental utility request at the University of Kansas Medical Center.

Formulas. For a number of years the Board of Regents have requested, and the Legislature has generally provided, funding for servicing new buildings based upon estimated costs per gross square foot (GSF). The formulas applied have authorized the addition of 1.0 F.T.E. classified position for each 8,770 GSF of new space and expenditures for other operating expenditures and utilities based on a cost per GSF basis. For FY 1984, other operating expenditures are requested at \$.043 per GSF and utilities at \$2.54 per GSF.

In assessing the adequacy of the formulas used in requesting support funding for new space, application can be made to existing budgeted resources for physical plant support of the campus. Such a comparison should appropriately consider the physical plant maintained through the general use portion of the budget as such functions as dormitories and student unions are operated by restricted use funds. This approach may actually understate the resources an institution has available as some restricted use supported positions (perhaps funded from research support) may actually assist in the maintenance of general use space.

The following table shows for each university the gross square feet maintained by the general use supported physical plant budget for FY 1983. It shows the classified and total F.T.E. positions budgeted per GSF and budgeted salaries, other operating expenditures, and utilities per GSF (prior to allotment reductions).

FY 1983 Budget
General Use Physical Plant Support Per GSF

<u>Institution</u>	<u>GSF</u>	<u>GSF/Class. F.T.E.</u>	<u>GSF/Total F.T.E.</u>	<u>Salaries Per GSF</u>	<u>O.O.E. Per GSF</u>	<u>Utilities Per GSF</u>
KU	3,966,550	8,982.2	8,668.2	\$ 1.85	\$ 0.35	\$ 1.18
KSU	3,206,011	10,860.5	10,573.9	1.64	0.22	1.12
WSU	1,495,975	8,265.1	8,086.4	2.11	0.59	1.15
ESU	926,453	7,778.8	7,495.6	2.43	0.42	0.78
PSU	898,055	7,775.2	7,688.8	2.29	0.47	0.74
FHSU	949,367	9,797.4	9,747.1	1.81	0.36	0.81

(Staff Note: If the 40.0 F.T.E. positions in the Facilities Clearing Services at KSU are included, the GSF per classified F.T.E. falls to 9,564.5 and for total staffing to 9,341.5.)

Several observations can be made concerning the above information. First, three of the six universities have physical plant staffing ratios per GSF which are less than the formula used for generating staffing for new space. While this may not indicate that they are necessarily overstaffed, it may suggest that additional staffing for these campuses is perhaps not as high a priority as for others. Second, the issue could be raised as to what is the appropriate relationship between classified staffing and square footage to be maintained. While there are no exact standards for staffing per GSF, questions could be raised as to whether KSU and FHSU are understaffed or whether the other institutions are relatively overstaffed.

With regard to budgeted other operating expenditures per square foot, it appears that the FY 1984 request of \$0.43 per GSF is within reason given existing budgets. However, because of the range of budgeted O.O.E. per GSF (from \$.022 to \$0.59) some questions could be raised over existing allocations and adequacy of support.

Finally, the budgeted expenditures for utilities are less than one-half of the \$2.54 per GSF requested for new space in FY 1984. However, this disparity must be considered in light of two factors: (1) the utility cost per GSF for new space is likely to be higher than the campuswide average as the latter includes older buildings which may have no air conditioning or modern air handling equipment; and (2) the FY 1983 budgets do not include any supplemental appropriations for utilities which will likely be required. However, even when these two factors are considered, it is possible that the FY 1984 requests at \$2.54 per GSF are excessive. This is particularly true because, if resources for utilities on new buildings are inadequate, supplemental funding would be requested in the subsequent fiscal year.

Section L

Student Tuition

Background

Under K.S.A. 76-719 the Board of Regents has the responsibility to set student tuition for the institutions under its control. However, in 1966 the Legislative Council recommended a general policy that:

Resident and nonresident basic fees be fixed at a level so that total basic fee income will provide on the average, 25 percent of the cost of the general educational program, i.e., excluding the cost of organized research, extension services, auxiliary enterprises, and capital improvements.

The Council also recommended that nonresident graduate students be charged the same incidental fee as nonresident undergraduates. The Council suggested that rather than change fees annually, that the 25 percent level be an average based on several (three to four) years.

This policy has generally been followed by the Regents and the Legislature since 1966. In recent years tuition rate review has tended to become more frequent than formerly with the result that tuition increases are no longer considered only every three to four years. However, the general policy of systemwide tuition receipts representing approximately 25 percent of systemwide expenditures (for what are now known as the Educational Program, Institutional Support and Physical Plant Operations — including utilities) has been the basic policy throughout the period.

