

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson Dave Kerr at 11:00 a.m. on January 12, 1996 in Room 123-S of the Capitol.

All members were present except: Senator Moran and Senator Rock
Senator Salisbury and Senator Burke, who were excused

Committee staff present: Alan Conroy Legislative Research Department
Laura Howard, Legislative Research Department
Russell Mills, Legislative Research Department
Norman Furse, Revisor of Statutes
Michael Corrigan, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee: Laura Howard, Legislative Research Department

Others attending: See attached list

Senator Brady moved, Senator Karr seconded, that the minutes of the January 9 meeting be approved. The motion carried on a voice vote.

It was moved by Senator Vancrum and seconded by Senator Karr that the minutes of the January 10 meeting be approved. The motion carried on a voice vote.

Chairman Kerr invited House members assigned to the Regents budget to the meeting and encouraged them to participate in the discussion.

Laura Howard, Kansas Legislative Research Department, distributed copies of a staff report on Regents funding issues (Attachment 1). She reviewed the current Regents funding process, the Board of Regents' accountability proposal, recommendations of the 1995 interim committee, and the Governor's new focus in Regents institutions' financing.

There was discussion regarding the Regents' accountability proposal:

*In response to a question regarding the portion of the tuition revenue that would be retained by the colleges (Attachment 1-7), Ms. Howard stated that the percentage is intended to be a budgetary item each year that will be determined by the Board of Regents. It was noted that there could be a situation in which revenue reductions from enrollment loss would occur, but the university would seek to keep a percentage of the tuition rate increase.

*The "floor" below which revenues would fall before triggering an SGF supplemental has not been determined. One university representative suggested that there be no floor. (Attachment 1-10).

In reviewing the 1995 interim committee recommendations regarding Proposal No. 51 (Attachment 1-6), Ms. Howard pointed out that the Committee believed

- now is the time to begin serious discussion of modifications that would allow for a shift to the operating grant process
- one critical aspect of the shift is the early and thorough development of performance goals which are measurable
- there needs to be a consensus of what the performance measures are among the entities in order to link operating grants to performance
- the focus of the new model of regents budgeting should not be enrollment driven

In answer to a question regarding the proposal that KU and KSU convert to a linear (per credit hour) tuition (Attachment 1-16), Ms. Howard stated that she would make a table available to the Committee that would illustrate the impact on each student based on the number of hours in which that student is enrolled. She stated

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS, Room 123-S Statehouse, at 11:00 a.m. on January 12, 1996.

that in order to address the potential shortfall in tuition revenues because of this conversion, the Board of Regents has recommended a 6% tuition increase at both KU and KSU. In estimating the potential shortfall, it was noted that the universities did factor in behavioral estimates.

The Chairman observed that the out-of-state population at the universities had decreased because of higher nonresident tuition. He commented that measures should probably be included that would provide disincentives for the universities to pursue the nonresident students and their higher tuition revenues more aggressively than resident students.

Chairman Kerr thanked members for their attendance and adjourned the meeting at 11:55 A.M. The next meeting is scheduled for January 16, 1996.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: JANUARY 12, 1996

NAME	REPRESENTING
Senators Ranson	
John Collar	
WARREN CORMAN	BD. OF REGENTS
Amy Slater	Sen. Salisbury
TED AYRES	REGENTS STAFF
Ron Pflugholtz	FHSU
Steve Stephens	ESU
Cuss Eckhart	ESU
Bill Wollenbeck	PSU
DENISE MUSSER	BD. OF REGENTS
David J. Monical	Washburn
Stephen Jordan	BL of Regents
JOHN HIEBERT	ED of REGENTS
John Collar	Univ. Daily Kansan
Richard Bauman	KDOT
Ed Walbevern	Washburn
William Reid	Independent Colleges
Hardenburger, J.	Senate
Elaine Frisbie	Division of the Budget

Senate Ways and Means Committee
Staff Report on Regents Funding Issues

- I. Current Regents Funding Process**
- II. Board of Regents Tuition Accountability Proposal**
- III. 1995 Interim Committee Recommendation**
- IV. Governor's New Focus in Regents Institutions' Financing**

Kansas Legislative Research Department
January 12, 1996

SWAM
January 12, 1996
Attachment 1

I. Current Regents Funding Process

CURRENT REGENTS FUNDING PROCESS

FINANCING REGENTS BUDGETS

In Kansas, the terms "general use" and "restricted use" funds are central to the discussion of Regents financing. These are the two major sources used to fund institutional operating budgets. The following defines and provides examples of both terms.

