Approved:_
Date 2-6-03

MINUTES OF THE SENATE EDUCATION COMMITTEE.

The meeting was called to order by Chairperson Senator Dwayne Umbarger at 1:40 p.m. on January 29, 2003 in Room 123-S of the Capitol.

All members were present except: Senator Hensley (excused)

Committee staff present: Carolyn Rampey, Legislative Research
Kathie Sparks, Legislative Research
Theresa Kiernan, Revisor of Statues
Judy Steinlicht, Secretary

Conferees appearing before the committee: Reggie Robinson, President & CEO, Kansas Board of Regents

Others attending: See attached list

Senator Umbarger opened the meeting with the introduction of personal friends, John & Nancy Presko from Kentucky, their son John and two grandchildren from Tecumseh..

Overview of Higher Education

Reggie Robinson, President & CEO of the Kansas Board of Regents presented the Committee with an overview of higher education in the state of Kansas. The Board of Regents believes that the most important public service that the taxpayers support is education. Without higher education, there would be no professionals or highly skilled workers. The Higher Education Coordination Act (known as **SB345**) was passed by the 1999 Kansas Legislature. This gave the Board of Regents opportunities to work with the Governor and Legislature to improve the quality of higher education. President Robinson summarized the accomplishments and challenges the Board has faced, the biggest challenge being inadequate staffing and funding. He believes that higher education must be recognized and a commitment to significant funding must be restored. (Attachment 1)

The meeting adjourned at 2:30 p.m. The next meeting is scheduled for January 30, 2003 at 1:30 p.m.

SENATE EDUCATION COMMITTEE GUEST LIST

DATE - 1-29-03

NAME	REPRESENTING
Cindy Denton	Budget
Dan Osman	Jay Emler
Steve Kearney	KAHSC
Doug Smith	PSA
Nicole Romine	GBBA
Nancy Presko	
John M Presko	God
Brooklyn Presko	
John paul Presko	
John H Presko	
Tara Towns	Fort Hays State University
Jim Edwards	KASB
Randy Stout	Education
Craig Grant	KNEA
Mark Desetti	KNEA
DICK CARTER	KBOR
Reggie Robinson	KBOR
Michael D. Irvin	Kansas Farm Bureau
Jamie Ross	KACCI
Mayre Shaw	KACCI
Denny Apt	U.S. Attle S.D. 500

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Testimony Regarding Higher Education Coordination
Senate Education Committee

January 29, 2003

Reginald L. Robinson
President & CEO, Kansas Board of Regents

Chairman Umbarger and members of the Senate Education Committee, I am pleased to have this opportunity to provide an overview of the state's system of higher education for you this afternoon.

As I think you will all agree, Kansas' most valuable resource is a well-educated citizenry. Higher education is vital to advance our economic, social and cultural environment. A robust higher education system is vital to maintain Kansas' ability to compete in a global society. As the leading advocates representing Kansas higher education, the Kansas Board of Regents has a very straightforward message: Of all the public services taxpayers support, none is more important than education, and none is more vital to every citizen's well-being than higher education. Without it, there are no teachers, doctors, engineers, social workers, public safety officers, accountants, lawyers and other professionals. Without it, there is not the quality of workers skilled in the trades and crafts that make our communities go. Without it, there is not the quality of life that all Kansans deserve, and to which all aspire.

With the passage of the Kansas Higher Education Coordination Act, the Board of Regents has been given unprecedented opportunities to work with the Governor and Legislature to improve the quality of Kansas Higher Education. But Kansas higher education is at a crossroads in terms of public support. By almost any standard of comparison, be it national, with surrounding states or with its position in the priorities of state spending a decade ago, Kansas higher education funding is lacking. In just the first three years since the implementation of the Act, Kansas higher education has suffered from a lack of state funding commitment to the tune of over $109 million, more than 15 percent of the total appropriation. As the state moves further into the 21st century, the value of Kansas higher education must be recognized and commitment to significant funding enhancements restored.