Fiscal Year 1984 Request

The budget requests submitted by the institutions to the 1983 Legislature include estimates of a 20 percent increase in tuition for FY 1984. The institutions were directed by the Board in July, 1982, to include this tuition increase in their legislative requests. At the six universities, this 20 percent tuition increase is estimated to generate \$8,392,130 in additional receipts for FY 1984 over FY 1983 after allowing for changes in estimated enrollments. (Staff Note: While this represents the additional income, the actual increase in expenditures may be less because of carryforward balances from FY 1982 expended in FY 1983.)

The 20 percent increase in tuition is estimated to increase the cost to a full-time student from \$684 per academic year in FY 1983 to \$821 per academic year for FY 1984 at the University of Kansas, Kansas State, and Wichita State and from \$536 to \$643 at Emporia, Pittsburg, and Fort Hays. (Staff Note: The Regents' have not yet set the specific rates so those in the text for FY 1984 represent a 20 percent increase over those charged in the current year.)

Policy Review

Given the established policy of a "25 percent fee/cost ratio," it is worthwhile to examine the extent to which this goal has been attained in recent years. The following table shows the actual fee/cost ratio by institution for FY 1979 - FY 1982. Also shown is the fee/cost ratio for FY 1983 based on the originally approved budget and on the budget as reduced by the allotment procedure. Finally, the fee/cost ratio as reflected in the FY 1984 budget requests are shown.

	<u>Fee/Cost Ratios</u>						
	<u>Actual FY79</u>	<u>Actual FY80</u>	<u>Actual FY81</u>	<u>Actual FY82</u>	<u>Original FY83</u>	<u>Alloted FY83</u>	<u>Request FY84</u>
KU	22.7%	21.9%	21.9%	24.2%	21.6%	22.4%	22.6%
KSU	21.9	21.6	22.7	24.9	21.8	22.5	22.6
WSU	20.2	19.6	20.2	23.3	21.7	22.4	22.1
ESU	15.3	14.9	15.1	16.9	15.1	15.7	15.5
PSU	16.2	15.5	15.4	17.1	15.3	15.9	15.5
FHSU	16.5	15.5	16.3	17.3	14.7	15.3	15.9
TOTAL	20.6%	20.0%	20.4%	22.6%	20.1%	20.8%	21.0%

It should be noted that these ratios are based upon tuition receipts, not actual expenditures from the General Fees Fund which typically include carryforward balances from previous years. In addition, the general use costs include expenditures for utilities, which are probably underestimated for FY 1983 and FY 1984.

What is clear in examining the above information is that at no time in the past four years has the fee/cost ratio equaled 25 percent. The highest ratio is for FY 1982 when the systemwide ratio was 22.6 percent and both the University of Kansas and Kansas State exhibited fee/cost ratios in excess of 24.0 percent. The table also reveals the relationship between fee/cost ratios at the three larger institutions in comparison with those at the three smaller. Typically the three large institutions exhibit fee/cost ratios in excess of 20 percent, while those ratios at the three smaller institutions tend to fluctuate around 15 percent. These differential ratios are the result of two related factors. The first has to do with a conscious policy to keep a lower charge per student at the smaller institutions than that charged to students at the larger institutions. The second factor relates to the size of institutional budgets which reflect very similar types of fixed costs at both the large and small institutions. That is, certain institutional expenditures are not related at all to size, but rather to the fact that the institution is open in the first place. Therefore, to attain 25 percent of costs at a large institution could result in a lower tuition to the student than the tuition necessary to attain 25 percent of costs at a small institution — because of the fixed costs and the fact there are fewer students among whom to spread the costs.

Issues

The policy of relating aggregate tuition revenue to a fixed percentage of cost has several strengths. It is simple to understand and easy to evaluate. It allows for differential rates of tuition (if wished) as the fee/cost ratio is not calculated on an individual's tuition, but on aggregate tuition receipts. The policy is also fair in the sense that students at similar institutions are expected to make similar contributions to their costs of education. Finally, if society deems the relationship between fees and costs to be reasonable, then the students and the state are paying their respective "fair share."

