

MINUTES OF THE House COMMITTEE ON Appropriations

The meeting was called to order by Bill Bunten at
Chairperson

1:30 ~~am~~/p.m. on Tuesday, February 3, 1987 in room 514-S of the Capitol.

All members were present except: Representatives Wisdom and Duncan (both excused)
Representatives Lowther, King and Solbach were excused so they could visit Wichita State U.

Committee staff present: Gloria Timmer, Legislative Research
Diane Duffy, Legislative Research
Jim Wilson, Revisors Office
Sharon Schwartz, Administrative Aide
Nadine Young, Committee Secretary

Conferees appearing before the committee:
Richard Ryan, Legislative Research
Ray Hauke, Legislative Research
Others present (Attachment 1)

Richard Ryan addressed the committee with additional information as a follow-up to the January 15 overview with regard to cash flow and beginning and ending balances.

Based on Governor's budget, including certain cash flow items, staff estimates there is a negative balance, as of the end of November, of about \$73 million. Staff has concluded that the balance needed is approximately \$100 million for adequate cash flow and with no certificates of indebtedness.

He cautioned the committee not to be too comfortable with the projected balance of \$130 million for end of FY 1988.

Chairman Bunten announced that budget books will be ready next week and he suggested that subcommittee chairmen get together with staff and make preparation for working the budgets.

Ray Hauke talked to the committee about budget making and enrollment adjustment procedures for the Regents institutions. He provided a number of handouts:

- Attachment 2 -- Memorandum dated June 26, 1986 addressed to Special Committee on Financing of Regents' Institutions
- Attachment 3 -- Memorandum dated July 30, 1986 addressed to Special Committee on Financing of Regents' Institutions
- Attachment 4 -- Memorandum dated October 22, 1986 addressed to Special Committee on Financing of Regents' Institutions
- Attachment 5 -- A schedule showing a list of peer institutions for each of the Kansas institutions.

Three of the handouts (the 3 memos) were prepared at the request of the Chairman of the Special Committee on Financing Regents' institutions.

For purposes of today's review, the June 26 memo is being used. This memo was prepared as a background memo to detail the manner in which the Board of Regents and the Legislature traditionally reviews and approves budgets for the Regents. The memo contains much information that is already known by the committee members; however, staff felt that to have it all in writing in one memo would be of considerable help to the committee. He highlighted three major concepts that distinguishes these budgets from other agencies.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Appropriations,
room 514-S, Statehouse, at 1:30 ~~am~~/p.m. on Tuesday, February 3, 19 87

Number one is the concept of a Base Budget, two, review of the budget is focused on the upcoming year and relatively little given to current year. Third is the difference between general use and restricted use funds in that most activities in each of these budgets are divided into one of these categories.

There was discussion with regard to the use of peer institutions. This is something that developed as a Board initiative for the purpose of determining which agency requests the Board would recommend to the Legislature. Several factors go into the selection of peer institutions; however, they are primarily selected based on similarities in enrollment numbers. It is an attempt to measure where Kansas stands with five other institutions as designated being similar.

Mention was made of a memo by Tom Rawson, Director of Planning & Budgets for Board of Regents, who appeared before the interim committee. This memo describes how schools were selected as peers.

The present enrollment adjustment procedure also contains a "corridor", which acts as a buffer to adjustments. No budget adjustment is made unless it is outside a certain percentage known as "corridor". The existence of these corridors has been somewhat controversial. Whether this concept should be retained depends upon whether the Legislature desires minor enrollment changes to be accompanied by budgetary adjustments or whether you desire budgetary adjustments to be limited to major changes in enrollments.

Another attachment is a schedule presented by Representative Chronister showing funding figures for the Regents' institutions showing a breakdown by general funds and total all funds. Representative Chronister reminded the committee that these figures were compiled by her, and staff should not be held responsible, should an error be found. (Attachment 6)

Meeting adjourned at 3:00 p.m.

MEMORANDUM

June 26, 1986

TO: Special Committee on Financing of Regents' Institutions
FROM: Kansas Legislative Research Department
RE: Budgeting Procedures for Regents' Institutions

Introduction

Evaluation of possible procedural changes necessitates consideration of present practices and procedures for financing institutions under the jurisdiction of the State Board of Regents. This memorandum was prepared to describe the manner in which the Legislature presently considers its appropriations to those institutions. As with all legislative budget-making activities, some aspects of the budget receive more scrutiny than others. Consequently, this memorandum describes those budgetary components which receive the most attention and those which receive relatively little attention.

It is probably easiest to consider the Regents' budgets in three discrete components: (1) program maintenance (the ongoing budget); (2) program improvements (requested enhancements); and (3) capital improvements (building programs). Each of these budgetary components has a separate financing arrangement and a distinct procedure for legislative consideration. Although legislators have direct input to the appropriations process by which they develop budgets, it is necessary to consider how those budgets develop prior to legislative consideration. As with all budgets, legislative consideration initially focuses upon the recommendations of the Governor. Additionally, these budgets have been considered and approved by the Board of Regents in accordance with its policies and procedures, prior to submission to the Governor. The Board has its own cycle for review of institutional requests and issues recommendations for program improvements and capital improvements. Further, the Board's systemwide recommendations dictate institutional requests for most aspects of the maintenance budget. The institutions are generally free to lobby the Legislature for items recommended by the Board that the Governor did not approve. By Board policy, the institutions are not allowed to lobby for items which the Board did not recommend.

Operating Budget Characteristics

The operating budget consists of all expenditures, except capital improvements. Further, the operating budget includes ongoing items and new requests. The items which comprise the maintenance or base budgets are typically those of an ongoing nature, as opposed to new requests which are

considered program improvements. Review of operating budgets by both the Board of Regents and the Legislature is almost exclusively focused upon consideration of issues for the upcoming budget year or "out year." Legislative consideration of the Regents' budgets has not focused upon intensive review of expenditure trends during the current fiscal year. Further, legislative consideration of those budgets has typically not included scrutiny of expenditure patterns among individual objects of expenditure (i.e., communications, contractual services, motor vehicle expenses, etc.), with the exception of utilities.

The Board's budget cycle involves making decisions at its June meeting concerning both the maintenance adjustments it will recommend for all institutions and the individual program improvements it will recommend in the immediately upcoming budget cycle. Typically, the Board identifies a total amount of new General Use funds which it will request systemwide for a given year. However, maintenance items comprise the bulk of the new request, due to the magnitude of the base to which maintenance recommendations are applied.

Most activities at the Regents' institutions have been divided into two overall financing mechanisms, General Use funds and Restricted Use funds. General Use financing consists of the more generic forms of money available to the institutions, while Restricted Use funds are those which are limited in their uses. General Use funds consist of appropriations from the State General Fund, General Fees Funds (which receive most of their income from tuition), Federal Land Grant Funds, certain interest income from endowments and Hospital Revenue Funds. State General Fund appropriations are typically appropriated by line items limiting their use to salaries, other operating expenditures, utilities, or some other purpose. Conversely, General Fees Funds are typically appropriated in a manner allowing them to be used for salaries or other operating expenditures.

Restricted Use funds consist of all other funds available to the institutions. Major sources of Restricted Use funds include Activity Fees, Student Health Fees, Student Union Fees, and most federal funds. It should also be noted that the individual institutions benefit from expenditures by their respective endowment associations, much of which are not included in the state budgets. Additionally, Wichita State University benefits from a 1.5 mill levy, applied to property in the city of Wichita, which generates approximately \$1.6 million annually. Those funds are largely under the jurisdiction of the Wichita University Board of Trustees, as specified in K.S.A. 76-3a07 et. seq. Most of those expenditures are not reflected in the state budget.