General Use		Restricted Use
<p>Funds that can be used to provide general financial support of institutional operating budgets.</p> <ul style="list-style-type: none">• State General Fund• Tuition (General Fees Funds)• Interest on Certain Investments• Federal Land Grant Funds• Hospital and Laboratory Revenue Funds		<p>Funds that must be used in a manner consistent with the conditions attached to the receipt of the funds.</p> <ul style="list-style-type: none">• Parking Fees• Student Union Fees• Gifts, Grants, and Contracts• Student Fees Other than Tuition• Other Income Generated by Campus Revenue Producing Activities• Revenue Not Designated as General Use

- Most consideration is given to the General Use budget
- Tuition revenues are budgeted interchangeably with, and as an offset to, amounts appropriated from the State General Fund. Available tuition dollars are used first to finance the budget

FINANCING THE GENERAL USE BUDGET

Institution A	Institution B	Institution C
General Use Budget \$30.0 million	General Use Budget \$30.0 million	General Use Budget \$30.0 million
Tuition Available \$5.0 million	Tuition Available \$6.0 million	Tuition Available \$4.0 million
SGF for Remainder \$25.0 million	SGF for Remainder \$24.0 million	SGF for Remainder \$26.0 million

- A number of factors affect the level of tuition receipts including enrollments and the average fee collected per student which is dependent on student residency status, whether the student is attending full-time, and whether the student is an undergraduate or graduate
- Changes in tuition receipts affect the source of funding (tuition or State General Fund) available to finance the budget, not the total level of expenditures. The enrollment adjustment is the formula which is used to adjust expenditures based on changes in enrollment:

If receipts exceed estimates, the level of State General Fund support can be reduced

If receipts fall short of estimates, additional State General Fund dollars are requested

EXAMPLE OF CHANGE IN TUITION RECEIPTS ON GENERAL USE BUDGET

Original Appropriation		
\$38,000,000	SGF	
<u>12,000,000</u>	Tuition	
\$50,000,000	Total	
Fall or Spring Revision		
More Tuition Revenue		Less Tuition Revenue
\$37,500,000	SGF	\$38,500,000
<u>12,500,000</u>	Tuition	<u>11,500,000</u>
\$50,000,000	Total	\$50,000,000
\$500,000	SGF Savings	\$500,000
		SGF Cost

COMPONENTS USED IN REGENTS BUDGETING

- Discussion begins with the base budget
- The funding process has both incremental and formula-based components:

ADJUSTED BASE
+
Percentage Adjustments
+
Enrollment Adjustment
+
Servicing New Buildings
+
Program Enhancements
=
BUDGET REQUEST

II. Board of Regents Tuition Accountability Proposal

BOARD OF REGENTS TUITION ACCOUNTABILITY PROPOSAL

The Board of Regents has endorsed a proposal which would change, for certain Regents institutions, the current manner in which tuition revenue is budgeted and controlled. The proposal is incorporated in the FY 1997 budget requests for the University of Kansas, Kansas State University and Wichita State University.

