BUDGETARY REFORM FOR STATE UNIVERSITIES - 2002

Background
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 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 approved a new budget model called the operating grant\tuition ownership model, under which each university would receive a state operating grant and would retain ownership of and accountability for its tuition revenue. (The description of the model adopted by the Board is attached.) 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.

Implementation of Operating Grants\Tuition Ownership
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. This approach was endorsed by both the Governor and Legislature, 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.

Impediments to Implementation of Operating Grants\Tuition Ownership
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 nor the Legislature to appropriate an increase to the universities' operating grants. Furthermore, neither the Governor nor the Legislature have applied the operating grant methodology in a rational and 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 which 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.

Implementation of Operating Grants\Tuition Ownership – Unresolved Issues

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 Board will continue to face challenges in terms of the equitable distribution of any additional operating grant funds it receives. The universities vary greatly in their ability to generate tuition revenue. The KSUESARP budget generates no tuition revenue. The three regional universities desire to maintain a funding mix of 75% state and 25% tuition. In a true operating grant environment, absent special enhancement funding to address these issues, the Board will be asked to consider funding adjustments within a fixed appropriation. These adjustments may include funding for unusually large and sustained enrollment change or for program enhancement.

The original description of the new budget model 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.

The Legislature's acceptance of the new budget model cannot be assured until it has appropriated an operating grant increase to the Board of Regents, which will compliment strategic tuition proposals developed by each university and adopted by the Board to enhance each university. Ultimately, the Legislature must decide if it is truly going to 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.

July 18, 2002

Budgetary Reform for the Regents Universities

Overall Budget Concept

- The current general use concept of budgeting would be replaced with total tuition ownership and an annual general fund block grant at all six universities. There would no longer be specific requests to the Legislature for funding to provide salary increases, OOE increases or enrollment adjustments. For each fiscal year, each university would establish its budget based upon a block grant appropriated by the Legislature and projected tuition revenues based on rates approved by the Board of Regents. Following the legislative session each year, the Board would provide guidelines for unclassified salary increases for the ensuing fiscal year. Each institution would then be required to submit to the Board its expenditure plan for the ensuing fiscal year and would be required to report budgeted increases for salaries and OOE.

Tuition Ownership

- Each of the six universities would assess, collect and have expenditure authority over all of its tuition revenue. With approval of the Board, each university could have its own unique tuition structure and tuition rates. With approval of the Board, each university would have the authority to waive tuition for any student or category of students. Residency policies for the regional universities would be changed to be consistent with policies at Washburn University and the community colleges. Each university would retain all revenue related to tuition rate increases. During times of enrollment growth, each university would retain all growth-related tuition revenue; during times of enrollment decline the research universities would need to adjust budgets accordingly. For a period of five years, the regional universities would be held harmless by the state general fund for any losses of tuition revenue due to enrollment change. Implementation of tuition ownership presupposes that each of the three tuition accountability universities would have received full funding of enhancements provided under the tuition accountability mechanism, including the WSU enhancement that is part of the Board's FY 2002 budget request.

Block Grant

- Each of the six universities would receive its state funding in the form of a general fund block grant appropriation, based on a request determined by the Board of Regents. The Board of Regents would annually determine a rate of increase to be requested on each university's block grant. In addition to the requests for block grants, the universities could request general fund support for program enhancements or to service new buildings, using the formula adopted by the Board. In addition, if a university demonstrated a special funding need due to unusually large and sustained growth in resident enrollment, the university could request state support for costs not covered by tuition. For a period of five years, regional universities could request supplemental increases to their block grants to offset tuition revenue shortfalls due to enrollment changes.

- Additional funding derived from an increase in general fund support and increases in tuition revenue (as a result of enrollment growth and/or tuition rate changes) would be available to provide financing for salaries, OOE support, program enhancements, or accommodation of enrollment change.

Increasing University Flexibility

- Increased interaction with the community colleges, vocational technical schools, and Washburn, encouraged and enabled by implementation of SB 345, has provided evidence of their ability to function in a flexible and efficient manner while the public universities are forced to cope with bureaucratic controls and administrative procedures designed for other State agencies. These burdensome controls and procedures, although well intentioned, unnecessarily hinder innovation and add cost and time to processes when all of higher education needs to be flexible, decentralized, and unencumbered in its efforts to serve the needs of its constituents. Many of the State level controls have evolved over decades and were put in place at a time in which currently available technology and resultant information access did not exist. Consequently, the Board will pursue other changes that would streamline administrative processes without loss of accountability. Those initiatives may include proposals to allow each University to administer its own human resource plan, to acquire goods and services in the most efficient manner available, to bank and invest funds locally, and to process payroll and other disbursements locally.

<u>Budgetary Model for Special Mission Institutions</u>*

The current methodology used by the Board of Regents to seek funding would be retained. That is, the Board would continue the general use budgeting concept and request specific annual adjustments for salary increases and OOE increases. Additionally, the current request process for program enhancements and servicing new buildings would be retained.

9/20/00

**Special mission institutions include the University of Kansas Medical Center, KSU College of Veterinary Medicine and KSU Extension Systems and Agriculture Research Programs*