The Board of Regents has developed certain procedures and guidelines for the Restricted Use funds. Similarly, the Governor and Legislature periodically make recommendations concerning those funds and must appropriate them, although they are usually appropriated without limitation. Further, certain restrictions are contained in appropriations provisos, which authorize expenditure of the Restricted Use funds. Nevertheless, the overwhelming majority of consideration given to the institutional budgets by the Board, the Governor, and the Legislature, is directed to the General Use portion of the budget. In most instances, all recommendations of the Governor and the Legislature are reflected only as adjustments to the General Use budget and the Restricted Use budget is not formally updated following its original October 1

submittal by the institution. However, under present review procedures, such updates would be little more than an exercise, due to fluctuations in restricted fund receipts and the limited review given to those funds.

Program Maintenance Budgets

As previously mentioned the maintenance budgets consist of those items which are ongoing in nature. In most cases the decisions applied by the Board, the Governor, and the Legislature to the maintenance budgets have been systemwide in that the recommendation has been applied in a similar fashion to each institution. Most of the maintenance budget considerations are incremental, in that a percentage adjustment is applied to a previous base. Advantages to such incremental adjustments include its simplicity and the consistency of treatment given to each institution. Disadvantages to those incremental adjustments include not directly addressing actual expenditure requirements at the institutions or the relative differences among their respective base budgets. Major exceptions to simple incremental budgeting have included the enrollment adjustment, which is formula driven. Further, utilities have been financed at actual cost for several years.

Board's Budget Review Procedure. The Board of Regents annually decides upon the maintenance increase request that it will submit for the upcoming year. Although the final decisions are made at the Board's June meeting, individual Board members and the Board's staff analyze various options prior to that June meeting. A primary source of information used by the Board and its staff is comparison with peer institutions. Each of the institutions has a group of peers to which it is compared for purposes of determining the adequacy of funding in several activities. These peer comparisons were initially developed as a part of a proposal to finance the institutions through a formula funding procedure. Although the formula funding concept has not been adopted, use of the peer comparisons is a source of information used by the Board in its decision making.

Legislative Budget Review Procedure. The Legislature has typically made its recommendations concerning institutional maintenance increases in a systemwide fashion, as has the Governor. The Legislature considers the recommendations of the Board and the Governor. Due to the manner in which the maintenance decisions are made, information furnished to the Legislature by the Legislative Research Department is organized to facilitate systemwide recommendations. The Ways and Means Committee of each chamber makes a set of systemwide recommendations, the numerical equivalents of which are posted into the appropriations bill, as recommended by that committee. When those appropriations bills are considered by the Committees of the Whole systemwide amendments can be and often are offered. As with many appropriations actions, the final legislative decisions concerning systemwide maintenance budgets are usually made by conference committee agreements. The paragraphs which follow describe items in which both the Board, the Governor, and the Legislature usually make a systemwide recommendation concerning institutional maintenance budgets.

Unclassified Salary Increases. One of the major annual considerations for both the Board, the Governor, and the Legislature is the salary increase for unclassified personnel, primarily teaching staff, at the institutions. That increase is considered as an overall percentage, applied incrementally to base unclassified salary budgets at the individual institutions. Although the decision making process for this item is sometimes difficult for the Board or the Legislature, the mechanics of the adjustment are the relatively simple application of a percentage increase to base budgets. Although a single percentage is applied to each institution, the institution has flexibility to grant varying increases among departments and among individuals. It is important to remember that the percentage of increase represents the total overall increase for the unclassified base budget. This differs slightly from the classified employees in which the percentage of increase typically represents a designated cost of living increment to the pay plan and separate increases are possible in accordance with Civil Service rules and procedures.

In most cases a single percentage increase has been allowed for all institutions. Some exceptions have been made to this generalization. For example, during three of the last ten fiscal years Ft. Hays State University received a percentage increase that was higher than the other institutions to compensate for unclassified salaries that were determined to be less than those of the other institutions. During the ten most recent fiscal years, all institutions have received the same percentage increase, with the exception of Ft. Hays State. The Legislature has always funded fringe benefits separately. Consequently, the institutions have not been required to finance fringe benefit rate increases within the financing allowed for unclassified salary increases. The unclassified salary increases which have been allowed in the most recent ten years are displayed below.

Percentage of Unclassified
Salary Increase

<u>Fiscal Year</u>	<u>Ft. Hays</u>	<u>All Others</u>
1978	7.0	6.0
1979	7.0	7.0
1980	6.5	6.5
1981	9.0	9.0
1982	9.0	7.0
1983	10.2	7.5
1984	4.5	4.5
1985	7.0	7.0
1986	5.0	5.0
1987	2.5	2.5

Finally, from the maintenance budgets for salary and wages, both classified and unclassified, a shrinkage factor is applied. Shrinkage is the assumed savings resulting from hiring new personnel at lesser salaries than paid to previous employees who resigned or retired. Additionally, shrinkage savings also result from reduced expenditures which occur in the interval between the termination of one employee and hiring of a replacement. While the

unclassified salary increase is a simple percentage addition to the base budget, the shrinkage adjustment is a simple percentage deletion from the base. The same percentages of savings, presumed to result from shrinkage, have been applied for many years, although differing rates are applied at the various institutions. During some years the Governor's recommendations have included varying the shrinkage rates. However, the final Legislative budgets have been predicated upon the traditional shrinkage rates. The percentages of shrinkage are listed in the table which follows. No shrinkage is subtracted from the KTI budget.

Shrinkage Rates Applied to Regents'
Institutions Budgets

	<u>Classified Employees</u>	<u>Unclassified Employees</u>
K.U./K.S.U.	5.0	2.0
W.S.U.	4.0	1.5
Regionals	2.0	1.0

Classified Salary Increases. The decisions of the Legislature concerning classified salaries are the same for the Regents' institutions as for other state agencies. In recent fiscal years the Board includes a recommendation concerning classified increases as a part of its maintenance request to the Governor and the Legislature. The Governor recommends and the Legislature enacts legislation applicable to all classified employees of the state. Classified staff of the Regents' institutions are a part of this systemwide decision. In most years the classified increase has been less than the percentage increase granted to unclassified employees. However, in some of those years classified employees have been eligible for merit or longevity increases, depending upon financing of the prevailing state pay plan.

Student Salary Increases. At each of the institutions General Use funds are authorized for student salaries. These authorizations are designed to provide students with a source of income and institutions with a source of service. Further, the number of classified employees would increase were it not for the availability of student labor. Students are not paid according to the classified civil service salary schedule. Each institution has flexibility concerning the numbers of students and salaries paid to those students. The Board recommends and the Legislature appropriates increases to the student salary bases as simple percentage adjustments, similar in nature to the adjustment applied to the unclassified salary base. These percentage adjustments have given the institutions flexibility to utilize the additional funds for either increased salaries or increased student services. The availability of federal work study funds, which are Restricted Use, have caused General Use funded student salary programs to be less than half of the total expenditure for student salaries during several recent years. During FY 1987 General Use funding for student salaries will be approximately \$7.0 million. The Legislature has also budgeted expenditures for an off campus work study program. Under this program General Use funds were appropriated with a proviso

stipulating that half of the student wages must be equally matched by salary expenditures from private employers. During many years the final Legislative budget has varied the student salary increase from that approved for classified and unclassified salaries. Student salary budgetary increases for the past three years have been: FY 1985 - 5.0%; FY 1986 - 5.0%; and FY 1987 -3.0%.

Other Operating Expenditures. General Use financing of the Regents' institutions typically is divided into discussion of salaries and other operating expenditures or OOE. The maintenance increases that are considered for OOE are simple incremental percentage adjustments to a base. Within an agency's OOE budget must be financed expenditures for virtually everything that is not salaries or capital improvements. Additionally, utilities are presently excluded from the OOE base. In most years the percent of OOE increase that has been finally financed by the Legislature has been less than the increase allowed for unclassified salaries. This procedure differs significantly from that utilized for other state agencies, in which separate requests for each object of OOE expenditure are submitted and analyzed.

