

DISCUSSION AGENDA

V. Consideration of Discussion Agenda

A. Fiscal Affairs & Audit

1. Approve Johnson County Research Triangle (JCERT) FY 2018 Budgets – KU, KUMC, and KSU

Regent Bain

Elaine Frisbie

VP, Finance & Administration

Summary

The 2007 Legislature created the Johnson County Education Research Triangle Authority (JCERTA), subject to the approval of Johnson County voters (KSA 19-5001 through 19-5005). The voters of Johnson County approved the 1/8 cent sales tax to support three university projects: (1) medical education and life sciences and cancer research programs at the Johnson County locations of the University of Kansas Medical Center; (2) research and education programs in animal health and food safety and security at the Olathe Campus of Kansas State University; and (3) specific undergraduate and graduate programs at the Edwards Campus of the University of Kansas in the City of Overland Park.

The JCERTA board retains up to two percent of the tax revenues to cover administrative costs and the remainder of the annual revenue is to be split evenly between the three projects. The law restricts the universities’ expenditure of these tax revenues to certain purposes and states that “the Kansas Board of Regents shall remain responsible for the governance of these institutions, including approval of any academic programs and the regulation thereof, and shall be responsible to the Authority for institutional compliance with the purposes of this act.” Budget approval by the Board of Regents is required each year.

In accordance with Board policy, the Fiscal Affairs and Audit Committee will review and approve the budget proposals at the April Committee meeting, and consider whether the proposals move forward to the JCERTA board for approval at its upcoming meeting. The Board will then be asked to approve the FY 2018 JCERT budgets for the K-State Olathe Campus, KU Edwards Campus, and KU Medical Center’s Clinical Research Center at the May Board meeting.

Background

In accordance with the Board’s process, the Universities prepare annual budgets for their portion of the JCERT revenue, to include debt service, maintenance, operations, and, where appropriate, research, and undergraduate and graduate educational programs. Both the JCERTA and the Board of Regents Fiscal Affairs and Audit Committee reviewed the proposed budgets in April.

The law requires each participating university to certify to both the JCERTA and the Board of Regents that expenditures of funds received from the Authority are made in compliance with the Act, Board policy and applicable state and federal laws. Furthermore, any revenue bonds that pledge the JCERT funds for repayment must be approved by the Board of Regents, regardless of what entity acts as obligor on the bonds. According to the Authority’s by-laws, the universities are to certify expenditures to the Authority on an annual basis; the universities’ certification to the Board is on the same schedule. The Universities keep the tax revenue funds in segregated accounts and submit the accounts and expenditures from those accounts for an annual independent audit paid for by the JCERTA. The JCERTA contracts with external auditors for a financial audit to be completed by September 1 of each year. A copy of the external audit is provided to the Board and the Universities.

From FY 2010 through FY 2016, the universities have received \$106.8 million through the JCERTA. A history of tax revenues to each campus is on the following page.

Johnson County Education Research Triangle Sales Tax Revenues						
		KU Edwards	KUMC Clinical Research Center	KSU Olathe	Total	
Actual	FY 2010	\$ 4,717,303	\$ 4,717,303	\$ 4,717,303	\$ 14,151,908	
Actual	FY 2011	4,461,375	4,461,375	4,461,375	13,384,125	
Actual	FY 2012	4,882,520	4,882,520	4,882,520	14,647,560	
Actual	FY 2013	4,991,900	4,991,900	4,991,900	14,975,700	
Actual	FY 2014	5,307,800	5,307,800	5,307,800	15,923,400	
Actual	FY 2015	5,586,700	5,586,700	5,586,700	16,760,100	
Actual	FY 2016	5,653,000	5,653,000	5,653,000	16,959,000	
Projected	FY 2017	5,800,000	5,800,000	5,800,000	17,400,000	
Projected	FY 2018	5,900,000	5,900,000	5,900,000	17,700,000	
Projected	FY 2019	6,000,000	6,000,000	6,018,000	18,018,000	

The following documents are the proposed FY 2018 budget plans for the operation of the Business, Education, Science and Technology (BEST) Building and degree programs at KU’s Edwards Campus in Overland Park; the Clinical Research Center at KUMC in Fairway; and the International Animal Health and Food Safety Institute at K-State’s Innovation Campus in Olathe.