However, such a fee/cost ratio policy is not without its shortcomings. The initial difficulty is in determining exactly what constitutes the appropriate costs and what should be the appropriate ratios to be born by the students and the state. Further, if the ratio is applied to aggregate revenues and if the institution has a uniform tuition rate for students at all levels and disciplines, then students in low cost programs are subsidizing students in high cost programs. This same "subsidy" relation can occur when the policy encompasses different types of institutions all contributing to an aggregate fee/cost ratio. Thus, the Regents' system, where the larger institutions contribute proportionately more than the smaller institutions in order to attain a systemwide fee/cost ratio approaching 25 percent.

Section MBase Budget Reductions

Governor's Recommendation. For FY 1984 the Governor recommends base budget reductions for the institutions totaling \$14,248,686. The reductions were made at each of the Regents' institutions (except Kansas Technical Institute) "in a manner consistent with the fiscal constraints imposed on the state of Kansas for FY 1984" (Governor's Budget Report, various pages). Because these recommended reductions represent a major policy decision confronting the 1983 Legislature, it is important to examine: (1) how the reductions were determined and distributed; (2) how the recommended budgets for FY 1984 compare with previous expenditures; and (3) the nature of the reductions themselves and their impact on institutional budgets.

Determination and Distribution. In identifying the Governor's overall recommendations for FY 1984, it was determined that a reduction of \$14,248,686 would have to be made in the funding provided for Regents' institutions. This amount to be reduced was determined by first calculating the resources required for an increase to the FY 1983 base which included 7.0 percent for all salaries, 7.0 percent for other operating expenditures, 20.0 percent for utilities, appropriate increases for fringe benefits, funding for the servicing of new buildings and enrollment adjustment funding. Once this total was derived it was compared to the Budget Division's "A level" allocation and the difference, in this case \$14,248,686, became the amount required to reduce the Regents' budgets to the "A level" allocation.

Having determined that it was necessary to reduce the budgets of the Regents' institutions by \$14,248,686, the next issue addressed was the distribution of

this reduction among the campuses. The technique employed by the Division of the Budget was to make 50 percent of the required reduction on a pro-rata basis among the institutions and to distribute the remaining 50 percent based upon the relative level of funding with respect to the "peer" institutions used in the Regents' formula funding system. Thus, an institution which was relatively poorly funded with respect to the average of its "peers" would receive a proportionately smaller reduction than an institution which was relatively better funded with respect to its "peers." The rationale being that institutions funded at close to the average of their "peers" would be better equipped to absorb budget reductions than institutions further removed from the "peer" averages.

Although the formulas used to make the "peer" related adjustments are somewhat complicated, their result is clear. The smaller the "lag" in funding from "peer" institutions, the greater the budget reduction, the greater the "lag" in funding from "peer" institutions, the smaller the budget reduction. Shown below are the percentages and resulting dollar amounts used to distribute the \$14,248,686 budget reduction among the institutions.

Governor's Recommended FY 1984 Funding Reductions

	<u>Pro-Rata Distribution</u>	<u>Percent Lag from Peers</u>	<u>Pro-Rata Reduction</u>	<u>Peer Reduction</u>	<u>Total Reduction</u>
KU	23.8%	16.6%	\$1,716,189	\$1,768,477	\$ 3,484,666
KSU	22.3	16.1	1,608,026	1,686,100	3,294,126
WSU	10.1	10.9	728,299	1,465,777	2,194,076
ESU	4.6	10.0	331,700	774,076	1,105,776
PSU	4.5	9.6	324,490	688,430	1,012,920
FHSU	4.2	19.9	302,856	154,946	457,802
VMC	1.9	40.3	137,007	—	137,007
KUMC	28.6	—	2,062,313	500,000	2,562,313
TOTAL	—	—	<u>\$7,210,880</u>	<u>\$7,037,806</u>	<u>\$14,248,686</u>

Several observations are in order concerning this procedure. First, a technical detail, which results in the actual reductions not being allocated 50-50 in total, is that an error in the Pittsburg State request was not corrected until after this procedure had been employed. Thus, the allocation of the total reduction of \$14,248,686 to 50 percent pro-rata and 50 percent "peer" is not precise. Second, because the Veterinary Medical Center would require additional funding under the procedure used to calculate the "peer" reduction, no reduction at all was made on the basis of "peer" comparison. Third, the reduction for the Medical Center based on "peer" comparison (i.e., \$500,000) is arbitrary due to other funding problems at the Medical Center. Fourth, Kansas Technical Institute is excluded from any base budget reduction.