Previous systemwide memoranda from the Legislative Research Department have reflected a tendency of some institutions to increase the OOE expenditures during a particular year, utilizing salary and wage underexpenditures. This tendency can be partially attributed to recognition that salary and wage savings in a particular year may be a one time occurrence and should be utilized for one time expenditures such as equipment or books. Nevertheless, it should also be recognized that salaries and wages have often been increased at a higher percentage than OOE. Consequently, the institutions can achieve a larger increase on their total base budget by leaving the funds in the salary and wage base and not permanently transferring the expenditures from the salary and wage base. In virtually every year all institutions have received the same percentage of increase to their OOE base, with the exception of K.U. Medical Center and K.S.U. Veterinary Medical Center, which have received a larger OOE increase during some years. The following table lists OOE increases granted to all but KUMC and the Veterinary Medical Center during each of the past ten fiscal years.

Increases Allowed in Other Operating Expenditures
Fiscal Years 1978 Through 1987

FY 1978	7.5%
FY 1979	7.0
FY 1980	6.0
FY 1981	7.0
FY 1982	5.5
FY 1983	6.0
FY 1984	6.5
FY 1985	7.0
FY 1986	5.0
FY 1987	3.0

During several recent years, the Legislature has allowed institutions to transfer unexpended money from the General Fees Fund to an Equipment

Reserve Fund, within the expenditure limit on the Fee Fund. This allows the institutions to expend General Fees Fund money for equipment replacement after the end of a fiscal year.

Utilities. Since 1976 the Legislature has appropriated a separate line item from the State General Fund to finance the General Use portion of institutional utility expenditures. Separate accounts were appropriated to allow closer analysis of institutional consumption and expenditures. Additionally, Ways and Means Subcommittee reports of that year state an intent to fully finance utility expenditures and not require institutions to shift funds from other uses for the purpose of financing utilities. Subsequent to that time the budget for each institution has included an estimate for General Use related utility expenditures. If that estimate was inadequate in most instances it has been financed by supplemental appropriations. Further, since 1983 the Legislature has attempted to provide an incentive for the institutions to conserve utility expenditures by allowing reappropriation of utility savings for energy saving capital improvements. During fiscal years 1984 through 1986, institutions were allowed to carry over all utility savings for energy conserving capital improvements into the succeeding fiscal year. During FY 1987 the institutions will be allowed to carryover 25 percent of utility savings for energy conserving improvements.

Providing an incentive to save is seemingly an important factor in obtaining savings. Nevertheless, an institution's reappropriations may be a product of several extraneous factors including the accuracy of their budgetary estimates and the general condition of their physical plant.

Servicing New Buildings. The Board and the Legislature have for several years allowed the institutions to include as a part of their base budget requests separate financing for utility and maintenance costs associated with operation of new buildings. This financing has been provided according to formulas developed by the Board. In most years the formulas have been financed by the Legislature. Basically the formulas have allowed new staff, OOE, and utilities based upon gross square footage (GSF) of the building. According to the formulas utilized by the Board for FY 1987, funds were requested based upon: (1) 1 F.T.E. staff position for each 10,500 GSF; (2) a statewide average OOE rate per GSF (36 cents per GSF in FY 1987); and (3) utilities varied by the programs and uses of the building.

Enrollment Adjustments. Previous studies have indicated that most states adjust university budgets based upon enrollments. These adjustments are typically incremental, allowing some flat dollar or staffing adjustment, given change in enrollment. Prior to FY 1982 Kansas enrollment adjustment for the Regents' institutional budgets consisted of financing increases/decreases in unclassified FTE positions at the institutions based upon total changes in projected student enrollment. Additionally, adjustments in OOE were allowed based upon changes in student enrollment. That enrollment adjustment procedure evolved throughout the 1960s and experienced relatively minor changes during the 1970s. The ratios of unclassified staff changes to F.T.E. enrollment changes were 1:15 for KU and KSU; 1:18 for WSU; and 1:20 for the regional universities. Beginning in FY 1979, classified staff were adjusted based upon enrollment, at the rate of 1 classified position for every three unclassified positions. KTI has also participated in an F.T.E. student enrollment

adjustment procedure. KU Medical Center and KSU Veterinary Medical Center do not receive formula adjustments for enrollment change.

The 1981 Legislature adopted a dramatically different enrollment adjustment procedure featuring a formula and several important concepts. That formula has been utilized to develop budgets for fiscal years 1982 through 1987. The Legislature adopted an enrollment formula that adjusts maintenance budgets based upon actual changes in enrollment related to the actual cost of programs generating those enrollment changes. There are 24 academic disciplines (mathematics, agriculture, history, etc.) and four levels of instruction (lower division, upper division, graduate-1, and graduate-2). Attachment I of this memorandum contains a table showing the manner in which the instructional component of enrollment adjustments are calculated, based upon a change in student credit hours and adjustment costs. These procedures were developed to more accurately relate enrollment adjustments to costs. Lower division lecture courses obviously have different costs than graduate courses. Similarly, science and laboratory courses have costs differing from those of the history department. The previous enrollment adjustment procedure did not make such distinctions, allowing the formula to be quite arbitrary in its granting or withholding of funds as related to costs. The enrollment formula also includes adjustments for student service components, which theoretically do not vary by type of student. In addition to the abovementioned concepts relating costs and enrollment changes, the procedure adopted in 1981 contains several other features, described in the paragraphs which follow.

The enrollment adjustment procedure utilizes a three year cycle that results in determination of changes by comparing actual enrollments and expenditures within the three year period. Attachment II details the first two cycles, showing the years which were compared. Development of a three year cycle appears to be somewhat arbitrary. At the time the methodology was adopted, there was some concern that a single year cycle could result in annual fluctuations in agency base budgets, based upon enrollment changes that were coincidental, rather than actual trends. Further, there was some desire to express a commitment of the Legislature to this concept for more than one year. During its year of inception, this enrollment adjustment allowed a reduction to institutional base budgets, compared to the previous enrollment adjustment procedure. Some expressed the concern that unless a multi-year cycle was proposed, the new procedure would be viewed as a single year method of reducing the budget. Concern has been expressed that the three year cycle contains some rather unique aspects, resulting in differing adjustments based upon when the enrollment changes occur during the cycle. If the Legislature determines that the present three year cycle is a problem, options would seemingly include a single year cycle or a multi-year cycle in which enrollment changes were always compared to the same number of previous years enrollment and cost data.

The present enrollment adjustment procedure also contains a "corridor," which acts as a buffer to adjustments. Once costs are computed in the manner described above for each discipline and instructional level, they are summed to produce an institution-wide total. That total is compared to the agency's base budget for the current fiscal year and no adjustment is made unless the total is outside certain percentages (known as the corridor) of the base budget. Two corridors have been used during the past six years. The

corridor has been +/-1.5 percent at KU, KSU, and WSU. The corridor has been +1.0 percent and -2.0 percent at the three regional universities. The concept underlying these corridors is that an institution should not be significantly impacted by relatively minor changes in enrollment. Conversely, larger changes in enrollment should be accompanied by some adjustment to the budget. The selection of the present corridor percentages was somewhat arbitrary. Differing corridors were applied to the regional schools due to their having a smaller base and partially due to the difficulty associated with reducing base budgets. The existence of these corridors has been somewhat controversial. Whether the corridor concept should be retained seemingly depends upon whether the Legislature desires minor enrollment changes to be accompanied by budgetary adjustments or whether it desires budgetary adjustments to be limited to major changes in enrollments.

Since its adoption, the enrollment formula has generated some discussion. The previous formula was extremely simple, could be readily explained, and its results consistently replicated with a minimum of data or time. The complexity of the new procedure is at least partially responsible for some of the concern related to it. Additionally some of the institutions have objected to various aspects of the adjustment formula. The Council of Presidents of the Board of Regents appointed a committee to study the enrollment adjustment procedure. That committee submitted a report to the Board in September 1985, which has subsequently been widely circulated. Their report states that the present enrollment procedure creates certain adjustments that are not appropriate, although it recommends retention of many features in the present enrollment adjustment. However, the Committee report recommends certain changes, the most significant of which are: (1) replacing the three year cycle with a single year cycle; and (2) replacing the percentage corridor with adjustments related to peer funding benchmarks. It should be noted that this recommendation is conceptually similar to an enrollment adjustment procedure recommended by the Board in fiscal year 1982.

