

Approved: 03/25/93  
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairman Rochelle Chronister at 1:30 p.m. on March 16, 1993 in Room 514-S of the Capitol.

All members were present except: Rep. Wanda Fuller (excused absence)

Committee staff present: Julian Efird, Legislative Research Department  
Alan Conroy, Legislative Research Department  
Jim Wilson, Revisor of Statutes  
Jerry Cole, Committee Secretary  
Sharon Schwartz, Administrative Assistant  
Mike Leitch, Intern

Conferees appearing before the committee:

Diane Duffey, Legislative Research Department

Others attending: See attached list

Diane Duffey, Legislative Research Department, appeared before the committee to discuss a funding proposal for the Board of Regents' institutions requested by Chairman Chronister. (See Attachment 1, 1a and 2). Chairman Chronister then addressed the committee on some of the specifics of the proposal she was recommending for funding the Regents' system. Rep. Pottorff moved introduction of the bill for finance and operations of the Regents' institutions. Rep. Carmody seconded the motion and it carried.

Chairman Chronister recessed the committee at about 2:10 p.m. while staff prepared agenda items. She reconvened the committee at 2:26 p.m. Rep. Heinemann presented the subcommittee report substitute for **HB 2211**, the Kansas Public Employees Retirement System Bill. (See Attachments 3-3c). Rep. Gross made a motion proposing amendments to the bill. (See Attachment 4). Rep. Dean seconded the motion and it failed. Rep. Heinemann made a motion to adopt the subcommittee report for the bill. Rep. Teagarden seconded his motion and it carried. Chairman Chronister adjourned the meeting at 3:29 p. m.

The next meeting is scheduled for March 17, 1993.

# MEMORANDUM

## Kansas Legislative Research Department

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March 16, 1993

**To:** House Appropriations Committee  
**From:** Diane Duffy, Senior Fiscal Analyst  
**Re:** Funding of Higher Education

This memorandum is intended to provide general background information about state models for the financing of higher education; a review of the current Kansas funding process; and a discussion of a new concept for funding the Kansas Regents institutions, as proposed by the Chairman of the House Appropriations Committee.

### Funding Processes Used by Other States

There is no standard model for coordinating, governing, and financing higher education. It appears that there are as many combinations of methods of funding higher education institutions as there are states. All states assign responsibility for the operation of public colleges and universities to governing boards, although state structures vary greatly, as evidenced by Attachment No. 1 from the *State Postsecondary Education Structures Handbook, 1991*. The role of states in relation to their higher education institutions also varies. For example, in some states the government has traditionally treated all public institutions as state-owned and regulated agencies. The institutions are subject to the same procedural controls applicable to other state agencies. In other states, institutions are treated as state-assisted, but separately controlled entities that are exempt from most state procedural controls. In still other states, the pattern is mixed.

The balance between legislative policy and oversight on one hand and institutional autonomy and responsibility on the other is unique to each state. The complexity and formality of funding processes greatly increases as one moves along the spectrum, from Michigan with its very open, political, and competitive process, to California with its multitude of highly complex formulas.

## Funding Models

In terms of funding processes for higher education, there are several basic models described in the literature: (1) incremental funding; (2) formula funding; (3) performance-based funding; and (4) a combination of models.

The basic assumption of incremental budgeting is that the existing base is a proper reflection of funding needs and thus increments of increase are applied to the various portions of the base. Frequently, increases are calculated as a percentage increase for specific items (*e.g.*, percentage adjustments for classified salaries, unclassified salaries, student salaries, and OOE). Formula funding is designed to finance an institution based on the relationship between programs and costs by analyzing and applying certain formulas to institutional data (*e.g.*, enrollment adjustment formula and servicing new buildings formula). Several states have developed performance-based funding for a relatively small portion of the overall budget in an effort to spur particular outcomes, such as innovative programs. In terms of a combination of methods, Kansas provides an example of a funding process which uses incremental and formula methods in its overall budget process for the Regents institutions. In Kansas, the major portion of university budgets is incremental in nature with a formula used for enrollment adjustments and for some physical plant expenditures (servicing of new buildings).

According to a 1991 study conducted by the Center for State Higher Education Policy and Finance, of 37 state university systems which responded to the survey, 13 indicated they used an incremental method of funding, seven indicated they have a formula, and 17 indicated they have a combination of incremental and formula budgeting.