With regard to the allocations themselves, basing the distribution in part upon "peer" institution comparisons and judgements concerning funding at the Medical Center and Veterinary Medical Center, results in a marked contrast from simple

proration for all institutions. If a straight pro-rata approach had been taken, the reduction at the Medical Center would have been over \$4.0 million, while that at Wichita State would have been less than \$1.5 million. While the method used results in reductions at KU and KSU being only slightly over a pro-rata share, in the case of the other institutions, Emporia, Pittsburg, and Wichita are absorbing larger reductions so that the impact on Fort Hays, the Veterinary Medical Center, and the Medical Center is less than would occur with a simple proration based upon percentage of total expenditures. (Staff Note: The use of "peer" comparisons in distributing the base budget reductions marks the first instance where such data have been used by the Governor or the Legislature in consideration of Regents' institutions funding.)

Expenditure Comparisons. Having determined how the \$14,248,686 budget reduction was arrived at and distributed among the campuses, it is now appropriate to consider the relationship of the Governor's FY 1984 recommendations to budgeted expenditures in previous years. This will allow for an assessment of overall changes in budgeted general use expenditures in order to determine the actual changes in resources available to the Regents' institutions.

The following table displays actual general use expenditures for FY 1982, originally authorized general use expenditures for FY 1983, allotted general use expenditures for FY 1983 (after reductions for the 4.0 percent allotment and the withholding of classified merit increases), and the Governor's recommended general use expenditures for FY 1984.

Comparison of General Use Expenditures

Institution	Actual FY 82	Orig. FY 83	Alloted FY 83	Rec. FY 84	Percent Changes		
					FY 82- FY 84	Orig. FY 83- FY 84	Alloted FY 83- FY 84
KU	\$ 86,837,964	\$ 93,390,075	\$ 89,935,824	\$ 96,074,526	10.6%	2.9%	6.8%
KSU	79,157,044	87,739,961	84,530,701	90,962,340	14.9	3.7	7.6
WSU	35,928,287	39,589,148	38,155,114	41,399,304	15.2	4.6	8.5
ESU	17,258,867	13,353,075	17,660,033	18,315,103	6.1	(0.2)	3.7
PSU	16,451,665	17,704,518	17,024,765	13,071,014	9.8	2.1	6.1
FHSU	15,171,101	16,764,470	16,115,131	17,234,533	13.6	2.8	6.9
KTI	2,096,469	2,743,539	2,632,550	2,909,695	38.8	6.1	10.5
VMC	6,990,171	7,543,273	7,285,948	8,014,209	14.6	6.2	10.0
KUMC	106,381,627	113,607,161	110,358,875*	116,233,241	9.3	2.3	5.3
TOTAL	<u>\$366,273,195</u>	<u>\$397,435,220</u>	<u>\$383,698,941</u>	<u>\$409,213,965</u>	<u>11.7%</u>	<u>3.0%</u>	<u>6.6%</u>

* In addition to allotment and merit, also includes lapse of \$1.2 million.

Based upon these comparisons it can be seen that the Governor's recommendations for FY 1984 (including the \$14,248,686 base reduction) result in relatively modest growth from actual FY 1982 expenditures. When comparing the FY 1984 recommendations with FY 1983 budgets, the recommendations result in an overall increase of 3.0 percent from originally approved FY 1983 expenditures and 6.6 percent over FY 1983 expenditures as reduced for allotments and classified merit increases. Much of the differential in increases among the campuses is the result of the distribution of the reductions, enrollment adjustment funding, and funds for servicing of new buildings. Those institutions not receiving budget reductions (KTI) or receiving modest reductions (VMC) fared better than those institutions receiving proportionately larger reductions (ESU and PSU). Enrollment adjustment funding and funds for servicing new buildings are responsible, in part, for the growth at WSU and KSU.

Another perspective on the FY 1984 recommendations is attained by examining changes in State General Fund expenditures. State General Fund expenditures represent just one component (albeit the major component) of the general use expenditures shown above (the others being tuition, hospital revenues, and land grant funds). Typically, reductions in one of these sources is offset by decisions to increase others. Thus, in years when tuition has increased, State General Fund expenditures have increased more modestly and, in years when tuition revenue has been stable, the State General Fund has provided for most of the increase in general use resources.

Shown below is a table identifying State General Fund expenditures for actual FY 1982, original FY 1983, allotted FY 1983, and as recommended by the Governor for FY 1984. These amounts are a subset of those contained in the previous table.