Attachment III of this memorandum lists the actual monetary adjustments applied to General Use budgets during the past two enrollment adjustment cycles. It is noteworthy that all but one of the institutions had positive adjustments during the first cycle. Conversely, four institutions experienced a negative adjustment during the second cycle. Irrespective of many methodological arguments concerning the formula, the reality of base budget reductions is likely to be at least partially responsible for the concern expressed by the institutions.

In considering the enrollment adjustment, the Special Committee may wish to divide its consideration into two levels of analysis, technical and policy. Certainly those two levels of concern have been expressed related to the procedure. Technical considerations are likely to include: the impact of a multi-year versus single-year cycle; whether student services costs are accurately reflected by the formula; and whether the mathematics of the existing formula result in financing anomalies. Conversely, whether corridors should buffer adjustments and whether reductions should occur during times of declining enrollment are largely policy considerations, which appear only marginally related to methodology.

Tuition. K.S.A. 76-719 authorizes the Board to establish all tuition and fees charged by the institutions. In accordance with this statutory

charge, the Board annually establishes incidental tuition rates at its May meeting. The Board also annually publishes a schedule of all fees authorized at the institutions. Inasmuch as the Legislature has granted this authority to the Board legislative input has usually been limited to review and comment concerning tuition rates and fees. Nevertheless, those tuition rates are annually a part of the systemwide material reviewed by the Legislature during its budgetary considerations. The Legislature has given informal guidelines to the Board, such as the long standing general recommendation that tuition should be approximately 25 percent of educational cost. Similarly, the Legislature has sometimes given the Board more specific short term guidelines, such as abolishing Academic Service Fees, which were charged by some of the institutions and deposited in Restricted Use funds. At one time the Board generally refrained from adjusting tuition rates on an annual basis. However, during several recent years tuition has been increased annually.

Other Systemwide Items. Both the Board and the Legislature periodically consider other items on a systemwide basis. Many examples of such considerations exist. The above listing of Board and Legislative consideration of base budget adjustments was not intended to be exhaustive. Rather, it was intended to detail those considerations which have become more or less perennial considerations.

Program Improvement Budgets

As discussed in the introduction to this memorandum, program improvements constitute the second distinct category of budgeting done in Kansas for the Regents' institutions. Annually the institutions prepare a program improvements request. This is done through internal budget hearings within the individual institutions. The program improvement requests are not constrained by a total dollar allocation. The result is a formal printed document, which is submitted to the Board, usually during early May. The program improvements are typically specific requests for increased staffing, new academic programs, or upgrades to specific operating units such as the computing center or library.

The Board considers these program improvements at its June meeting. Prior to the June meeting the Board's staff does a considerable review of these requests. Typically, the Board's staff proceeds with some general guidelines from the Board concerning the total dollar amount of General Use funding they will be willing to support. The result of this staff review is a recommendation to the Board. In considering these program improvement requests the Board's staff considers the relationship of the institution to its peers relative to specific items. For the upcoming FY 1988 budget cycle the Board's staff allocated program improvements at the rate of approximately 4 percent of each institution's General Use base. However, such a flat percentage has not typically been applied.

The Board's staff recommendation is delivered both to the institution and the individual Board members prior to the June Board meeting. During the June meeting each institution is given an opportunity to make a presentation to the Board concerning its program improvements request.

Following the presentations from each institution, the Board makes its recommendations for program improvements. The Board's recommendations are the basis for the agency budget request which must be submitted to the Governor and Legislature by October 1 of each year. It is from this formal budget request that the Governor makes recommendations to the Legislature.

Legislative consideration of program improvements typically begins at the Subcommittee level of the Ways and Means Committees. This differs from systemwide maintenance decisions, which are typically made by the full Ways and Means Committees. The individual program improvements requests are public documents and are available to the Governor, Legislators, and their respective staffs. Certainly the Legislature has the ability to appropriate funds for program improvements which have not been recommended by the Board. Nevertheless, the Board's approval is a critical element considered by the Governor and Legislature in approving new programs. Finally, K.S.A. 76-716 specifies that the Board shall determine the programs and degrees offered by each of the institutions. Therefore, even if money was appropriated for a program the Board would have jurisdiction over its existence.

The institutions have flexibility to reallocate funds internally. Conceptually, the institution could "self-finance" certain program improvements through reallocations. However, such a reallocation would essentially be limited to an equipment or library acquisition effort, as any new program or degree offering requires Board approval. In some instances the Board has approved establishment of a program and recommended that it be financed through reallocations.

Capital Improvement Cycle

The capital improvement procedure applicable to Regents' institutions can be appropriately divided into two major categories, projects financed by the state and projects financed through federal grants, gifts, or endowments. The state projects are typically financed from three sources, the Educational Building Fund, the State General Fund, and fee funds for repayment of bonded indebtedness. When General Revenue Sharing Funds were available, a considerable portion of those funds were also utilized to finance capital improvements at the institutions. The Board has direct responsibility for approval of both state financed and endowment financed projects. Legislative involvement is extensive in the state financed projects. The Legislature also has some involvement in endowment financed projects. Additionally, each issuance of bonds must be separately approved by the Legislature. Remaining portions of this capital improvements discussion are divided into three categories: state financed capital projects; state financed major maintenance projects; and endowment financed projects.

State Financed Capital Projects. The process, utilized by the Board for considering capital projects requests developed throughout the mid 1970s. A program statement or plan is developed for each project, which outlines estimated square footage needed for classrooms, offices, laboratories, etc., by discipline. Each fall, the institutions begin developing requests. By

April 1, they must deliver to the Board the program statements, certain capital improvement request summaries (DA Form 418-A and 418-B), and their five-year capital improvements plan. At its May meeting, the Board makes its recommendations concerning the capital improvements it will recommend for the upcoming budget cycle. As with program improvements, the institutions are not to lobby for capital improvements that have not been recommended by the Board.

During several recent fiscal years, the Board has endorsed capital improvements totaling all estimated receipts to the Educational Building Fund plus a specified amount from the State General Fund. During FY 1987, this request included \$4.0 million from the General Fund, in addition to the \$12.0 million available in the Educational Building Fund.

Legislative review and consideration of Regents' capital improvements has traditionally been extensive. Since 1978, this review has begun with interim study by the Joint Committee on State Building Construction. The Joint Committee makes its recommendations for the upcoming budget cycle to both Ways and Means Committees. The actual appropriations measures are introduced by the Ways and Means Committees, rather than the Joint Committee on State Building Construction. Nevertheless, the recommendations of the Joint Committee are always considered by Ways and Means Committees and rarely will either Ways and Means Committee consider a project that has not been considered by the Joint Committee.

Capital improvements appropriations are frequently made for up to three years in the future, due to the lengthy payout cycle associated with construction. At the present time, the Educational Building Fund is almost totally obligated for several years in the future. Consequently, for the upcoming FY 1988 budget cycle, virtually all estimated receipts to the EBF have been obligated by appropriations of previous Legislatures.

Major Maintenance Projects. For several years, a systemwide major maintenance account has been appropriated to the Board for distribution to the individual institutions. The appropriation is a single line item, allowing the Board flexibility to designate projects and rearrange priorities, as need arises. For FY 1987, \$4.0 million has been appropriated for this purpose. Each year, the Board requests that the institutions submit a prioritized listing of major maintenance requests. Once the funds have been appropriated, they are allocated to the institutions based upon a square footage prorata. The Board then approves specific projects for each institution, based upon the prioritized requests that equal the allocation to each agency. Nevertheless, the approved listing of projects changes throughout the year, as bids are received and work begun.

The square footage prorata results in the following distribution of major maintenance funds to the institutions.

University of Kansas - Lawrence Campus	28%
Kansas State University	22%
University of Kansas - Medical Center	15%
Wichita State University	10%
Fort Hays State University	7%
Emporia State University	7%
Pittsburg State University	7%
Kansas State University - Veterinary Medical Center	3%

Endowment Financed Projects. Annually appropriations have contained a proviso allowing the endowment association of each institution to construct buildings on state property provided: (1) such building project has been approved by the Board; (2) the plans and specifications have been approved by the Secretary of Administration; (3) the project must be totally financed by private funds; and (4) the resulting building shall become state property.