## Tuition Policies

Information about state tuition policies is available from a very recent, unpublished survey conducted by the State Higher Education Executive Officers regarding control over public institution tuition revenues. The data indicate that for "universities," 33 states retain revenues from tuition at the campus or institutional level; four states retain tuition at the state-level under the control of a governing or coordinating board; eight states hold revenues in a separate state tuition fund from which all funds must be appropriated prior to expenditure for higher education purposes (such as Kansas); and three states reported that revenues from tuition are deposited in the state general fund.

In terms of the role tuition plays in funding approaches for higher education, the data indicate the following for "universities."

1. There were nine states that used a formula funding approach for budget development and allocations which incorporated various workload factors (such as expected enrollments, student-faculty ratios, standard costs) and some mission or program differentiation. Tuition revenues enter this process indirectly through estimated enrollments.
2. There were 20 states that reported they use a formula or guidelines for budget development and resource allocation which, in addition to workload factors, also take into account estimated or actual resources available from various sources, including tuition revenues.

3. There were 16 states that reported that they use an institution-based budgeting approach, in which the revenues and expenditures of each institution are reviewed by some state-level agency (governing/coordinating board, the Governor, or the Legislature). Tuition revenues are examined in the context of projected enrollments and institutional budgets (Kansas fits under this approach).

### **Budget Controls Placed on Appropriations**

In addition to determining the amount of appropriations, states also impose various types of budget controls on how institutions can spend their funds. Controls can be set according to object of expenditures, such as travel or salaries, or on broad programmatic areas, such as instruction or physical plant. A majority of states report lump sum appropriations either to individual campuses or to the system.

Attachment No. 2 contains three in-depth reviews from "A Study of the Funding Process for State Colleges and Universities," which describe the funding processes in three states: Mississippi (a formula state), Washington (a nonformula state), and Virginia (a combination state).

### **Kansas Process for Funding Higher Education**

Traditionally, the Legislature makes many of its decisions regarding financing of higher education on a systemwide basis, applying them to each institution under the jurisdiction of the Kansas Board of Regents. Additionally, the Legislature reviews each of the institutions' individual budgets.

Attachment No. 3 is an illustration of the operating budget and the funding methods used to determine increases to the budget.

### **Financing of University Budgets**

In Kansas, the term "general use funds" is central to discussion of the financing of institutional operating budgets. The term refers to those funds that can be used to provide general financial support for campus operations. General use funds include State General Fund appropriations, General Fees Fund revenues (primarily tuition income), and interest on certain investments. In addition, general use funds include revenues from hospital and laboratory operations at Kansas University Medical Center and Kansas State University -- Veterinary Medical Center, and federal land grant funds at Kansas State University -- Extension Systems and Agriculture Research Programs.

In contrast "restricted use funds" are those that must be used in a manner consistent with the conditions attached to the receipt of the funds. While subject to appropriation by the Legislature, the majority of restricted use funds are treated as "no limit" appropriation accounts, *i.e.*, the institution has the authority to make expenditures from the fund subject to the limitation of available resources. Examples of restricted use funds include parking fees, student union fees, federal research grants, and income generated by campus revenue producing activities. It should be noted



that the individual institutions benefit from expenditures by their respective endowment associations, much of which are not included in the state budgets.

The overwhelming majority of consideration given to the institutional budgets by the Board of Regents, Governor, and the Legislature is directed to the General Use portion of the budget. In most instances, all recommendations of the Governor and the Legislature are reflected only as adjustments to the General Use budget. The Restricted Use budget is not formally updated following its original October 1 submittal by the institution. However, under present review procedures, such updates would be little more than an exercise, due to fluctuations in restricted fund receipts and the limited review given to those funds.

### **Operating Budget Characteristics**

The operating budget consists of all expenditures, except capital improvements. Further, the operating budget includes ongoing items and new requests. The items which comprise the maintenance or base budgets are typically those of an ongoing nature, as opposed to new requests which are considered program improvements. Review of operating budgets has typically not included scrutiny of expenditure patterns among individual object codes of expenditure, such as communications, travel etc., with the exception of utilities which are appropriated as a specific line item.

The Board of Regents budget cycle involves making budget decisions at its June meeting. Prior to the meeting, the Board has approved allocations of funding and specified that the institutions are to develop requests within those allocations. The concept behind the allocation procedure is a requirement that the institutions submit projects representing their highest priorities, within the limitations of an allocation. However, the maintenance items comprise the bulk of the new requests, due to the magnitude of the base to which the maintenance recommendations are applied.