- **The proposal would allow Regents institutions to have greater control over tuition revenues**
 - ▶ The proposal would implement tuition accountability at KU, KSU and WSU in FY 1997
 - ▶ A student credit hour and tuition revenue base would be established, using FY 1996 as a base, with redevelopment every three years

- **Base tuition revenues will continue to be budgeted interchangeably with the State General Fund**
 - ▶ **All revenue from enrollment growth** would be retained by KU, KSU and WSU, but requests would not be made for enrollment adjustment funding
 - ▶ **Revenue reductions from enrollment loss** would be absorbed by the institutions; no requests would be made for supplemental appropriations unless revenue fell below an established floor
 - ▶ **A portion of the revenue associated with tuition rate increases** would be retained by the institution to address OOE and equipment deficiencies. *For FY 1997, the Board of Regents has authorized a request for retention of 25% of the 3.0 percent general tuition rate increase. The remaining 75 percent would continue to be budgeted interchangeably with the State General Fund.*

- **Remaining institutions would stay on existing budgeting methods and could still request enrollment adjustment funding**

EFFECT OF CONVERSION TO TUITION ACCOUNTABILITY

Gradual Enrollment Growth:	Gradual Enrollment Decline:
<ul style="list-style-type: none">• Current Policy. Increased tuition is used to offset SGF. With gradual growth institutions receive no enrollment adjustment funding so total expenditures remain flat.• Tuition Accountability. Tuition revenue will increase marginally and the increased revenue would be available for expenditure. SGF would not be reduced.	<ul style="list-style-type: none">• Current Policy. State General Fund dollars are used to supplement decreased tuition revenues to maintain a flat level of expenditures.• Tuition Accountability. The institution would have to decrease its expenditures based on the decline in tuition revenue. No SGF would be requested for the shortfall.

**CURRENT TUITION POLICY COMPARED TO
REGENTS TUITION ACCOUNTABILITY PROPOSAL**

Current Policy

Tuition Accountability

General Description

Tuition is budgeted interchangeably with the State General Fund.

A base amount of tuition is budgeted interchangeably with the State General Fund. The base is re-established every three years. Institutions maintain control over amounts in addition to base.

What Happens When Tuition Revenue Increases?

Demand on the State General Fund is reduced.

Institutions receive additional State General Fund dollars only if enrollment increase is of such magnitude to trigger funding under the enrollment adjustment formula.

Depends on WHY tuition revenue increased:



Institutions retain a portion to address OOE and equipment deficiencies with remainder budgeted to offset SGF. The portion is based on the budget request. For FY 1997, the Board has authorized a request for 25% of the rate increase:

KU	\$488,521
KSU	278,255
WSU	184,159

Institution retains increased revenue. No SGF offset. No request for enrollment adjustment funding. Tuition earned from new students set aside to cover costs of accepting those students.

Current Policy

Tuition Accountability

What Happens When Tuition Revenue Decreases?

Demand on the State General Fund is increased

If enrollment declines, and revenue is less, the institution would reduce its budget to absorb the loss. No State General Fund supplemental unless level falls below an established floor.

If change is due to declining enrollment, institutions may lose base funding only if reduction is of such magnitude to trigger loss of funding under the enrollment adjustment formula.

Effect of Proposed Change on Other Funding Components

Enrollment Adjustment	Eliminated
Servicing New Building	No Change
Maintenance (%) Adjustments	No Change
Mission-Related Program Enhancements	No Change

Which Institutions Will Fall Under Which Policy in FY 1997?

Emporia State University	University of Kansas
Fort Hays State University	Kansas State University
Pittsburg State University	Wichita State University
KSU-Salina	
KSU-Veterinary Medical Center	
University of Kansas Medical Center	

III. 1995 INTERIM COMMITTEE RECOMMENDATIONS

1995 INTERIM COMMITTEE RECOMMENDATIONS

A number of proposals related to Regents financing were studied during the 1995 interim by both the Legislative Budget Committee and the Special Committee on Ways and Means/Appropriations. Four proposals dealt specifically with general financing issues or specific budget components.

Proposal No. 51

STUDY TOPIC: *Budgeting for Regents institutions, including tuition adjustments and incorporating fundamental changes in the interest of greater flexibility and management authority at the institutional and State Board level.*

Summary of Conclusions and Recommendations: The Committee recommends introduction of legislation to authorize the Director of Purchases to delegate local purchasing authority in amounts up to \$25,000 to Regents institutions, an increase from \$10,000 in current law.