Senate Education
1-29-03
Attachment 1

The Kansas Higher Education Coordination Act

After 25 years of the study of Kansas Higher Education, the 1999 Legislature passed the Kansas Higher Education Coordination Act, more commonly known as Senate Bill 345. The purpose of the Act was to bring about major improvements in the coordination of Kansas postsecondary education. In addition to continuing its historic, constitutional role as governing board of the six state universities, the Kansas Board of Regents was given all duties and responsibilities for state-level supervision of community colleges, technical schools and other postsecondary programs previously under the purview of the state board of education. Additionally, the Board was given new responsibilities never before performed by any state board, among which are:

- develop a unified budget request for postsecondary education
- create statewide plans for postsecondary education and utilization of distance learning technologies
- initiate ways to improve accessibility and affordability
- ensure maximum freedom of transfer among and between institutions
- approve/disapprove programs, courses, and course locations
- approve core indicators of quality performance
- resolve conflicts among and between institutions
- initiate action to maximize utilization of postsecondary education resources
- develop and maintain a statewide postsecondary education database

SB 345 contained a significant funding component to provide funding enhancements to all postsecondary institutions over the four-year period FY2001 – FY 2004:

- Formula-driven operating grants to the 19 community colleges, tied to community college enrollments and funding levels at the three state regional universities (ESU, PSU, FHSU)

    - Funding rate per FTE student would equal 50% - 65% of the regional universities' expenditure per student over the four-year period.

    - Out-district tuition would be eliminated.

    - The net increase in funding after replacement of out-district tuition income would be split 80% for local property tax relief and 20% for budgetary enhancements.

- Faculty salary enhancements at the six state universities tied to the increases in community college funding

- Formula-driven operating grant to Washburn University, tied to community college enrollments and funding levels at the three state regional universities (ESU, PSU, FHSU)

- Performance-based grants to any or all universities, community colleges and technical schools and colleges, equal to 2% of their base funding level (effective with FY 2003)

Implementation of SB 345

In July 1999, many believed that new postsecondary education system was doomed to failure. That belief was fueled by the decades of competition that had existed among the various sectors of higher education and the perception that the divisions that competition had created were too large to overcome. In the past three years, those predictions have been proven false. Instead, we have found tremendous willingness to work together on behalf of the common good. From the beginning, the Board believed that it simply needed to provide a forum where the higher education leaders of the state could share ideas and work together; and good things would happen. Fortunately, that prediction proved correct. As a result of the SB 345 implementation process, the Board has strengthened and extended relationships among the 36 institutions in the state and have set the stage for even better service to Kansans in the future.

SB 345 created a new system of higher education, in large part, by simply combining the existing pieces into one entity. As such, all of the existing funding limitations and inequities of the past were continued; and moreover, those inequities were highlighted, simply by their being placed in closer proximity to one another within a single organization. SB 345 did attempt to address some historic funding issues within the system [i.e. out-district tuition, university faculty salaries, relationship of university to community college reimbursement levels], but in the process imposed even greater constraints on the budget development process, by adding additional formulae to the existing patchwork of funding plans.

Despite these challenges the Board has succeeded in creating a unified budget request for higher education where none existed before and a process for developing and reviewing that request each year. The Board also made significant progress in modifying the existing funding paradigms in an attempt to bring the pieces into greater alignment, including: (1) recrafting the community college funding formula in the first year of SB 345; (2) moving the six state universities to operating grants and management of their own tuition revenue, analogous to the other 30 institutions; (3) recognizing the need for campus-specific tuition plans at the state universities; (4) granting the 10 technical institutions the right to set their own tuition rates, independent of state appropriations; and (5) removing statutory restrictions on credit-hour conversion rates for technical school funding.

The Board has inaugurated the Partnership for Faculty of Distinction program, with participation by both the universities and the community colleges. It has created two new affiliated corporations, the Board of Regents Foundation and the Research Construction Corporation. The Board has begun a comprehensive re-examination of academic policies in the state beginning with the definitions of academic degrees. The Board has created an entire system for performance funding following the guidelines laid out in SB 345 and under SB 647 have committed to re-engineering and expanding that plan. The Board has merged a technical school with a community college and has proposed legislation affecting the governance of the state's technical colleges. The Board has created a new Board website; the Regents Online Catalog of distance education offerings; a new Post-Secondary Database System, which when operational will provide the information critical to making good decisions about the future; and the framework for KAN-ED the state's education network.