These projects are not required to go through state purchasing and the funds are typically not a part of the state budget. Through passage of 1986 S.B. 645, the Legislature has specified that the Joint Committee on State Building Construction also be advised and consulted on such projects.

Concluding Comments

Due to the magnitude and complexity of these Regents' institutions, the process for budgeting for them is more or less continuous. The schedule for review of upcoming program improvements and capital projects by the Board causes the institutions to develop those requests prior to completion of legislative action on the previous budget cycle.

In its deliberations, the Committee may wish to consider this cycle in deciding which fiscal year its recommendations would become effective.

ATTACHMENT I

EXAMPLE

Calculation of Costs of Enrollment Changes

<u>Discipline</u>	<u>Change in SCH FY 1982-FY 1985</u>			<u>FY 1987 Adjustment Cost Per SCH</u>		
	<u>LD</u>	<u>UD</u>	<u>GI</u>	<u>LD</u>	<u>UD</u>	<u>GI</u>
Biological Science	426	(574)	(36)	\$55.79	\$106.00	\$167.39
Business	89	436	227	19.00	22.81	53.18
Subtotal	<u>515</u>	<u>(138)</u>	<u>191</u>			

<u>Discipline</u>	<u>FY 1987 Funding Adjustment Dollars</u>			
	<u>LD</u>	<u>UD</u>	<u>GI</u>	<u>Total</u>
Biological Science	\$23,767	\$(60,844)	\$(6,026)	\$(43,103)
Business	1,691	9,945	12,072	23,708
Subtotal	<u>\$25,458</u>	<u>\$(50,899)</u>	<u>\$ 6,046</u>	<u>\$(19,395)</u>

ATTACHMENT II

Three Year Enrollment Adjustment Cycles

The first two cycles are outlined below:

1981 Legislature:	Request Year:	FY 1982
	Period of Enrollment Change:	FY 1979-FY 1980
	Base Budget for corridor:	FY 1981
1982 Legislature:	Request Year:	FY 1983
	Period of Enrollment Change:	FY 1979-FY 1981
	Base Budget for corridor:	FY 1982
1983 Legislature:	Request Year:	FY 1984
	Period of Enrollment Change:	FY 1979-FY 1982
	Base Budget for corridor:	FY 1983
1984 Legislature:	Request Year:	FY 1985
	Period of Enrollment Change:	FY 1982-FY 1983
	Base Budget for corridor:	FY 1984
1985 Legislature:	Request Year:	FY 1986
	Period of Enrollment Change:	FY 1982-FY 1984
	Base Budget for corridor:	FY 1985
1986 Legislature:	Request Year:	FY 1987
	Period of Enrollment Change:	FY 1982-FY 1985
	Base Budget for corridor:	FY 1986

ATTACHMENT III

Total Adjustments From Enrollment Adjustment Formula
FY 1982 Through FY 1987

FIRST CYCLE

Cumulative Enrollment Adjustment Funding

FY 1982-FY 1984

<u>Institution</u>	<u>Actual</u> <u>FY 1982</u>	<u>Actual</u> <u>FY 1983</u>	<u>Actual</u> <u>FY 1984</u>	<u>Cumulative</u> <u>FY 82-FY 84</u>
KU	\$ 273,431	\$ 405,444	\$ (577,476)	\$ 101,399
KSU	227,584	1,614,739	560,158	2,402,481
WSU	32,793	399,076	1,172,280	1,604,149
ESU	61,601	(61,601)	(34,475)	(34,475)
PSU	--	31,225	187,422	218,647
FHSU	16,686	148,190	(149,819)	15,057
TOTAL	<u>\$ 612,095</u>	<u>\$ 2,537,073</u>	<u>\$ 1,158,090</u>	<u>\$ 4,307,258</u>

SECOND CYCLE

Cumulative Enrollment Adjustment Funding

FY 1985-FY 1987

<u>Institution</u>	<u>Actual</u> <u>FY 1985</u>	<u>Actual</u> <u>FY 1986</u>	<u>Request</u> <u>FY 1987</u>	<u>Cumulative</u> <u>FY 85-FY 87</u>
KU	\$ --	\$ --	\$ --	\$ --
KSU	--	(1,460,960)	(288,191)	(1,749,151)
WSU	772,201	(120,989)	(269,401)	381,811
ESU	(157,888)	(1,119,823)	(160,883)	(1,438,594)
PSU	--	--	(527,184)	(527,184)
FHSU	--	(149,557)	(264,656)	(414,213)
TOTAL	<u>\$ 614,313</u>	<u>\$(2,851,329)</u>	<u>\$(1,510,315)</u>	<u>\$(3,747,331)</u>

MEMORANDUM

July 30, 1986

TO: Special Committee on Financing of Regents' Institutions
FROM: Kansas Legislative Research Department
RE: Enrollment Adjustment Procedures for Regents' Institutions

Introduction

Review of the enrollment adjustment to budgets of Kansas Regents' institutions is one of the specific charges to this Special Committee. As the enrollment adjustment is somewhat complex, understanding its present features is necessary for evaluation of its limitations or review of proposals for modification. This memorandum was prepared to describe the process used to prepare the enrollment adjustment. Additionally, the financial impact of certain facets of it are reviewed in concluding sections of the memorandum.

The enrollment adjustment is frequently viewed as a single monetary addition or subtraction to the base budget of the universities. However, it is the product of many computations. Costs are displayed in six major components: (1) instruction; (2) library and audio visual; (3) academic administration; (4) student services; (5) institutional administration; and (6) security. The instructional component is the most well known and comprises approximately 70 to 80 percent of a typical gross enrollment adjustment, prior to application of the corridor and allowances for previous enrollment adjustments. The basis of the enrollment adjustment is actual data from each institution, including student credit hour data by discipline, student headcount information, and cost reports. A key feature of the enrollment adjustment is evaluation of each institution, based upon its own costs and changes in enrollment. Consequently, differences between institutional programs or organizations should not impact enrollment adjustments received.

The adjustment is computed based upon actual enrollment and cost data for previous fiscal cycles. Institutions report credit hour data for the most recently completed fiscal year, at the time they are computing the adjustment. For example, the FY 1988 requests have been completed using FY 1986 credit hour production. Costs are produced from the most recent cost report submitted to the Board of Regents. In it institutions detail actual costs for the most recently completed fiscal year. Those costs are adjusted by: (1) subsequent rates of increase for salaries and other operating expenditure, which have been approved by the Legislature; (2) changes attributable to previous enrollment adjustments and program improvements; and (3) changes attributable to major budgetary reallocations. The FY 1988 adjustments have been computed using estimated FY 1987 budgetary data, which is actual FY 1985 expenditures adjusted by the abovementioned factors. Actual cost data lags behind actual

credit hour data by one fiscal year, as credit hour data is known when the spring semester begins whereas cost data is not known until the completion of the fiscal year.

Advantages and disadvantages exist for utilization of any time series. Prior to the present procedure, enrollment estimates were utilized for the adjustment. Estimates have the disadvantage of not being actual data. Conversely, a time lag is always present in any procedure which depends upon actual data. The present credit hour data is approximately two years old when it actually becomes a part of an enrollment adjustment. This allows institutions lead time to adjust enrollment related resource changes, a factor which is beneficial in negative enrollment adjustments, as large-scale programmatic changes are difficult to implement on a short term basis. Conversely, during periods of enrollment increase a lag of approximately two years will occur between the increase in enrollment and the receipt of a resultant budgetary increase.

Attachment I of the memorandum displays an actual enrollment adjustment, with particular emphasis on the instructional component. That attachment may be helpful in visualizing procedures related to components of the adjustment which are detailed in paragraphs which follow.