The Committee also recommends that Regents budgeting be shifted in a direction which emphasizes greater flexibility at the institutional level and budget review focused on clear policy and performance objectives. The Committee recommends that discussion ensue regarding a shift to a State General Fund operating grant tied to institutional attainment of performance objectives, along with institutional control over tuition revenues.

Proposal No. 52

STUDY TOPIC: *Use of the enrollment adjustment corridor in the funding of Regents' institutions, especially the concept of multi-year rebasing to the enrollment adjustment mechanism and adjusting the positive enrollment corridors to more closely mirror negative enrollment adjustment corridors.*

Summary of Conclusions and Recommendations: The Committee makes no recommendations on this topic. Endorsement of institutional control over tuition and the recommendation to establish a State General Fund operating grant would eliminate a specific enrollment adjustment.

Proposal No. 63

STUDY TOPIC: *Review of current statutes regarding acquisition of property by Regents institutions, review of Regents' formula for servicing new buildings, general review of the current level of funding and staffing for all buildings on Regents institution campuses with a view toward increasing the level of legislative oversight, and developing a policy on the level of maintenance support to be provided from the State General Fund.*

Summary of Conclusions and Recommendations: The Committee recommends that the staffing formula for new buildings be changed to allow for the addition of 1.0 FTE position for each 16,000 gross square feet (gsf) of new space. (The current ratio is 1.0 FTE position for each 10,500 gsf.) The Committee also recommends that Regents institutions adopt this same standard as a target goal for existing campus space.

Proposal No. 64

STUDY TOPIC: *Review of formula for funding utility expenditures at the Regents institutions, including consideration of an approach which incorporates incentives for utility expenditure savings.*

Summary of Conclusions and Recommendations: The Committee recommends that the current practice of funding utility expenditures through a separate line-item be discontinued and that utilities be funded as a part of general institutional operating expenditures. Institutions would be allowed to retain utility savings for other uses but would be required to absorb additional utility expenses. A three-year phase-in period is recommended, and institutions are encouraged to establish reserve funds over that time period. The Committee recommends that utilities for new buildings be funded at a level equal to 60 percent of the institution's average cost for all space.

IV. Governor's New Focus in Regents Institutions' Financing

GOVERNOR'S NEW FOCUS IN REGENTS INSTITUTIONS' FINANCING

The *Governor's Budget Report* includes a discussion of policy and budgetary recommendations in three areas to address a variety of issues facing Regents institutions. The report states that the recommendations are intended to "help the Regents institutions meet the challenge of providing services to a growing student population while preserving both the quality and availability of a post-secondary education."

The three areas are:

- **Performance Grants**
- **Tuition Accountability**
- **Performance Measures**

Performance Grants

- The Governor recommends a single State General Fund appropriation for salaries and all other operating expenditures instead of separate line-items for operating expenditures, utilities and other items.
- The dollars will be used by the universities to address their highest operating priorities.
- The Governor recommends that the base for these performance grants be re-evaluated every three years.

Tuition Accountability

- The Governor recommends tuition accountability at KU and KSU in FY 1997, including retention of one-fourth of the tuition revenue generated by tuition rate increases to address priority funding needs.

The recommended FY 1997 budget includes \$470,960 at KU and \$276,940 at KSU.

- The Governor indicates that allowing these universities to retain these tuition revenues, rather than offsetting the State General Fund, addresses funding equity issues at the larger, research institutions. *The funded will be targeted towards equipment and other operating expenditures in the Instruction Program.*
- The Governor endorses the other part of tuition accountability as well:
 - The two campuses will retain all tuition revenue from enrollment growth to finance the costs of higher enrollment.
 - When enrollment declines result in reduced tuition revenue, the campuses will absorb the income loss.
- **The practice of requesting State General Fund dollars for enrollment growth through the enrollment adjustment formula will be eliminated.**
- The proposal assumes that KU and KSU will convert to a linear (per credit hour) tuition structure in the fall of 1996.
- The Governor does not recommend that Wichita State be included in the proposal in FY 1997. The Governor recommends that implementation be delayed until after the University removes its linear tuition cap (currently 15 hours) beginning in fall 1997.