As mentioned previously, the major portion of university budgets -- maintenance budgets -- are incremental, in that a percentage adjustment is applied to the previous base. Advantages to such incremental adjustments include its simplicity and the consistency of treatment given to each institution. Disadvantages to those incremental adjustments include not directly addressing actual expenditure requirements at the institutions or the relative differences among their respective base budgets. Major exceptions to simple incremental budgeting have included the enrollment adjustment, which is formula driven. In addition, costs associated with the servicing of new buildings are also formula driven. Further, utilities have been financed at actual costs.

### **Enrollment Adjustment**

The concept of an enrollment adjustment is predicated on the assumption that increases or decreases in student numbers impact the cost of operating an institution and that the institutions' budget should reflect the number of students in attendance. The enrollment adjustment originated in the 1981 Legislature and has been modified a number of times.

An enrollment adjustment is based upon actual changes in enrollment related to the actual cost of programs generating those enrollment changes. There are 24 academic disciplines (mathematics, agriculture, history, etc.) and four levels of instruction (lower division, upper division, graduate 1, and graduate 2). Credit hour changes are related to the discipline and instructional level in which they occurred for purposes of producing the instructional component of an enrollment

adjustment. These procedures were developed to more accurately relate enrollment changes to costs. The formula also includes adjustments for student services (libraries, campus security, enrollment services, etc.) which theoretically do not vary by type of student. In addition to the concept of relating enrollment changes to costs, the procedure also contains one other feature, a corridor which buffers certain adjustments.

The concept underlying these corridors is that an institution should not be significantly impacted by relatively minor changes in enrollment. Conversely, larger changes in enrollment should be accompanied by some adjustment to the budget. Beginning with the FY 1992 enrollment adjustment request, the corridors were modified to provide a declining percentage of full average cost in an effort to reduce the impact of substantial enrollment declines and to eliminate the incentive for uncontrolled growth, particularly that in excess of 3.0 percent.

**Increase Adjustments as a Percentage of  
Average Cost**

<u>Percentage of Educational Budget</u>	<u>Increase Adjustment</u>
Less than 0.5 Percent	0%
0.5 to 1.0 Percent	100%
1.1 to 2.0 Percent	75%
2.1 to 3.0 Percent	50%
Over 3.0 Percent	25%

**Decrease Adjustments as a Percentage of  
Average Cost**

<u>Percentage of Educational Budget</u>	<u>Decrease Adjustment</u>
Less than 2.5 Percent	0%
2.5 to 3.0 Percent	100%
3.1 to 4.0 Percent	75%
4.1 to 5.0 Percent	50%
More than 5.0 Percent	25%

**Student Tuition**

K.S.A. 76-619 grants the Board of Regents authority to set tuition at the institutions under its control. Although the Legislature has granted this direct authority to the Board, it reviews tuition rates and revenues. Additionally, the Legislature periodically gives general policy recommendations to the Board concerning student tuition. The Legislature typically reviews the percentage actual tuition receipts have represented of total educational costs. In terms of legislative policy regarding tuition, it appears that the only official legislative recommendation, issued in 1966, stated that resident and nonresident tuition should be fixed at a level so that basic tuition income provides on the average, 25 percent of the cost of the general education program. For FY 1993, the

ratio of tuition revenues to educational costs systemwide was 23.8 percent for residents and 65.9 percent for nonresidents.

Tuition receipts are credited to the General Fees Fund of the university where the tuition is collected. Tuition receipts are considered general use money and General Fees Fund receipts are budgeted as an offset to amounts appropriated from the State General Fund. An expenditure limitation is traditionally placed on the General Fees Fund.

The Memorandum on Regents Systemwide Issues contains further discussion of the Kansas budget process for the Regents institutions as well as information concerning the FY 1994 budget request.

### **Legislative Studies of Higher Education Financing**

In terms of legislative studies of higher education, during every interim, attention is given to higher education planning by the Legislative Educational Planning Committee; however, comprehensive interim committee review of higher education finance does not occur on an annual basis. Recent interim studies on higher education financing are outlined below.

**Proposal No. 49 – Budgeting for Regents Institutions (1989).** Expenditure patterns of institutions under the State Board of Regents and the factors considered in the formulation of annual budget changes were reviewed, with emphasis on the need for greater legislative oversight.

**Proposal No. 28 – Financing Regents Institutions (1986).** Financing for institutions under the jurisdiction of the State Board of Regents was reviewed, including the financing structure of those institutions; procedures for budgeting and appropriating to the institutions; procedures for adjusting operating budgets, including enrollment adjustments; and the financial impact of durational residency requirements.