Comparison of State General Fund Expenditures

Institution	Actual FY 82	Orig. FY 83	Alloted FY 83	Rec. FY 84	Percent Changes		
					FY 82- FY 84	Orig. FY 83- FY 84	Alloted FY 83- FY 84
KU	\$ 67,292,245	\$ 74,753,405	\$ 71,299,154	\$ 73,358,526	9.0%	(1.9)%	2.9%
KSU	58,745,136	67,756,015	64,546,755	68,773,478	17.1	1.5	6.5
WSU	27,451,716	31,017,463	29,583,429	31,199,304	13.7	0.6	5.5
ESU	14,367,185	15,290,210	14,597,168	15,134,418	5.3	(1.0)	3.7
PSU	13,664,349	14,871,516	14,191,763	14,833,014	8.6	(0.3)	4.5
FHSU	12,435,782	14,178,100	13,528,761	14,265,387	14.7	0.6	5.4
KTI	1,936,280	2,504,539	2,393,550	2,639,695	36.3	5.4	10.3
VMC	4,465,292	4,932,894	4,675,569	5,144,209	15.2	4.3	10.0
KUMC	58,222,299	60,796,951	57,548,665*	58,702,074	0.8	(3.4)	2.0
TOTAL	<u>\$258,580,284</u>	<u>\$286,101,093</u>	<u>\$272,364,814</u>	<u>\$284,050,105</u>	<u>9.8%</u>	<u>(0.7)%</u>	<u>4.3%</u>

* In addition to allotment and merit also includes lapse of \$1.2 million.

Examining the above information in relation to the previous table reveals several factors concerning the recommended funding levels for FY 1984. First, even if the Medical Center is excluded, there is no growth in State General Fund expenditures between original FY 1983 levels and those recommended for FY 1984. In effect, other general use sources of revenue (primarily tuition) are providing the increased resources. Stated another way, those institutions with the larger estimated increases in tuition revenues, receive smaller State General Fund increases than those institutions estimating smaller increases in tuition revenues. Second, the amount of the base budget reductions recommended by the Governor (\$14,248,686) are only slightly greater than the FY 1983 reductions due to the allotment procedures (\$13,736,279). From one perspective it could be claimed that the Governor's FY 1984 recommendations make permanent the budgetary reductions imposed in FY 1983. Three, the institutions receiving the largest increases in resources are not institutions receiving substantial additional funding for new or expanded programs. Rather, they are institutions receiving the proportionately smallest base budget reductions.

In summary, while the Governor's recommendations for FY 1984 provide a 6.6 percent increase in general use expenditures over allotted FY 1983 levels, the growth over the originally authorized levels for FY 1983 is 3.0 percent. Viewed from one

perspective the Governor's recommendations restore the FY 1983 allotments and provide for 3.0 percent growth. From another perspective the FY 1983 allotments are made permanent and the Governor's recommendations provide for a 6.6 percent growth in general use resources. In either case, the primary increase in general use resources is provided by funding sources other than the State General Fund.

Institutional Reductions. The detail accompanying the Governor's Budget Report identifies where the base reductions for each institution are budgeted. While it is not possible to identify the total reductions in terms of programs, it is possible to identify the reductions by object of expenditure. The Governor's recommendations include not only a reduction in funding, but also a reduction in the number of F.T.E. positions. From this it can be inferred that the intent of the recommendations is to reduce operations, not just to reduce the resources available. That is, if the recommendation was simply a reduction in dollars, presumably the institutions could choose to keep all existing positions if resources were available (perhaps by diverting salary increase funds to maintain existing positions). Because the recommendations specifically reduce the number of authorized positions, it appears that such a diverting of resources is not the Governor's intent.

Shown below are the Governor's recommended reductions in F.T.E. positions and associated salaries (excluding fringe benefits) for each campus.

Recommended Position Reductions
FY 1984

<u>Institution</u>	<u>Classified</u>		<u>Unclassified</u>		<u>F.T.E.</u>	<u>Salaries</u>
	<u>F.T.E.</u>	<u>Salaries</u>	<u>F.T.E.</u>	<u>Salaries</u>		
KU	54.0	\$ 575,095	28.1	\$ 515,005	82.1	\$1,090,100
KSU	34.8	484,932	45.9	1,390,032	80.7	1,874,964
WSU	16.5	389,297	37.5	1,113,842	54.0	1,503,139
ESU	8.5	120,122	18.0	536,307	26.5	656,429
PSU	14.0	178,000	20.0	459,588	34.0	637,588
FHSU	2.0	20,648	1.0	29,980	3.0	50,628
VMC	1.7	31,826	1.1	46,500	2.8	78,326
KUMC	47.7	564,180	16.4	329,171	64.1	893,351
TOTAL	<u>179.2</u>	<u>\$2,364,100</u>	<u>168.0</u>	<u>\$4,420,425</u>	<u>347.2</u>	<u>\$6,784,525</u>

(Staff Note: KTI is excluded as no base reduction is recommended. Also, the reduction in unclassified F.T.E. at KUMC includes 4.0 F.T.E. Housestaff at \$64,780.)