Performance Measures

The Governor indicates that changes to the funding mechanism "will require accountability on the part of the universities to ensure that the funding received from the state is being used to further goals commonly accepted as suitable."

In designing a performance measuring system, the government notes the following important elements: **(1) availability of data; (2) simplicity; and (3) flexibility to measure performance by different kinds of universities.**

- At the request of the Division of the Budget, KU and KSU have developed, in consultation with the Board of Regents, a preliminary set of performance measures.
- These measures are intended, according to the Governor, as a starting point for discussion as to what goals and measures would be **appropriate and consistent with each university's unique mission.**

- Examples of proposed measures include:

Measures of Student Progress
Measures of Faculty Activities
Measures of Research and Graduate Programs
Measures of University-Specific Programs

- Under the Governor's proposal regarding performance measures:

- 1. Baseline data would be established for the most recent fiscal year.**
- 2. A goal would be established for each measure that would track progress after three years (coinciding with evaluation of the first funding base established in FY 1997), and again after five years.**

- The Governor does not include the three regional universities (ESU, PSU and FHSU) in the new performance budgeting proposal at this time based on the recommendations of the Board of Regents.

In general the Governor indicates that his budget policy changes are "intended to provide universities with the necessary flexibility to prepare for large enrollment growth projected in the next decade, while requiring accountability."

Source: *The Governor's Budget Report, Volume 1, Fiscal Year 1997*

Preliminary Performance Measures *

Instructional Program	<u>FY 1995</u>	<u>Goal FY 2000</u>	<u>Goal FY 2002</u>
1. Percent of undergraduate credit hours taught by faculty	83.0%	85.0%	85.0%
2. Percent of undergraduate credit hours taught by graduate teaching assistants	17.0%	15.0%	15.0%
<i>Faculty includes tenure/tenure track and instructors. Undergraduate credit hours include courses numbered 000-699.</i>			
3. Undergraduate Student Retention Rates (Students retained after one year)			
ACT < 21	54.3%	60.0%	60.0%
ACT 21 - 25	77.0%	78.0%	78.0%
ACT > 25	89.2%	89.0%	89.0%
Total Students	74.2%	76.0%	76.0%
4. Undergraduate Student Graduation Rates (Including a rate over four years, five years and six years)			
ACT < 21	34.8%	38.0%	38.0%
ACT 21-25	53.0%	55.0%	55.0%
ACT > 25	64.9%	70.0%	70.0%
Total Students	48.1%	56.0%	56.0%

Retention and Graduation Rates are calculated according to national guidelines.

Graduate & Research Programs

1. Academic Science and Engineering Research and Development Expenditures			
a. Millions of Dollars	\$95.7	\$110.0	\$120.0
b. National Ranking (of 500 total)	73	70	70
2. National ranking on federally-financed research	90	85	85
3. Proposals submitted to external funding agencies			
a. Number of Proposals	1,111	1,100	1,100
b. Dollar Value Expressed in Millions	\$170.7	\$195.0	\$210.0

Source: National Science Foundation Survey on Academic Science and Engineering: Research & Development Expenditures

Academic & Institutional Support Programs

1. Institutional Support expenditures as percent of total	6.0%	6.0%	6.0%
<i>Source: Kansas Cost Study</i>			
2. Utilization of instructional building space (Average hours/week in the Fall Semester)			
a. Classrooms	33.7	35.0	37.0
b. Teaching Laboratories	20.2	23.0	23.0

Source: Board of Regents Inventory of Physical Facilities and Space Utilization

3. Graduates who report employment or further academic or vocational training within six months of graduation

This measure will be defined further, consistent with standards currently being developed at the national level.

* Measures outlined in the table are considered preliminary and will continue to be refined by the Universities, the Board of Regents, and the Division of the Budget. Data displayed are for illustrative purposes.