**Proposed Fiscal Year 2018
JCERTA Budget
KU-Edwards Campus
Business, Engineering, Science, and Technology (BEST)**

Background

The Edwards campus of the University of Kansas, has used the funds from the Johnson County Research Triangle Authority (JCERTA) sales tax for the construction, debt service and maintenance of a new 75,000 square foot building, and to pay the initial costs of ten new degrees, including four bachelors and four masters degrees in business, engineering, science, and technology as well as two professional science masters degrees.

The Business Engineering, Science and Technology (BEST) building was dedicated on March 2, 2012. The building contains 21 classrooms, including four computer lab classrooms, an open computer lab, 35 faculty offices, and a 400-seat conference center. The total cost of the building was \$22.9 million and was financed with \$3.9 million from sales tax collections and \$19 million in bonds.

Expenditure Categories

A draft two-year budget is attached for reference and planning purposes. While only the FY 2018 budget is being submitted for approval at this time, the additional year provides a clear picture of all expenses for building support and operations, and the programmatic costs.

Below are details of the FY 2018 budget which is presented for approval.

Debt Service: \$1,949,040

The annual debt service is just under \$2 million per year. The total principal on the 2010M bonds is \$20,990,000 and the repayment term is 15 years. The bonds were a combination of tax exempt bonds (\$6,125,000) and taxable Build America Bonds (\$14,865,000) with an all-inclusive interest rate of 3.11 percent. The University will receive \$213,191 in federal subsidies for interest on the Build America Bonds.

Scholarships: \$87,500

KU and KSU have each agreed to establish a \$50,000 scholarship program from JCERTA funds. The scholarships are to be awarded to Johnson County residents. The criteria for the scholarships at KU are as follows: students must be enrolled in an undergraduate or graduate program at the Edwards Campus that was funded by the JCERTA tax. The scholarship can be applied toward the cost of tuition, fees and/or books. Additional requirements include residence in Johnson County, a minimum cumulative grade point average of 2.5, and enrollment in a minimum of six hours at KU Edwards Campus. Preference will be given to students with financial need. Completion of the Free Application for Federal Student Aid (FAFSA) is required. In fall 2012 (fall 2011, spring 2012), 22 students received the Triangle award. The average amount was \$3,000 per semester. In 2013, (fall 2012, spring 2013) 41 students received the Triangle award. The average amount per semester was \$1,500. In 2014 (fall 2013, spring 2014) 24 students received the Triangle award, ten of whom received \$3,000 each, and the remaining received \$1,500 each. In 2015 (fall 2014, spring 2015) 20 students received the Triangle award, with an average of \$1,500 awarded per student each semester. In 2016 (fall 2015, spring 2016) 20 students received the Triangle award, with an average of \$1,500 awarded per student per semester. In 2017 (fall 2016, spring 2017) 16 students received assistance with an average of \$2,000 (\$1,000/semester) awarded per student.

In FY 2016, an additional \$37,500 was requested for Johnson County students in the new, on-line Master of Applied Statistics program. Eight students received an average of \$781.25 each for a total of \$12,500 for fall and spring. The same \$37,500 was requested in FY 2017. Fifteen students in the fall and 16 students in the spring received an average of \$1,000 each.

Both the general scholarships and the Applied Statistics scholarships are being requested for FY 2018 at the same amounts.

Programmatic Costs: \$3,714,781

The initial JCERTA programs are at a point in cycle of generating revenue (tuition) for reinvestment. Three of the older programs will be supported with a combination of JCERTA tax dollars and tuition. Ongoing costs in FY 2018 for the Bachelor's in Business Administration are approximately \$304,100 from JCERTA funds and \$400,000 from tuition for a total of \$704,100. For the Bachelor of Information Technology launched in fall 2012, ongoing costs are \$672,421, of which \$422,421 will be funded by JCERTA, the balance funded with tuition. Two programs launched in the fall of 2013, Master of Science in Project Management and Master of Engineering in Project Management, have ongoing costs of \$427,017 for the two project management degrees (\$305,267 JCERTA, \$121,750 tuition). The Professional Service Masters in Environmental Assessment, also launched in the fall of 2013, has an ongoing cost of \$203,064.

