



KANSAS BOARD OF REGENTS

MEMO

TO: Kansas Board of Regents
Postsecondary Technical Education Authority

FROM: Elaine Frisbie, Vice President for Finance & Administration
Kelly Oliver, Senior Director of Finance & Administration

CC: Blake Flanders, University and College Officials, Senior Staff

DATE: January 17, 2019

RE: Governor's Budget Recommendations for Postsecondary Education

Governor Kelly released the full details of her budget proposal this morning. This memorandum provides you with an overview of her budget recommendations related to higher education and the budget as a whole. *The FY 2020 Governor's Budget Report* was made available this morning and can be found at <https://budget.kansas.gov/budget-report/>.

Notably, this budget adds funds for K-12 schools, social services, expansion of Medicaid and paying down some indebtedness faster than originally scheduled. The proposal is, for the most part, a single-year budget, rather than a biennial budget. State law does not mandate a biennial budget for most state agencies.

The budget leaves a 9.1% ending balance at the conclusion of FY 2020, \$119.3 higher than the statutorily required 7.5%. No projections are offered for an ending balance beyond FY 2020.

Higher Education

The documents released today present the Governor's revisions to the FY 2019 budget as well as her proposal for the upcoming year, FY 2020. The Governor recommends State General Fund expenditures that total \$794.7 million in FY 2019 and \$805.9 million in FY 2020 for the Regents System.

Excel in CTE

No additional funds were added for the Excel in CTE initiative, despite our appeal for \$4.5 million to reimburse institutions for estimated higher enrollments in FY 2019. There is a notation that we are to be granted unlimited reappropriation authority for this line-item, so that unused funds may be carried forward to the next year for use in the program. That authorization is premised, however, on the appropriation being greater than expenditures, which will not likely

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occur in FY 2019. For the part of the program in the Department of Education’s budget that offers a payment incentive to high schools, \$800,000 is budgeted for FY 2019, and the amount is zeroed out in FY 2020, but \$650,000 remains for transportation aid to get high school students to campus.

Restoration of Allotment

For FY 2020, the balance of the FY 2017 budget allotment is restored in Governor Kelly’s budget - \$8.9 million across the system (\$2.4 million to the Board Office and \$6.5 million to the state universities). Where the funds would be returned is noted in the far-right column of the table below.

FY 2017 Postsecondary Education State General Fund Allotment					
	Percent Cut	Allotment	2017 Session Restoration	2018 Session Restoration	Governor's Restoration
Board of Regents	-4.00%	\$ 7,075,471	\$ 619,000	\$ 4,049,664	\$ 2,406,807
University of Kansas	-4.99%	7,009,260	2,920,558	2,564,536	1,524,166
KU Medical Center	-3.32%	3,720,190	354,393	2,111,112	1,254,685
Kansas State University	-5.09%	5,219,623	2,146,060	1,927,817	1,145,746
KSU Vet. Med. Center	-3.37%	509,103	56,205	284,069	168,829
KSU ESARP	-2.84%	1,348,010	--	845,506	502,504
Wichita State University	-3.82%	2,846,788	609,863	1,403,056	833,869
Pittsburg State University	-2.70%	1,020,815	--	640,281	380,534
Emporia State University	-3.13%	855,204	--	536,405	318,799
Fort Hays State University	-2.82%	1,059,685	43,218	637,554	378,913
Total SGF Allotment		\$ 30,664,149	\$ 6,749,297	\$ 15,000,000	\$ 8,914,852

**University allotments calculated as a uniform percentage from the total of all operating accounts which reduced some university appropriations by a greater percentage.*

Student Financial Aid

The Governor’s budget also adds State General Fund support to the Board of Regents’ budget for student financial assistance in FY 2020: \$315,000 for the National Guard Scholarship Program and \$50,000 for the potential fiscal effect of legislation enacted by the 2018 Legislature to provide a waiver to those individuals found to be wrongfully convicted.

State Employee Pay Plan

The budget proposed for FY 2020 includes a total of \$63.5 million (of that \$22.3 million would be from the State General Fund) for a 2.5 percent state employee pay increase. The budget indicates state employee salaries need to remain competitive and keep abreast of inflation). The Governor says she intends to study this issue further and aims to offer a more comprehensive pay plan in the future.