Instructional Component

The instructional component of the enrollment adjustment is the largest, both in dollars and in data required for its generation. It is produced by comparing changes in student credit hours and costs per credit hour in 24 academic disciplines and four instructional levels. The 24 disciplines and four instructional levels are listed on Attachment I. Computations to produce the adjustment are simple arithmetic, as illustrated in the Attachment. The student credit hour data is routine information, which one would expect to be available. However, identifying costs per credit hour requires some assumptions and becomes rather complex.

Aggregate instructional costs are separately identified for each of the 24 disciplines. A weighting formula is utilized to estimate the costs of the discipline attributable to lower division, upper division, and graduate instructional levels. Ultimately, costs per credit hour are derived through division of costs by credit hours generated. The result is the average costs per credit hour, an example of which is displayed in Attachment I. Changes in student credit hour production are multiplied by those averages to produce a total for each discipline. Those totals are summed to produce an aggregate adjustment for the instructional component.

Credit hour changes are computed as a simple difference between the base year and the comparison year. Presently, a three-year cycle is utilized. During the first year of a cycle, credit hours generated during the most recent fiscal year are subtracted from those of the base year for a single year comparison. During the second year data from the most recent year is subtracted from the base year, a two-year difference. During the third year, data from the most recent year is subtracted from the base year, a three-year

difference. As will be discussed later, this three-year cycle is one aspect of the enrollment adjustment to which the institutions generally object.

A factor which must be considered is that this formula assumes relatively minor changes in credit hour production are related to the cost of instruction at the average cost per credit hour. This relationship is difficult to either prove or disprove, as are marginal costs in many non-industrial settings.

Library/Audio Visual Component

The procedure includes adjustment for the financial impact of changes in student enrollment on the library and audio visual services. A weighted student headcount procedure is utilized, which assigns weights to various student types, principally graduate students, based upon their utilization of the library. The basis for the weighting is previous studies on library utilization. The same weighting factors are used for each institution. Once the weighting has occurred, an average cost per weighted headcount is produced, utilizing general use costs in libraries and audio visual services. It is multiplied by changes in weighted headcount which have occurred between the most recent year and the base year.

The library component of the adjustment varies considerably in its magnitude. In some cases it may be as much as 10 to 15 percent of the gross enrollment adjustment. However, in other cases it may be relatively minor. Its impact largely depends upon whether changes in enrollment have been highly skewed toward graduate or undergraduate students.

Academic Administration

The third cost component of the enrollment adjustment is academic administration. It is produced by multiplying the instructional component of the adjustment by a percentage, which is the ratio of the general use cost of academic administration (principally the academic deans offices) to total academic costs. A separate percentage is computed for each institution.

Academic administration frequently comprises approximately 8 to 11 percent of total academic costs. The academic administration component of the enrollment adjustment frequently comprises approximately 5 to 8 percent of a typical enrollment adjustment.

Student Services and Security

The costs that are adjusted by the fourth component of the enrollment adjustment include general use expenditures related to such student related activities as financial aids, admissions, records, and athletics. An average

cost per fall semester headcount student is computed. This assumes that all students contribute equally to these costs, regardless of academic level or full-time status. Changes in headcount between the base year and the latest year are multiplied by this average.

A separate component of the enrollment adjustment is campus security. Net changes in on-campus headcount between the base year and comparison year are multiplied by an average general use cost per student. Both the student services and security components are relatively small factors in the enrollment adjustment. Separate student service and security cost factors are computed for each institution.

Institutional Administration

The sixth expenditure component of the enrollment adjustment is institutional administration. It is the sum of the other five adjustment components multiplied by a percentage, which is agencywide administration (fiscal services, general administration, executive management, planning, development, etc.) as a percentage of the total general use budget. A separate percentage is computed for each institution. Institutional administration is approximately 10 to 11 percent of a typical institutional budget and is approximately 8 to 10 percent of a typical gross enrollment adjustment.

The Corridor

A gross enrollment adjustment is computed as a simple sum of the abovementioned six components. Once that gross adjustment is computed, it is compared to a corridor. The corridor is a percentage of an agency's base general use budget for the fiscal year. No adjustment is made unless the total exceeds the corridor. Further an adjustment will be made by only the amount which exceeds the corridor. Two corridors have been used during the past six years. The corridor has been plus or minus 1.5 percent at KU, KSU, and WSU and has been plus 1.0 percent and minus 2.0 percent at the three regional universities. The corridor acts as a buffer to adjustments. The concept underlying it is that an institution should not be significantly impacted by relatively minor changes in enrollment. Conversely, larger changes in enrollment should be accompanied by some adjustment to the budget. Whether such a buffer should exist and whether the present corridor percentages are appropriate is the subject of some disagreement. During periods of accelerating enrollment the institution must absorb certain costs due to the corridor. Due to the magnitude of their budgets, the amount which must be absorbed can be considerable, particularly at the larger universities. However, the corridor can also buffer sizeable reductions. Attachment II of this memorandum was prepared to show actual enrollment adjustments which occurred during the past six years, compared to those which would have occurred in the absence of any corridor. Attachments II-A and II-B reflect how the corridor has impacted each institution during the past six years. The data displayed in Attachments II and III may differ from that reflected in

actual appropriations, due to rounding and base budget estimates necessary to reconstruct the enrollment adjustment for certain fiscal years.

The Three-Year Cycle

Enrollment adjustments presently occur on a three-year cycle. The procedure for the credit hour calculations and comparisons has been previously described. Assuming a total adjustment exceeds the corridor, the amount by which it exceeds the corridor must be subtracted from previous adjustments granted during the three-year cycle to produce the net adjustment. Under present procedures such a subtraction is necessary to avoid increasing or decreasing budgets more than once for the same shift in enrollment. The three-year cycle is one aspect of the enrollment adjustment which is not particularly popular with the institutions.

The enrollment adjustment is viewed as an annual adjustment to agency base budgets. However, the multiyear subtraction feature causes only the net adjustment for the three-year cycle to become a permanent part of agency base budgets. This feature causes some examples to surface in which the year a shift occurs during a three-year cycle significantly impacts the permanent budgetary adjustment. As the three-year cycle has received considerable attention, Attachment III was developed showing adjustments which would have occurred during the past cycle if a single-year cycle had been utilized.

S86-172/RH

Summary of Cycle 1 FY 1982 to FY 1984

Summary of Cycle 2 FY 1985 to FY 1987

	KU	KSU	WSU	ESU	FWSU	PSU	Statewide Total Cycle 1	KU	KSU	WSU	ESU	FWSU	PSU	Statewide Total Cycle 2
Gross Adjustment for cycle	3,762,394	6,755,151	3,586,743	(74,596)	639,818	593,655	15,263,165	(554,654)	(5,913,238)	3,676,317	(3,971,336)	(1,559,335)	(1,252,790)	(9,575,036)
Net Adjustment after corridor	952,306	4,472,390	2,068,811	27,124	198,565	249,872	7,969,068	0	(3,207,594)	1,809,500	(2,872,524)	(563,772)	(529,657)	(5,363,367)
Net Adjust- ment cycle	101,399	2,402,483	1,604,149	(34,477)	17,003	218,647	4,309,204	0	(1,746,634)	386,167	(1,436,925)	(414,215)	(529,657)	(3,741,264)

Enrollment Adjustment Summary FY 82 thru FY 87 Univ of Kansas

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	1,289,377	1,790,622	682,395	3,762,394	328,228	(682,785)	(200,097)	(554,654)
Corridor	1,015,946	1,111,747	1,213,145		1,207,942	(1,307,208)	(1,383,758)	
Net Adjustment	273,431	678,875	0	952,306	0	0	0	0
Minus Prev Adjust	0	273,431	678,875		0	0	0	
Actual Adjustment	273,431	405,444	(577,476)	101,399	0	0	0	0