**Proposal No. 42 – Financing of Regents Institutions (1979).** A general review of financing of higher education in Kansas was conducted, including a comparative analysis of current and alternative procedures for allocation of state funding and the implications of declining enrollments on state fiscal policies.

### **New Funding Concept**

The new funding concept developed by the Chairman of the Appropriation Committee proposes the following:

1. establish a base upon which subsequent years' funding will be based;
2. "guarantee" a certain percentage increase in funding from the State General Fund over a period of years;
3. eliminate the percentage adjustment funding and formula funding, with possible exceptions for:

- a. adjustments to the base for fringe benefit changes;
  - b. percentage adjustment for classified employees;
  - c. servicing new buildings formula; and
  - d. other exceptions.
4. retain revenues from tuition at the institutional level except for 20 percent of the increase which is allocated to the Board of Regents for a Regents Faculty Salary Enhancement Fund. Expenditures from this fund would be used to increase the unclassified faculty salaries at the individual Regents institutions to 95 percent of their designated peers.

The attached tables (1-4) are included for illustrative purposes only. The tables reflect by institution the following:

- \* 1 Percent Increase in SGF and 10 Percent Increase in Tuition With 20 Percent of the Increase to Board Office Over a Three-Year Period (FY 1995, FY 1996, FY 1997)
- \* 1 Percent Increase in SGF and 10 Percent Increase in Tuition With 20 Percent of the Increase to Board Office Over a Five-Year Period (FY 1995, FY 1996, FY 1997, FY 1998, FY 1999)
- \* 2 Percent Increase in SGF and 10 Percent Increase in Tuition With 20 Percent of the Increase to Board Office Over a Three-Year Period (FY 1995, FY 1996, FY 1997)
- \* 2 Percent Increase in SGF and 10 Percent Increase in Tuition With 20 Percent of the Increase to Board Office Over a Five-Year Period (FY 1995, FY 1996, FY 1997, FY 1998, FY 1999)

# 1-8 Authority of State Boards of Higher Education 1990

Consolidated Governing Board		Coordinating Boards						Planning Agencies
Board for All Public Institutions	Board for All Senior Institutions, Separate Agency for Community Colleges	With Program Approval Authority			With Program Review and Recommendation Authority Only			
		Consolidated or Aggregated Budget (d)	Budget Review and Recommendation (f)	No Statutory Budget Role	Consolidated or Aggregated Budget (d)	Budget Review and Recommendation	No Statutory Budget Role or Program Approval	
Alaska Georgia Hawaii Idaho (a) Maine (c) Massachusetts Montana (a) Nevada North Dakota Rhode Island South Dakota Utah Puerto Rico	Arizona Florida (a) Iowa Kansas Mississippi New Hampshire (b) North Carolina Oregon Wyoming Wisconsin (c)	Alabama Arkansas Connecticut Illinois Maryland New Jersey Ohio Oklahoma South Carolina	Colorado (f) Indiana Kentucky Louisiana Missouri Pennsylvania (a) Tennessee Texas (f) Virginia Washington	New York (a)	Florida (a,b)	Alaska (b) California Minnesota New Mexico (g) Oregon (b)	New Hampshire (b)	Delaware Michigan (a) Nebraska Vermont District of Columbia West Virginia (h)

## Notes:

- (a) States with agency responsible for all levels of education.
- (b) Separate statutory coordinating agency.
- (c) Maine Maritime Academy and Vocational-Technical institutes are under other boards.
- (d) Separate institutional budgets may be included in consolidated or aggregated budgets.
- (e) State Board of Vocational, Technical and Adult Education is separate from Board of Regents.
- (f) Boards develop the formula on the basis of which allocations are made to institutions.
- (g) Statutory authority related to programs provides only for approval of new graduate programs.
- (h) West Virginia Secretary of Education and the Arts has authority to coordinate rule-making by the state's two multi-campus boards.

Source: State Postsecondary Education Structures Handbook, 1991  
Education Commission of the States

## VIRGINIA

Virginia has a history of using formulas since the late 1960s and has had a strong commitment to their use (higher education officials prefer to use the term "budget guidelines" instead of formula), even among states that would be classified as formula states.

One senior higher education official observed, "When Virginia adopted a formula back in the 1960s, it gave the governor and the legislature a rational and equitable manner in which to fund institutions as the state became more sophisticated over time." Is this still true? Do the budget guidelines work in Virginia? With some notable exceptions, "formula thinking" permeates nearly every decision about how funding allotments are to be made. For example, when tax-exempt bonds were sold to create a revolving fund for improving and upgrading outdated scientific equipment, a funding plan was devised by the Virginia Council of Higher Education to ensure that the funds would be distributed to institutions on an equitable basis.