Challenges and Opportunities

One of the most daunting challenges facing higher education is achieving an adequate level of funding that is equitably distributed. Analogous to the change in the stock index, we consider higher education funding to be down over the past three years by $109 million, more than 15% of current funding levels. The four-year funding plan in SB 345 resulted from the establishment of certain funding goals and compromise. It received unqualified support from the entire higher education community and the Governor. The Legislature projected its four-year cost to the state general fund to be about $70 million. This projection was found to be flawed for two reasons: (1) It did not recognize the self-reinforcing relationship between increases in community college funding and faculty salary enhancements at the state universities, which increased the cost of the plan; and (2) It did not include a projection of the 2% performance grant funding, effective in FY 2003, for which all 36 institutions could potentially be eligible, requiring another $14 million in funding each year. This aspect of the plan represented the only means by which the technical schools could receive any funding through SB 345.

For the first two years, FY 2001 and 2002, the SB 345 funding formulas generated the need for $42 million, which was fully funded. These increases permitted reductions in community college property tax levies; reductions in the out-district tuition rate; and modest increases in faculty salaries relative to competing institutions. However, as state revenues began to decline and legislators recognized that the cost of the plan far exceeded the original estimate, the $45 million funding request for the third year was not funded. In its FY 2004 Unified Budget, the Board has included funding for the third year of the plan of $61 million, which reflects the impact of enrollment growth and includes the performance-funding component. The Board and the higher education stakeholders believe very strongly that the Governor and the Legislature must make good on the funding commitments in SB 345, not only because the funding is badly needed, but also to demonstrate that such commitments, particularly those based in statute, will be honored.

Technical School Governance and Funding

To maintain and enhance economic and workforce development, the Board must examine governance and funding of technical schools and colleges. The state's technical schools and colleges operate under a variety of governance structures. Some are governed by local school boards; others are governed by combinations of school boards; others are governed by independent boards of control; and five are have merged with community colleges which are governed by local boards of trustees. These variations in governance have major implications relative to program and degree offerings and accreditation.

For more than 30 years, the technical schools have received their state aid through a formula commonly referred to as "85/15." Under the formula, a school is entitled to receive state aid equal to 85% of its cost per instructional clock hour for each postsecondary clock hour delivered. The formula originally required the other 15% of funding to come from tuition, which consequently, was set by the formula. (The 2002 Legislature responded favorably to the Board's request to decouple tuition from the formula and allow the technical school governing boards to set tuition.) This funding formula is illusory at best and irrational at worse. The state funding rates range from $3 to $10 per clock hour, even though schools offer many similar programs and have similar costs. Each school receives a constant rate of funding, regardless of the mix of programs and the enrollment in those programs. The formula is illusory because no school receives 85% state funding; the formula has been significantly under funded for the past three years and more. It is irrational because it provides no incentive for schools to grow or to establish programs to address pressing workforce needs. The NORED consultants recommended the Board conduct a comprehensive study of higher education funding as soon as possible. The inequities and disincentives inherent in the technical school funding formula are among the examples of the need for such a study.

Maintaining Economic Access to Higher Education

A challenge facing the Board of Regents and other governing boards who set tuition rates is to strike the delicate balance between raising sufficient revenues and maintaining affordability for students and families. Historically, Kansans have enjoyed a high degree of access to affordable quality higher education. Kansas has experienced a relatively high ranking in the rate of participation in higher education, in large measure because of its reputation for being a low-tuition state. Tuition at Kansas' state universities ranks lower than tuition of surrounding states, Big-12 states, designated peer universities and national averages.

Low tuition in Kansas has also been accompanied by low student financial aid. Providing about $12 million in annual need-based aid, Kansas ranks in the bottom 20 states. Kansas ranks in the lowest one-third of states in need-based aid per fulltime equivalent student, lower than all surrounding states, except Nebraska. At the state universities, the percentages of students receiving financial aid range from 49% to 88%. Much of that aid is in the form of loans, as the focus of federal student financial aid programs has shifted from grants to loans over time, and the value of the federal Pell grant has declined. The average cumulative debt load for Kansas' state university students is $15,000.