Enrollment Adjustment Summary FY 82 thru FY 87 KSU

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	912,710	2,603,979	3,238,462	6,755,151	(787,866)	(2,400,486)	(2,724,886)	(5,913,238)
Corridor	685,126	761,656	835,979		860,815	(939,526)	(978,252)	
Net Adjustment	227,584	1,842,323	2,402,483	4,472,390	0	(1,460,960)	(1,746,634)	(3,207,594)
Minus Prev Adjust	0	227,584	1,842,323		0	0	(1,460,960)	
Actual Adjustment	227,584	1,614,739	560,160	2,402,483	0	(1,460,960)	(285,674)	(1,746,634)

Enrollment Adjustment Summary FY 82 thru FY 87 WSU

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	494,954	937,075	2,154,714	3,586,743	1,340,678	1,283,784	1,051,855	3,676,317
Corridor	462,161	505,206	550,565		568,501	632,953	665,683	
Net Adjustment	32,793	431,869	1,604,149	2,068,811	772,177	651,231	386,172	1,809,580
Minus Prev Adjust	0	32,793	431,869		0	(772,201)	(651,212)	
Actual Adjustment	32,793	399,076	1,172,280	1,604,149	772,177	(120,970)	(265,040)	386,167

Attachment II-B

Enrollment Adjustment Summary FY 82 thru FY 87 ESU

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	213,522	100,000	(388,118)	(74,596)	(504,588)	(1,651,622)	(1,815,126)	(3,971,336)
Corridor	151,921	165,358	(353,641)		(346,401)	373,893	378,518	
Net Adjustment	61,601	0	(34,477)	27,124	(158,187)	(1,277,729)	(1,436,608)	(2,872,524)
Minus Prev Adjust	0	61,601	0		0	(157,888)	(1,277,711)	
Actual Adjustment	61,601	(61,601)	(34,477)	(34,477)	(158,187)	(1,119,841)	(158,897)	(1,436,925)

Enrollment Adjustment Summary FY 82 thru FY 87 FRSU

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	146,415	309,459	183,944	639,818	(281,903)	(497,059)	(780,373)	(1,559,335)
Corridor	129,729	144,583	166,941		(334,831)	(347,501)	(366,159)	
Net Adjustment	16,686	164,876	17,003	198,565	0	(149,558)	(414,214)	(563,772)
Minus Prev Adjust	0	16,686	164,876		0	0	(149,557)	
Actual Adjustment	16,686	148,190	(147,873)	17,003	0	(149,558)	(264,657)	(414,215)

Enrollment Adjustment Summary FY 82 thru FY 87 PSU

	FY 82	FY 83	FY 84	Tot Cyc 1	FY 85	FY 86	FY 87	Tot Cyc 2
Gross Adjustment	15,646	188,923	389,086	593,655	(4,796)	(330,813)	(917,181)	(1,252,790)
Corridor	144,126	157,698	170,439		(337,982)	368,021	387,524	
Adjustment	0	31,225	218,647	249,872	0	0	(529,657)	(529,657)
Minus Prev Adjust	0	0	31,225		0	0	0	
Actual Adjustment	0	31,225	187,422	218,647	0	0	(529,657)	(529,657)

Summary of Cycle FY 1985 to FY 1987 Assuming Year to Year Option

	KU	KSU	WSU	ESU	FHSU	PSU	TOTAL
Gross Adj. for Cycle	117,150	(2,363,941)	671,129	(1,572,848)	(579,207)	(854,233)	(4,581,950)
Estimated Adjustment For Cycle	0	(573,316)	772,177	(753,395)	0	(148,954)	(703,488)
Actual Adjustment For Cycle	0	(1,749,151)	381,811	(1,438,594)	(414,213)	(527,184)	(3,747,331)

Attachment III-A

Summary KU FY 85 to FY87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	328,228	(908,799)	697,721	117,150
Corridor	1,207,942	(1,307,208)	1,383,758	
Net Adjustment	0	0	0	0
Minus Prev Adjust	0	0	0	
Actual Adjustment	0	0	0	0

Summary KSU FY 85 to FY87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	(787,866)	(1,512,842)	(63,233)	(2,363,941)
Corridor	860,815	(939,526)	(978,252)	
Net Adjustment	0	(573,316)	0	(573,316)
Minus Prev Adjust	0	0	0	
Actual Adjustment	0	(573,316)	0	(573,316)

Summary WSU FY 85 to FY87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	1,340,678	(529,083)	(140,466)	671,129
Corridor	568,501	(632,553)	(665,683)	
Net Adjustment	772,177	0	0	772,177
Minus Prev Adjust	0	0	0	
Actual Adjustment	772,177	0	0	772,177

Summary ESU FY 85 to FY87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	(504,588)	(969,101)	(99,159)	(1,572,848)
Corridor	(346,401)	(373,893)	(378,518)	
Net Adjustment	(158,187)	(595,208)	0	(753,395)
Minus Prev Adjust	0	0	0	
Actual Adjustment	(158,187)	(595,208)	0	(753,395)

Summary FHSU FY 85 to FY 87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	(281,903)	(138,609)	(158,695)	(579,207)
Corridor	(334,831)	(347,501)	(366,159)	
Net Adjustment	0	0	0	0
Minus Prev Adjust	0	0	0	
Actual Adjustment	0	0	0	0

Summary PSU FY 85 to FY87 Year to Year Option

	FY 85	FY 86	FY 87	Tot Cycle
Gross Adjustment	(4,796)	(312,959)	(536,478)	(854,233)
Corridor	(337,982)	(368,021)	387,524	
Net Adjustment	0	0	(148,954)	(148,954)
Minus Prev Adjust	0	0	0	
Actual Adjustment	0	0	(148,954)	(148,954)

MEMORANDUM

October 22, 1986

TO: Special Committee On Financing of Regents' Institutions
FROM: Kansas Legislative Research Department
RE: University General Fees Funds

Introduction

Tuition receipts are credited to the General Fees Fund of the University where collected. Tuition receipts are considered general use moneys and General Fees Funds receipts are budgeted as an offset to amounts appropriated from the State General Fund. An expenditure limit has traditionally been placed on the General Fees Funds of university budgets.

To avoid shortfalls in university operations, the Legislature has been relatively consistent in appropriating supplemental funding from the State General Fund, when tuition collections have fallen below estimates. However, less consistency has occurred with respect to disposition of collections when they have exceeded estimates. At issue is whether to release the unexpected revenue during the fiscal year in which collected or retain it as an offset to State General Fund requirements in the succeeding fiscal year. This matter will be considered by the 1987 Legislature, as a request has been made for release of unanticipated fee collections at three universities. Accordingly, this memorandum was prepared to provide background and potential considerations on the subject of fee release.

Gubernatorial and legislative reaction to requests for release of tuition has varied. Budgets from 1970 through 1986 reflect that all three Governors, serving during those years, have at some point recommended release of fees. Various sessions of the Legislature have also approved fee releases. Fee releases appeared most common during the mid-1970s when systemwide enrollment increases frequently exceeded 2,000 students annually. Fee releases have traditionally been outside an agency's base budget, as enrollment adjustments would compensate institutions for increased students during succeeding fiscal years.

During the last several years, relatively few fee releases have occurred. This is at least partially due to general enrollment declines, making unexpected tuition collections an occurrence of relative rarity. Further, since 1981 legislative adoption of the corridor enrollment adjustment procedure, no fee releases have been authorized.

Fee Fund Income Estimating

The subject of supplementing fee losses or releasing fee increases arises due to variances between actual collections and previous estimates. Three components generally comprise the General Fee Fund estimate. First, the number of students must be projected. Second, the average collection per student must be estimated. Finally, the Fee Fund balance at the beginning of the fiscal year must be estimated. Obviously, the potential for variance exists in any of the three and those variances can be offsetting. For example, if more students enroll than projected, but they are part-time students, the student count can increase while the average collection per student decreases. Similarly, shift in the institutions' mix of residents and nonresidents significantly impacts the average collection per student.