Institutions "buy-in" to the budget guidelines with less commitment and enthusiasm than does the Council of Higher Education. Some institutional critics contend that the guidelines are nothing more than an overly complex process to do what is essentially incremental budgeting, and others contend that the diversity of institutions in Virginia cannot be met by the constraints of a formula, arguments not dissimilar to those found in other formula states. Nonetheless, nearly every institutional representative we spoke to conceded that the guidelines do "seem" to work for most areas.

### Governance

Virginia is a state without a university system—each institution has its own board of visitors or trustees. It is a state with a diverse group of public institutions: a nationally prominent state university, land-grant universities, public liberal arts colleges and universities, historically black colleges, a rapidly growing suburban university, urban universities, and coeducational institutions that evolved from women's colleges.

Virginia does have a strong state coordinating agency, the State Council of Higher Education of Virginia. The Council (or SCHEV as it is sometimes referred to) has authority to approve academic programs, review and make recommendations on institutional budget requests, and work with the governor's office and the legislature on the budget and on any number of higher education-related issues. It is also the responsibility of the Council to administer the budget guidelines and make adjustments when necessary. It is not surprising that the Council, more than any other state entity, sustains the use of funding guidelines in Virginia. They do so with the support of the legislature and the governor's office, which utilize the guidelines and are favorably disposed to them.

### Budget Process

Virginia operates under a biennial budget that begins in even-numbered fiscal years. Preparation for higher education budgeting commences long before the biennium actually begins. Before each institution can submit its budget request, enrollment projections must be done, expenditure plans and actual expenditure reviews for current fiscal years completed, and a guidance memorandum from the governor (stating his priorities for the biennium) issued.

But even prior to these steps, staff from the Council of Higher Education and the institutions meet informally to plan for the next biennium. This informal planning mechanism is really the Council's effort, as the state coordinating board. Its goal is to build consensus among the institutions on higher education issues. To varying degrees, institutions use the instructions and forms for the budget guidelines (the

funding formula) provided by SCHEV to assist in the development of their budget requests. Budget requests will then be submitted to the Department of Planning and Budget (the governor's budget office), as an official "operating budget proposal" for education and general expenditures.\* When institutional budgets are submitted to the Department of Planning and Budget (DPB) for inclusion in the governor's budget, they are also submitted to SCHEV for review and recommendation, although not for SCHEV approval.

Institutions must pay careful attention to budget instructions provided by the Department of Planning and Budget (which are separate from the instructions and forms provided by SCHEV for the guidelines) and the governor's guidance memorandum when developing their budgets. Base budgets are defined by DPB and the governor for all institutions as "a specified resource level (dollars and positions) intended to support an agency's existing activities with no changes in policy affecting the scope, quality, or nature of the services."

Institutions are instructed to begin the preparation of the operating budget proposal with a base budget request that essentially contains dollar levels and numbers of positions at current services. The base, in DPB thinking and as defined in recent year guidance memoranda, includes updated salary levels, may or may not have an inflation factor for non-personnel spending, and may exclude costs for projects that are considered one-time expenditures. Development or justification of base budgets is not done by using the budget guidelines, yet one could make the point that the guidelines played a prominent role in building the institutional bases in the previous appropriation.

Institutions propose a number of additions to the base budgets when developing operating budget proposals. Some of these additions contain new levels of funding that DPB will consider as part of the base budget request (recently called "level 1 initiative requests" in Virginia budget jargon). Institutional requests beyond the base budget (with or without level 1 requests) are called level 2 requests and include all institution requests for new or expanded programs. Institutions attempt to match institutional priorities in level 2 requests with new higher education initiatives that the governor has made explicit in the guidance memorandum. In recent years, governors have called for new initiatives in such areas as applied research and international trade.

In sum, the complete operating budget proposal for education and general expenditures is arrived at by adding the initiative requests to the specified base budgets for each year of the biennium. At this key point in the budget process, institutions may refer to the operating guidelines to justify new positions under an initiative. For those institutions, the guidelines are very helpful during budget development. However, other institutions may choose not to use them. Nevertheless, SCHEV will compare all requests for additional positions and any increases in the non-personnel budget with the guideline numbers.