Two programs were launched in the spring of 2014, the Master of Science in Educational Technology with FY 2018 costs of \$125,021, and a Bachelor's in Exercise Science with FY 2018 costs of \$202,303. The Bachelor of Applied Science in Biotechnology launched during FY 2016, and FY 2018 operational costs will be \$274,370. The lab start-up was initiated in FY 2016, and additional construction costs will occur in FY 2018 at a cost of approximately \$300,000 in JCERT funds and \$400,000 in additional campus funds. New programs launched in FY 2015 included the Master of Accounting with an FY 2018 cost of \$577,442, and Communications Studies was initiated in FY 2016 and the FY 2018 cost is estimated to be \$106,775. Ongoing FY 2018 costs for new programs launched in FY 2016 include on-line Applied Statistics at \$815,353, and an Accounting Certificate costing \$70,206. Because of the initial success of the Applied Statistics program, tuition dollars in the amount of \$286,530 will be utilized to offset the increased cost to the program. New programs initiated in FY 2017 include a Master's in Civil Engineering with an FY 2018 cost of \$193,389, and certificates in Information Assurance & Security (\$56,050), Software Engineering (\$20,050), and Science Management (\$25,500). No new programs are planned for FY 2018 launches

All programs will be evaluated regularly to determine viability.

All Other Costs: \$2,170,214

Student advising, student services/administrative and public relations and marketing will increase while the programs continue to grow. JCERT funded staff costs are estimated at \$825,534 for 11.25 FTE supporting the Academic Support Center, recruitment, student services, communications/marketing, and fiscal services. All marketing costs have been pulled from the specific program budgets in order to add flexibility and immediacy to respond to changes in the market (\$500,000). Other operating costs are \$305,000. The estimated cost of facility operating expenses such as the custodial contract, general building maintenance, utilities, security and technology is \$551,680.

Reserves

A capital reserve in the amount of \$440,000 has been established to fund major repairs, infrastructure upgrades and renovations. This reserve will continue to increase with a goal of maintaining a balance equivalent to 2 percent of the BEST Building's value (approximately \$440,000). Forty thousand dollars (\$40,000) was added in FY 2017 to reach this goal.

Additionally, an operations reserve in the amount of \$400,000 has been established to cover operations should a delay in monthly sales tax disbursements occur. This reserve will grow as programs grow with the goal of creating a reserve equivalent to three months operating costs, including debt service (approximately \$1.8M).

**Proposed Fiscal Year 2018
JCERTA Budget
University of Kansas Medical Center
The University of Kansas Clinical Research Center**

Summary of the Project:

The University of Kansas Clinical Research Center (CRC) opened to patients on January 23, 2012. Funds from the Johnson County Education Research Triangle sales tax (JCERT) and revenue bonds supported by the sales tax were used to renovate the facility. Sales tax receipts are now being used to pay debt service and maintain the building, and to pay the costs of the clinical research infrastructure supporting clinical trials designed to translate discoveries made in the laboratory into treatments for patients. The facility will also serve to support internal and external conferences such as The Midwest Cancer Alliance Partners Advisory Board.

The total square footage of the building after renovation is 82,400 square feet. There is 24,400 square feet of clinic space, 8,300 square feet of lab space, 20,600 square feet of office space, and 29,100 square feet of public space including sitting areas and conference rooms. The cost to renovate and equip the facility was approximately \$19.4 million funded with bond proceeds (\$14.4 million) and approximately \$5 million in JCERT funds.

Expenditure Categories

A draft two-year budget is attached for reference and planning purposes. While only the FY 2018 budget is being submitted for approval at this time, the additional year provides a clear picture of all expenses for building support and operations, and the clinical research program. Also provided is information on other revenue sources that support the operations of the CRC.

Below are details of the FY 2018 budget which is presented for approval.

Debt Service: \$1,222,465

The annual debt service is just over \$1 million per year. The total principal on the 2010P bonds is \$15,930,000 and the repayment term is 20 years (FY 2030). The bonds were a combination of tax exempt bonds (\$3,950,000) and taxable Build America Bonds (\$11,980,000) with an all-inclusive interest cost of 3.0 percent. The University will receive \$162,600 in federal subsidies for interest on the Build America Bonds.

Clinical Research Center Staff and Operating Expenses: \$4,935,688

These funds support oncology physicians and clinical research support staff and related operating expenses. These positions help support our clinical trial activities.

Facilities Operating Costs: \$890,413

These funds will be used for utility costs, custodial and security staff, as well as other facility services.

Reserve for Capital Expenditures: \$400,000

The KU Medical Center allocates \$400,000 annually to fund a reserve to repair, renovate or upgrade infrastructure at the CRC.