Two observations are germane with respect to the above data. The first has to do with the reductions in positions at each campus. It appears these reductions generally follow those outlined by the institutions in the submission of "A level" budget estimates. However, a reduction of 20.0 F.T.E. unclassified positions at Pittsburg is likely to have a more significant impact than a reduction of 45.9 F.T.E. positions at Kansas State because at Pittsburg the 20.0 positions represent 6.2 percent of those

authorized with general use funding, while at Kansas State the 45.9 represents 2.5 percent of the total general use funded unclassified positions. The second observation relates to the salaries at which the positions are removed. The 28.1 F.T.E. unclassified positions at KU are being removed at \$18,328 each. Yet, at KSU the 45.9 F.T.E. unclassified positions are removed from the budget at \$30,284 each — over \$10,000 a position more. Similar disparities exist among the other campuses, both for classified and unclassified positions.

Shown below are the recommended reductions by object of expenditure at each campus. The salary reductions (column one) include the amounts shown previously plus any identified fringe benefit reductions.

Recommended Base Budget Reductions
FY 1984

<u>Institution</u>	<u>Salaries and Fringe</u>	<u>Student Salaries</u>	<u>Shrinkage</u>	<u>Total Salaries</u>	<u>O.O.E.</u>	<u>Grand Total</u>
KU	\$1,090,100	\$321,860	\$ 492,046	\$1,904,006	\$1,580,660	\$ 3,484,666
KSU	2,219,127	48,752	483,283	2,751,162	542,964	3,294,126
WSU	1,696,045	56,073	213,844	1,965,962	228,114	2,194,076
ESU	768,683	30,454	95,157	894,294	211,482	1,105,776
PSU	779,648	—	82,990	862,638	150,282	1,012,920
FHSU	58,139	42,347	82,463	182,949	274,853	457,802
VMC	92,783	1,350	22,250	116,383	20,624	137,007
KUMC	1,059,929	—	250,994	1,310,923	1,251,390	2,562,313
TOTAL	<u>\$7,764,454</u>	<u>\$500,836</u>	<u>\$1,723,027</u>	<u>\$9,988,317</u>	<u>\$4,260,369</u>	<u>\$14,248,686</u>

The above table serves to highlight several considerations. First, the Governor is recommending a systemwide increase of 4.0 percent for student salaries (\$249,868) plus \$700,000 for a student work-study program. Yet, a total of \$500,836 is shown as being reduced from the budgets for student employees. Although the reduction in this area at the University of Kansas is disproportionately large, the reductions at the other campuses represent significant portions of the recommended 4.0 percent increase. A similar pattern occurs with regard to other operating expenditures. Here the Governor recommended a 7.0 percent increase (\$4,411,706), yet the budget reductions in other operating expenditures totals \$4,260,369. Again, the amount shown for the University of Kansas is disproportionately large and serves to raise another issue. For years the institutions have maintained that they are under funded for other operating expenditures. When utility expenditures are excluded, other operating expenditures typically represent 15 to 20 percent of an institution's general use expenditures. However, in the case of KU and FHSU the portion of the budget reduction represented by other operating expenditures is 45.4 and 60.0 percent, respectively.

Finally, some comments are in order regarding the increase in the amounts for personnel turnover salary savings (shrinkage). While all of the other items can

effectively be reduced from the base without budgetarily impacting what remains, to increase the amount required for salary shrinkage means resources must be taken from other sources at the institutions. For example, when a position and its associated salary and benefits are removed from the budget, it may have programmatic consequences, but it does not directly affect the budget for other items. If shrinkage is increased as a technique to reduce expenditures it must come from increased turnover or from holding positions vacant. Thus, the \$1,723,027 identified as shrinkage must be taken from the resources remaining to the institutions after the other portions of the reduction (\$12,525,659) have been removed. Given that vacant positions will probably be reduced first pursuant to these recommendations and, given current economic conditions, it may be doubly difficult for an institution to reduce its budget by the required shrinkage amounts. If this is the case, an institution may be forced to use portions of the recommended salary increases in order to attain the recommended shrinkage requirement.