Institutions submit two revisions of student enrollment and average fee receipts during a fiscal year, in addition to those contained in the budget document itself. Those revisions are submitted in October (following fall enrollment) and February (following spring enrollment). Each estimate is accompanied by detail concerning estimated or actual headcount enrollment for the fall, spring, and summer semesters. The first formal projection of fee income for an upcoming fiscal year is made when the budget is submitted during the fall. That projection contains estimated enrollment for each semester of the coming fiscal year. Those future year projections may be revised during the fall and spring semesters, when the current year estimates are formally revised in October and February. Estimates may be revised approximately six times between original submittal and the deposit of final actual receipts. The Board of Regents has typically allowed the institutions flexibility in their enrollment estimating procedures. No formal systemwide directives are given by the Board related to estimating the fee income.

Previous legislative consideration of the fee release issue resulted in a 1976 House Ways and Means subcommittee report which recommended three general principles for fee release:

1. no increases in beginning carry-forward balances from the previous fiscal year should be released;
2. campuses should not be permitted access to additional income resulting from an original underestimation of average collections per student; and
3. the only funds which should be released are the additional receipts attributed to higher than estimated enrollments.

Those general principles guided legislative consideration of fee release issues for several of the years. Nevertheless, they were not always followed when the Legislature approved fee releases.

Issues for Consideration

Those previous guidelines do not address certain issues which could be considered:

1. Should fees resulting from increased enrollment be released if the average fee per student is below projections? If so, an institution can receive a fee release concurrent with a State General Fund supplemental appropriation.
2. Should a more precise definition be given to enrollment increase? Many requests for fee release are the result of increases to earlier projections. If those projections predicted enrollment decrease, then an institution could receive possible windfalls due to underestimating fee income.
3. Should fee release be considered if the additional students do not generate a positive enrollment adjustment in the succeeding fiscal year.
4. Should a fee release be subtracted from the amounts institutions eventually receive as part of the enrollment adjustment?
5. Should more stringent guidelines be applied to enrollment estimates if fee releases are considered?
6. Should requests for fee release be accompanied by a narrative description detailing uses of the proposed expenditures?
7. If fee release is deemed appropriate, how are institutions to be financed during the fiscal year which intervenes between the fee release and receipt of the related enrollment adjustment?

Fiscal Year 1988 Requests

At its October 17-18, 1986 meeting the Board reviewed Fee Fund estimates given actual fall enrollments. The Board has approved three requests for FY 1987 State General Fund supplementation of Fee Fund undercollections which total \$277,746. The Board is also recommending FY 1987 release of unanticipated collections at three institutions, totaling \$1,496,110.

In making this request to the Governor and Legislature, the Board is defining increased enrollment as the difference between actual fall enrollments and fall enrollments of the previous fall. This avoids the double financing which would occur if an institution experienced an enrollment increase having originally projected a decrease. The Board is not recommending release of funding that results from increased beginning balances or increased average collections. Table I shows the change in projected receipts by source (changed enrollment, changed average collection, or increased ending balance) for each of the institutions.

TABLE I October 1986 Revision of General Fees Funds

	Univ of Ks	Ks St Univ	Wichita St Univ	Emporia St U.	Ft. Hays St U.	Pittsburg St	KSU Vet Med	K.U. Med Ctr.	Ks. Tech.	Totals
Change In Enrollment	\$1,552,820	\$979,179	\$82,151	(\$1,037)	(\$38,199)	\$100,740	\$3,780	(\$43,770)	(\$1,550)	\$2,634,114
Change In Ave. Fee	\$86,721	(\$378,226)	(\$111,151)	\$48,398	\$49,842		\$65,328	(\$126,383)	(\$42,436)	(\$407,907)
Change In Beg. Bal.	\$575,057	\$226,559	\$647,694	\$19,865	\$5,839		(\$8,711)	\$63,751	(\$15,465)	\$1,513,789
Other Fee Changes				\$8,138	\$250		(\$172,290)			(\$163,902)
Total Change	\$2,214,598	\$827,512	\$618,694	\$75,364	\$16,932	\$100,740	(\$111,893)	(\$106,402)	(\$59,451)	\$3,576,094
Fee Release Rec. by Board of Regents	\$1,271,224	\$124,146	\$0	\$0	\$0	\$100,740				\$1,496,110
Supplemental Approp. Rec. by Board of Regents	\$0	\$0	\$0	\$0	\$0		\$111,893	\$106,402	\$59,451	\$277,746

Note: The Board of Regents recognized changes in enrollment when compared to those of the previous fall. The Board did not recognize increases compared to agency projections. For this reason the release recommended by the Board is less than requested by K.U or K.S.U.

Kansas Board of Regents
July 1, 1986

REGENTS UNIVERSITIES AND THEIR PEER INSTITUTIONS

Regents Universities

Peer Institutions

University of Kansas

University of Colorado
University of Iowa
Univ. of N. Carolina--Chapel Hill
University of Oklahoma
University of Oregon

Kansas State University

Colorado State University
Iowa State University
North Carolina State University
Oklahoma State University
Oregon State University

Wichita State University

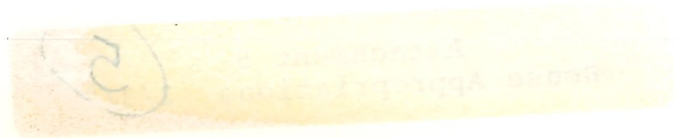
University of Akron
- Portland State University
Virginia Commonwealth Univ.
- Univ. of N. Carolina--Greensboro
Univ. of Wisconsin--Milwaukee
Western Michigan University

Emporia State University
Pittsburg State University
Fort Hays State University

Eastern New Mexico University
Murray State University KY
Western Carolina University -N.C.
- Central Oklahoma University
Eastern Washington University
Northern Arizona University

General Use Funding of Regents' Universities
Relative to Peer Averages -- FY 1983

<u>Institution</u>	<u>Salaries and Wages</u>	<u>Other Operating Expend.</u>	<u>Total Operating</u>
University of Kansas	88.8%	59.5%	82.7%
Kansas State Univ.	88.8	59.7	81.9
Wichita State Univ.	83.8	75.0	82.3
Emporia State Univ.	95.8	70.6	91.2
Ft. Hays State Univ.	84.9	68.0	81.9
Pittsburg State Univ.	91.4	65.5	86.3
Total	<u>88.7%</u>	<u>61.4%</u>	<u>83.1%</u>



		Regents			<u>88</u>	<u>88</u>
		'86	Rev. '87	'88	<u>86</u>	Rev. 87
E.S.U.	(GF) *	16,190,469	16,048,516	16,757,353	3.5%	4.42%
	(All)	27,441,905	28,024,027	29,027,512	5.78	3.58
T. Hays		15,865,833	15,510,716	16,394,404	3.31	5.70
		28,814,894	27,508,095	29,036,592	0.77	5.55
K.S.U.		79,201,248	78,122,318	83,715,582	5.70	7.16
		162,661,102	172,885,503	186,403,854	14.6	7.82
let med		5,837,881	5,889,596	6,137,189	5.14	4.21
		9,425,423	9,331,074	9,949,960	5.56	6.62
K.T.I.		3,190,434	3,145,203	3,129,851	(1.93)	(0.51)
		4,112,177	3,904,688	3,898,719	(5.2)	(0.15)
P.S.U.		16,828,270	15,849,887	17,240,066	2.45	8.78
		27,537,380	26,705,837	27,970,319	1.57	12.23
K.U.		81,302,664	79,212,492	86,649,699	6.58	9.39
		172,296,404	185,162,667	199,997,028	16.08	8.01
KUMC		57,048,532	42,928,732*	59,514,244	4.32	*
		172,205,595	181,593,418	188,064,020	9.2	3.56
W.S.U.		37,331,119	35,340,143	39,199,168	5.0	10.9
		75,174,251	75,667,645	87,862,306	16.88	16.12
Bd. of Regents		6,077,877	6,388,096	6,409,375	5.46	0.33
		7,760,945	7,641,369	8,819,833	13.65	15.42
Total GF		* 318,874,327	* 298,435,699	* 335,196,931	5.12%	12.3%
Total All funds		661,500,076	718,424,323	771,030,123	16.56	7.32%

* \$9.7 million one time offset of SGF due to special payment.