If tuition increases significantly in response to declining state support, Kansas will need to seriously consider increasing its support of need-based aid. Based on national comparisons, currently it would require an additional $12 million to equal the median level of need-based aid and an additional $25 million to reach the national average. Kansas' state-supported financial aid is provided through 18 individual programs, most of which are inadequately funded. This not only makes the Board's administration of the programs unnecessarily complex, it calls into question whether the funds appropriated are being used most effectively. The Board's coordination plan calls for a comprehensive study of tuition and financial aid issues.

Board of Regents Office Infrastructure

The transformation of the Board of Regents into a statewide coordinating board has happened in a context where each year, everyone in the system has been asked to do more with less. In the background, as it were, all of the operations of the past that were needed to govern the six state universities have continued. Clearly, the Board Office has not been immune to these increased demands. In fact our Office has sustained by far the greatest increase in demands and expectations of anyone in the system and we also had the distinction of being the first group to undergo a budget cut, effective July 1999. Beginning with a $30,000 cut in our travel budget as we moved from 6 schools to 36, we have seen the demands and expectations outstrip the resources.

In three years, we have increasingly struggled with inadequate staffing and resources. We have also completed no fewer than four re-organizations of our office in an attempt to accommodate substantial growth of our staff and administrative duties as our infrastructure remained essentially the same.

All of the institutions have provided assistance by loaning staff and through other means. Even with that assistance, however, the current budget cuts and those anticipated for next year, have forced us to implement an office budget for FY2003 that includes no in-state or out-of-state staff travel, except where absolutely necessary to the functioning of the office. In addition, we have dropped all association memberships, including the Association of Governing Boards (AGB) and the State Higher Education Executive Officers (SHEEO). With the elimination of conference travel and national memberships, Kansas higher education will not be represented in regional and national forums, and the Board and staff will be less able to stay abreast of higher education policy developments. But again, we have no choice. Needless to say, we will continue to be as frugal as possible in other areas, but there is not much left to squeeze from this budget. In order to preserve our current staffing levels, we have prioritized positions over everything else; and even then we are woefully understaffed.

Budgeting for State Universities

Over the past two years, the Board and the state universities have worked with the Governor and Legislature to develop and implement a new budget model for the state universities to provide the universities with expectations of increased management flexibility and accountability, within the policy framework established by the Board. This new model is in its infancy, and it is vital that it be preserved and promoted to strengthen the universities.

Prior to FY 2002, the Governor and Legislature established state university budgets using the general use model, with the general use budget defined as expenditures from state general fund appropriations and tuition revenues. Under this model, each institution's budget was largely established by increasing its general use base using a uniform set of parameters. The amount of state funding required for each budget depended upon the amount of tuition generated by each institution. Under this model, state monies and tuition monies were interchangeable, and accordingly, tuition monies were considered a state asset, rather than an institutional asset. The resultant long term allocation placed a higher percentage of state funding at smaller institutions having relatively low levels of tuition income and a smaller percentage of state funding at larger institutions having higher levels of tuition income. This model did not provide any of the institutions or the Board with the flexibility needed to more effectively manage resources and respond more rapidly to change.

In October, 2000 the Board of Regents presented a new budget model called the operating grant\tuition ownership model, under which each university, except designated special mission institutions, would receive a state operating grant and would retain ownership of and accountability for its tuition revenue. Each university would receive an operating grant based on a request determined by the Board. Upon the Board's approval of tuition rates, each university would assess, collect and have expenditure authority over all of its tuition revenue.

The Governor adopted the new budget model for the FY 2002 budget and declared that all budgets should be developed using the operating grant model, including the budgets of KU Medical Center (KUMC), KSU Extension Systems and Agriculture Research Programs (ESARP), and KSU Veterinary Medical Center (KSUVMC). The Governor removed the historic expenditure limitations on tuition funds, thus opening the door for tuition ownership. The 2001 Legislature gave tacit approval to the new budgeting model by endorsing the Governor's recommendations regarding tuition funds.

For FY 2003, the Board deviated from the original plan by requesting the operating grant increase be appropriated to the Board for distribution, rather than being appropriated to each university. Both the Governor and Legislature endorsed this approach, although no new funding was provided. The Governor and the 2002 Legislature continued to permit tuition ownership through no expenditure limits on tuition funds, when the Board had not set FY 2003 tuition prior to the Legislature's adjournment. The sequence of these events was unprecedented.