Initiatives are also added to (or removed from) institutions' operating budgets by the General Assembly during the legislative session. These legislative program enhancements also go into the base for the next biennium if they are multi-year projects or permanent programs. These are attained through direct institutional lobbying, often during the "short session" of the legislature--the odd-numbered years when the Assembly may amend the biennial budget. (Thus the base budget for the next biennium is technically the second-year funding level of the current biennium.) There are instances, however, when DPB has omitted legislative initiatives from the governor's guidance memorandum base budget for the next biennium, setting off rancorous debates between institutions and DPB staff.

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\* In addition to education and general expenditures, appropriations in Virginia are also made for three other categories of funding: financial assistance for educational and general services, auxiliary enterprises, and student financial assistance, which is state funded but institutionally based.

The process outlined above may be under some degree of change. Officials admit that revenue shortfalls and continued efforts for greater institutional budget flexibility have led to efforts to shorten the process both before and after appropriations are made. Changes in technical procedures for the building of base budgets are also anticipated at the discretion of a new DPB director.

### Budget Guidelines

In our conversations about the budget guidelines with Virginia officials (especially with Council and legislative staff), two important points were made. First, the guidelines (for positions in instruction, academic support, et cetera, thought of as primary when one thinks of funding formulas) cannot be considered in isolation from other "formula type" factors. In Virginia higher education budget preparation, these are the state tuition policy, peer faculty salary comparisons, enrollment forecasts, and the non-personnel guidelines used in both operating and non-operating budget requests--the most notable being the space planning guidelines (square foot per FTE ratios used for capital requests). Second, and in a similar vein, it was noted that flexibility is built into the guidelines by allowing institutions discretion in allocations among various funding guideline categories.

The *position-based guidelines* (or staffing guidelines) apply to budget growth and to existing budgets to measure the adequacy of staff; they are explained in this section. *Non-personnel services guidelines* have been developed in a number of areas; they are explained at the end of this section.

Up until 1984, the base budget for the Education and General request used the staffing guidelines covering six programs: instruction, academic support, libraries, student services, institutional support, and operation and maintenance of the physical plant. The guidelines provided the numbers of personnel, i.e., the number of positions to be filled in each of the six program areas. As now used to fund growth and measure the overall adequacy of staffing, the same six programs exist and the budget guidelines operate in very much the same way. The major area of the guidelines (as in almost all formulas) is instruction.

It is from instruction that most of the positions and subsequent funding for the five other programs is derived. If one were to chart the flow of the budget guidelines to determine staffing and resource requirements it would be as follows: after determining the number of instructional faculty, the number of administrative and professional positions are determined; from these two the number of classified positions is set. Next is the staffing of libraries and the joint treatment for staffing purposes of the institutional support and student services areas. Finally, staffing for the physical plant is determined. The non-personnel needs of library funding (primarily collections) are then determined, and last, funding for other non-personnel items is determined largely through guidelines employing a unit cost approach.

The **instruction** program consists of guidelines for teaching and research positions. A table is provided by SCHEV that contains the faculty-student ratios for each level (e.g.: lower-division, upper-division, graduate, etc.). Currently, for most disciplines, the lower-division faculty student ratio is 1:22. This ratio applies to all undergraduate courses at all four-year Virginia institutions (and two-year institutions) for general academic instruction, and it is called the "discipline ratio."

There are 18 discipline ratios. They were developed from course levels matched against those used in other states. A number of specialized disciplines have lower faculty-to-student ratios for instruction in such areas as health science, law, and engineering.

Based on the enrollment projections done by SCHEV, the ratios determine the number of total faculty positions for each institution. Graduate teaching assistants are subtracted from the total for a net number of teaching and research instructional positions. This has the effect of leveling those institutions with large numbers of graduate students teaching lower-division courses. Administrative and professional positions in academic departments are based on the number of FTE faculty positions and are again differentiated



by type of institution. Doctoral institutions are allowed one FTE position for each 20 teaching and research positions, comprehensive colleges are allowed one for each 35, and two-year institutions one for each 25.

New classified positions in instruction are based on the number of full-time faculty. Differences are granted by type of institution; doctoral-granting institutions are granted one FTE classified position for four FTE faculty, comprehensive colleges and community colleges one for every eight.

The guidelines also have a funding floor provision that protects small institutions and small community colleges. This gives institutions their current number of positions or what the guidelines will give them--whichever is greater. The floor is simple and flexible.

Off-campus programs and summer session programs are covered by the faculty/student ratios. Community education and research and public service, areas essential to any public institution, are not covered by the operating guidelines, although SCHEV's general guidelines to institutions strongly suggest that each institution provide justification for the number of positions requested. In good budget times, "base plus growth" has been the unwritten policy.