The Board of Regents and the state universities **are** included in the Governor’s proposed pay plan. If approved by the Legislature as suggested, the funds would be appropriated to the State Finance Council, which would then distribute the dollars to each agency and state university, presumably in mid-June, in order to make the pay adjustments at the start of FY 2020.

Information from the Budget Division details their estimates of the cost for the pay plan by agency/university, as well as savings attributable to changes in KPERS contributions:

	COLA by Agency		KPERS Savings by Agency	
	SGF	All Funds	SGF	All Funds
WSU	\$ 1,347,582	\$ 4,050,942	\$ (192,867)	\$ (336,960)
ESU	632,374	1,281,341	(105,945)	(182,133)
FHSU	687,494	1,557,492	(96,264)	(217,589)
PSU	719,056	1,377,909	(93,580)	(198,071)
KSU	1,796,525	7,953,498	(479,936)	(1,361,120)
KSU-VMC	229,645	917,062	(39,623)	(121,374)
KSU-ESARP	1,028,700	2,333,218	(92,680)	(205,224)
KU Medical Center	2,054,560	7,138,283	(53,183)	(124,251)
KU	2,716,767	9,581,182	(219,383)	(738,538)
Board Office	80,585	117,261	(8,347)	(12,201)
Total	\$ 11,293,288	\$ 36,308,188	\$ (1,381,808)	\$ (3,497,461)

Elementary & Secondary Education

As mentioned in her state of the state speech, Governor Kelly recommends the addition of State General Fund appropriations for elementary/secondary education, and, as she explains it, address the adequacy requirement in the *Kansas Constitution*, and bring the Gannon school finance lawsuit to a conclusion. Her proposal’s inflationary factor would increase state foundation aid by \$363.6 million from FY 2020 through FY 2023. Her budget plan details the amounts for FY 2020 and FY 2021, for this agency separate from all others. Her request is that the 2019 Legislature act on this part of the budget by February 28, 2019 to meet timeliness set by the Kansas Supreme Court. Her budget proposal has line-item detail for the Department of Education through FY 2021.

KPERS

The Governor proposes several changes to the employer contributions to the KPERS Trust Fund. She proposes that the KPERS State/School Group be reamortized over 30 years (rather than the current 40) to make employer contributions “more manageable for the state budget over the long run and simplify employer contributions.” This will require legislation to accomplish, apart from the appropriation.

The single largest KPERS amount is located in the Department of Education’s budget for the employer contributions made on behalf of school district employees, but the Department also makes the employer contribution on behalf of community and technical college employees, as well as employees of K-12 interlocals (“non-USD employers”). For the non-USD KPERS contributions, the Governor recommends \$73.6 million in FY 2019, \$84.6 million in FY 2020 and \$88.3 million in FY 2021. The Governor’s K-12 plan noted above will have further impact on KPERS contributions, as we can assume they are salary-intensive.

Other Items of Note

Governor Kelly's budget proposes a total of \$4.1 million for the Department of Children and Families to hire 55 new social workers—although legislators this morning in the budget hearing questioned where the Department could locate that many qualified and licensed social workers as there has been a shortage and the agency has struggled to recruit social workers.

Governor Kelly proposes \$14.2 million to expand Medicaid to 150,000 low-income Kansans to access critical health care coverage, and she also asks for \$12.4 million in FY 2020 for the Children's Health Insurance Program to cover more children at a higher required state share rate. The budget proposal cites a George Washington University study that expanding Medicaid in Kansas would create 3,500 to 4,000 new jobs over five years.

The Governor's goal is to eliminate Highway Fund transfers to the State General Fund by FY 2023, and the Governor's budget proposal transfers \$238.1 million from the Highway Fund to the State General Fund in FY 2020, which would be \$55.0 million less than in FY 2019, and she does not propose her own Transportation Plan. Rather, she indicates she looks forward to working with the Legislature's Transportation Vision Task Force, which will release its recommendations for a new plan later this month.

Revenues

The Governor includes no tax changes in her budget recommendations to finance the additional expenditures. The only revenue changes are made within the transfer category—paying back the short-term bridge loan taken in FY 2017, which takes \$267.6 million in FY 2019 and maintaining the status quo on a number of transfers which brings in \$302.9 million in FY 2020.

Appropriation bills that embody the Governor's recommendations have yet to be introduced, and we will comb through the details and update you on the budget as it moves through the legislative process. If we can provide any additional information, please do not hesitate to let us know.