The new budget model has not been fully implemented nor adopted in its entirety by all parties. Like its predecessor model, the new model is not established in statute, but rather is established by agreement and by repeated and consistent application in developing budgets. A major impediment has been the condition of state finances, which has not permitted the Governor to recommend or the Legislature to appropriate an increase to the universities' operating grants. Furthermore, the operating grant methodology has not been applied in a consistent manner. Under the operating grant model, the Board and the universities would determine salary increases. However, in FY 2002, the first year of endorsement, the Governor established statewide salary policy that required additional FY 2003 funding for all state agencies. Because the state universities were considered to be receiving operating grants, they were denied the additional funding. In attempting to balance the FY 2003 budget, the Legislature instituted a number of statewide "global" expenditure reductions. These were designed to reduce budgets by cutting such items as travel and equipment purchases. A provision was made to prohibit state agencies from using unspent salary monies for any other purpose. These reductions were applied to state universities in the same manner as all other state agencies. In a true operating grant environment, no such reductions would have been applied to the universities' budgets because those budgets would not have been constructed in a manner conducive to such reductions.

Historically, the universities received additional, formula-driven state funding to operate new buildings. The original description of the new budget model calls for this funding to be requested in addition to the operating grant increase. The universities continue to feel strongly that additional, targeted funding should be provided for this purpose, based on the justification that the universities have created new instructional and research facilities for the state through private giving and other non-state sources, and the state should finance the ongoing operation of those facilities.

The original description of the new budget model also calls for the state universities to obtain relief from state bureaucratic controls and procedures that hinder innovation and add to costs. These changes are sought to compliment the increased management flexibility provided by the operating grant\tuition ownership budget model.

Some progress has been made, but much is yet to be accomplished in this area. In particular, we believe that a range of changes in the areas of purchasing, fund administration, the fee structure of the Division of Facilities Management, state printing, and surplus property disposition would provide greater flexibility for universities to respond to ever-changing needs, reduce needless duplication, improve services, and allow for the procurement of quality products or services in the competitive market. Approval of the University recommendations will require close coordination and cooperation between the universities, the Board of Regents and divisions within the Department of Administration.

This new funding model, together with the administrative flexibility that we have begun to pursue would allow the Board of Regents to use its budgetary authority and its tuition-setting authority to promote effective and accountable governance and management of the state universities.

Research Initiative

One of the most exciting and promising opportunities for economic enhancement in Kansas came about last spring through the passage of the University Research and Development Act (HB 2690). The Act provides for the construction and equipping of modern research facilities at KU, KUMC, KSU and WSU. These facilities will put Kansas institutions on the cutting edge of research in life sciences, food safety and bio-terrorism and aviation—all vital to the economic stability and quality of life in Kansas.

The Act authorizes the issuance of up to $120 million in bonds for research facilities at state universities; directs the Board of Regents to create a subsidiary corporation to oversee implementation of the projects; and authorizes alternative procedures for acquiring construction services for the projects. The Act also authorizes separate bonding authority of $13 million for additional projects in support of the National Institute for Aviation Research at Wichita State University.

The Act limits the scope of R & D enhancement to four projects: (1) construction of the Food Safety and Security Research Facility at KSU; (2) construction of the Biomedical Research

Facility at KU Medical Center; (3) expansion of the Aviation Engineering Complex at WSU; and (4) equipping the Biosciences Research Building at KU. The KDFA is authorized to issue up to $120 million in bonds to provide a portion of the financing for the projects, with the balance of funding to come from private donors and federal grants. The Act authorizes transfers from the state general fund for debt service payments, limited to not more than $10 million annually and $50 million in total, with such transfers to commence in FY 2005.

The Act directs the Board of Regents to form a subsidiary corporation to perform, or assist the Board in performing the powers, duties and functions under the Act. The board of directors of the corporation consists of seven voting members appointed by the Board of Regents and legislative leadership. In addition, the Secretary of Administration, or the Secretary's designee, is to serve as a non-voting member.

Again, Mr. Chairman, thank you for this opportunity to testify before your committee today. I would be happy to answer any questions that you or members of the committee may have for me.