The only area under the **academic support** program in the operational guidelines is libraries. Library funding contains key sub-formulas and is fairly complex. Funding is determined for both personnel and non-personnel: staffing and collections. Academic support also contains guidelines for new personnel positions in audio visual services and computing support, based on the guidelines for instruction. There is general agreement among everyone that the library funding guidelines work, have been accepted, and are generally funded at their full level.

The library staffing guidelines are by type of institution: doctoral, comprehensive, and two-year. Basic staffing is allowed regardless of enrollment for each type of institution; nine FTE professional librarians for doctoral and comprehensive and 3 for the community colleges. Additional staffing is based on FTE students by type of institution. Doctoral institutions that meet the criteria for membership in the Association of Research Libraries (the University of Virginia and Virginia Tech do so) are allowed additional staffing at the mean level of ARL staffing. If an institution builds a new library then the guidelines apply to all positions.

Guidelines have been developed that treat **student services and institutional support** as a common guideline area--essentially a base plus common formula. The formula provides base positions with adjustments for additional campuses and variable staffing rates that are sensitive to institutional type and size.

For student services, institutions are allowed a base staff regardless of size--two FTE classified positions, plus one FTE position for branch campuses. Additional classified staff are requested by institutions through the institutional support program. That guideline allows 22.5 FTE positions for each 100 FTE teaching and research positions. For community colleges, the guidelines allow 10.5 FTE classified positions for each 1,000 FTE students. The guidelines attempt to recognize the costs to institutions that enroll large numbers of part-time students by allowing additional staffing determined by an FTE:head-count ratio.

The base staff for administrative and professional positions under student services are also the same for all institutions -- two FTE positions, plus one FTE for branch campuses. Additional teaching and research staff are requested through the institutional support program--2.75 FTE positions for 1,000 FTE students for doctoral-granting institutions, three FTE positions for each 1,000 FTE students for comprehensive institutions, and four FTE per 1,000 FTE students for community colleges.

Institutional support consists of staffing for executive management, fiscal operations, general administrative services, public relations and development and logistical services. The number of classified positions is determined as follows: all four-year institutions are given a base staff of six FTE positions (one additional for each branch campus) and additional staff as determined in the student services area. Classified positions are also adjusted by a multiplier to account for large numbers of part time students; discussions are currently taking place to see whether they are adequate.

Administrative positions in institutional support are by type of institution. Doctoral granting get a basic staff of three FTE positions (plus one for each branch campus); comprehensive colleges receive a basic staff of three FTE positions. Additional staff can also be requested based on the number of FTE students. Again, flexibility in the guidelines allows institutions to treat these two above areas as a common area for staffing purposes, allowing institutions to move positions around as needed.

The guidelines for the **operation and maintenance** of the physical plant assign classified positions by the design of all campus facilities, primarily the "assignable" and "non-assignable" square feet for education and general purposes. Essentially the guideline is a ratio of support positions to the total number of square feet. Positions for new facilities are also provided at this ratio. Staffing for power plants is dependent on the design of the plant. There has been an increase in the number and use of *non-personnel guidelines*. Most use a standard unit cost approach that provides for inflation and growth although growth is not always funded. Non-personnel guidelines are found in both the operating budget and in the non-operating budget (the capital budget).

We noted the space-planning guidelines earlier, the most prominent of the non-personnel guidelines used for capital requests. Library collections guidelines are part of the operating budget. Books and periodicals are funded on a maintenance plan. A predetermined sub-formula for most institutions is used (called the Virginia maintenance formula) and is based on enrollment. The University of Virginia, Virginia Tech and Virginia Commonwealth University and the law schools of William and Mary and George Mason) may use a process called the Voight formula, which applies per-volume costs to the number of allowed volumes. In addition there are guidelines for computer work stations for students and institutional allotments for student assistance, which are given directly to institutions outside the education and general expenditures budget.

There is also a **maintenance reserve fund**, begun in the 1982-84 biennium, to provide regular maintenance support for facilities. It is 50 percent funded through a capital appropriation and 50 percent funded through the operations and maintenance operating budget. It can be carried over from biennium to biennium and is formula funded on a recommendation by the Council to the legislature. Institutional requests often far exceed what is granted by the guidelines.