Reserve for Operations: \$100,000

KU Medical Center has set aside \$100,000 as reserve for operations. These funds will be used to maintain three months of operating expenditures in the event of revenue decline.

**Proposed Fiscal Year 2018
Kansas State University Olathe
JCERTA Budget**

The first cohort of graduate students pursuing JCERTA-supported programs in animal health and food safety was enrolled in Fall 2013. As of Spring 2017, five biosciences-related graduate degree programs are being offered in addition to three other programs in adult education (Master's and PhD level). There are currently almost 30 faculty and administrative staff directly supporting educational and research programs. More than 160 faculty from K-State's Manhattan and Polytechnic campuses have also contributed to various academic programs over the last three years.

In January 2015, the Kansas Board of Regents formally approved the new School of Applied and Interdisciplinary Studies at K-State Olathe. The School provides the campus with academic authority under policies and procedures of the University to hire instructors and researchers and develop courses, certificates and degrees. The School's two graduate certificate programs were approved in Spring 2016, including the Professional Interdisciplinary Sciences and Professional Skills for STEM Practitioners certificates. At the April 2016 meeting of the Board of Regents, a Professional Science Masters (PSM) in Applied Science and Technology was approved for the Olathe campus. Enrollment in the PSM has been rapidly growing since the first students were admitted in the fall of 2016. Fifteen students were admitted and enrolled by the Spring 2017 semester.

Research activities at K-State Olathe are well underway representing the broad areas of veterinary medicine and animal health, food science, horticulture/urban food systems, and sensory & consumer research. Engagement activities include science-based partnerships with K-12 schools in Johnson County, including assistance in curriculum development with Blue Valley Center for Advanced Professional Studies and Olathe 21st Century programs. In addition, K-State Olathe has hosted a variety of professional development workshops, planning meetings, and events, which totaled 760 events and 26,004 attendees in 2016 – compared to 455 events and 15,885 visitors in 2015.

Economic development is also a strategic priority of this campus through workforce training and entrepreneurial partnerships with the private sector. As an example, the partnership initiated in 2011 with SmartVet USA (a subsidiary of Australian SmartVet Pty Ltd) has resulted in a patented technology for delivering pharmaceuticals to cattle. Recently, K-State Olathe has partnered with Maxxam Analytics, which provides analytics, specifically for pet food/treat quality testing and safety programs for national and multi-national food processors and retailers. This relationship has provided a gateway for Maxxam to establish its first U.S. presence.

EXPENDITURE CATEGORIES

Debt Service – \$2,018,328

Bonds were issued in September 2009 and debt service payments began in March 2010. Payments escalated until reaching \$2,019,275 in FY 2012 and continue at approximately that level for the remaining 28 years.

Special District Assessment and Taxes – \$220,000

Kansas State Olathe owns 38 acres within the 91-acre Kansas Biosciences Park in Olathe, Kansas. A special benefit district was created to develop the infrastructure in the park and expenses are split proportionately between Kansas State and the Kansas Biosciences Authority. In addition, the property is subject to approximately \$24,000 in additional special assessments in the area. K-State Olathe is responsible for payment of 41% of the \$6.5 million in special assessments on the benefit district for the next 20 years.

Scholarships – \$50,000

Kansas State University Olathe and the University of Kansas Edwards Campus have agreed to provide \$50,000 per year in scholarships for residents of Johnson County. Any unspent funds will carry forward to the next year. As programs increase, these funds will begin to be spent more rapidly.

Facilities Operations, Maintenance and Deferred Maintenance - \$1,471,500

This amount represents the utilities and maintenance costs for the facility, including custodial, engineering, security, AV/IT and landscape services. In addition, \$500,000 is being set aside to fund a deferred maintenance reserve for the building and also \$75,000 for a technology refresh per year.

Programmatic Personnel Costs - \$1,230,000

This includes the salaries and fringe benefits for the administrative staff.

Academic Programs - \$2,030,551

These funds are used for personnel, fringe benefit costs, and program costs for the academic and research programs in animal health, food safety and security, and K-12 outreach programs in those focus areas. In addition, significant KSU funds and the tuition collected from Olathe courses finance several graduate programs.

General Administrative and Information Technology - \$589,500

This category covers office supplies, travel, marketing, audit, legal, and other administrative expenses. Information technology staffing and support are also included.