One of the most innovative programs developed in Virginia was the establishment of an **equipment trust fund** through the sale of tax exempt bonds. The trust fund uses bond proceeds to fund the replacement of obsolete scientific equipment. When the trust fund was begun, a question arose as to how monies would be disbursed. Virginia established what can only be called a guideline approach. Trust fund monies are allotted by academic discipline. Discipline disbursement is based on an agreed-upon standard for that discipline measured against the usable inventory of equipment the institution currently has for that academic discipline. Disciplines chosen for allotments change each biennium. Funding for maintenance contracts and upkeep for equipment is granted through the operating budget and is based as a percentage of the equipment base.

Virginia has thus begun two programs, currently funded at around \$50 million, funded roughly equally from the operating and capital budgets (and the sale of bonds) that have a goal of replacing facilities and equipment every 10 years. Both institution and council staff are excited about these programs and feel that they are working.

## Salaries

To set faculty salaries, Virginia uses peer comparison groups. Each biennium, a set of peer institutions is determined for each Virginia institution. The selection of peers is a negotiating process between institutions and the Council. Depending on the type of institution, as many as 25 peers are selected. Salaries are targeted at the 60th percentile of the peer group for 1992, although the current budget crisis will no doubt preclude this goal. Adjustments in peers and salaries (if the state budget is healthy) are made each biennium. This applies to new positions determined by the guidelines as well as positions in the base.

Salary increases for classified positions are set by the state, and salary increases for institutional support positions are handed down by the governor each biennium.

## Enrollment Forecasts and Tuition Policy

It is obvious that there is a large dependence on **enrollment** in the Virginia budget guidelines because enrollment growth provides the key to budget growth. It is crucial in any position-based formula dependent on enrollment that accurate enrollment numbers or estimates are used. The Council of Higher Education, early in the biennial funding process, and well over a year before the governor submits his budget to the legislature, approves enrollment projections for each Virginia institution. They are shared with the Department of Planning and Budget and are used for the important guideline calculations above. Adjustments can be made in the projections if the institutions can justify them.

Enrollment growth can also occur by student retention and higher levels of graduation--in other words, by changing the mix of students. Retaining greater numbers of students at any campus will allow institutions to request more faculty if they are wise in using the budget guidelines. The more students that move to the upper division, the lower the faculty-to-student ratio. In that sense, the guidelines have their own built-in incentive. The small public liberal arts institutions in Virginia that do not wish to see large enrollment growth in freshman classes can modestly expand staff in this manner. Some have questioned whether this is altruism or simply a strategy for increasing state resources. Others have argued that better retention would occur on college campuses if states and institutions allotted equal or greater resources to lower-division students.

Not only can institutions change the mix of students to attain greater resources, they can also change the curricula. More upper-division and graduate programs will also allow institutions greater resources. George Mason University, a growing institution, has increased its number of graduate programs and, consequently, justification for more state funding.

The role that **tuition** revenues play in Virginia in the funding process cannot be ignored. The budget preparation documents contain a specific guideline--in essence a tuition authorization--and accompanying worksheet for calculating tuition charges. Various additions and subtractions to educational costs are made to determine the actual cost. Tuition is collected by the state and reappropriated.

Virginia is a tuition formula state wherein tuition (which is classified as non-general revenues)\* is authorized as a percentage of state appropriations for adjusted E & G operating budgets. In the 1990-91 academic year, Virginia institutions charged anywhere from 23 to 41 percent of the full cost of instruction depending on the level and domicile of the student and the type of institution. Tuition revenues become

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\* In addition to tuition, non-general fund revenues also include indirect costs, community education, public service, local government appropriations, and income from ancillary services.

a state expectation, which in turn becomes a state appropriation back to institutions. Individual tuition rates are established by each institution's Board of Visitors under the guidance of the Council and legislature and are intended to implement state policy that says students and their families should bear a significant portion of their cost of education. The boards are asked to consider the policies used to develop the original tuition authorization and to minimize costs to Virginians.

Tuition revenues are considered the first money spent by institutions. Institutions may request to retain and expend higher tuition revenues than what is originally appropriated through the tuition guidelines. According to Council staff, these requests are rarely refused. These higher revenues can be placed in "excess tuition accounts" to be used for special purposes. George Mason University, for example, used such accounts to fund off-campus housing for students, and the University of Virginia used them for a variety of institution initiatives. Institutions using the excess accounts appreciate the flexibility that the tuition guidelines has given them.

Unplanned tuition revenues can also occur through changes in the mix of out-of-state and in-state students or other changes in the enrollment mix. Institutions can also retain these excess revenues with permission of the governor.

The Boards of Visitors for a number of institutions have asked that tuition be allowed to increase for operating budgets beyond that allowed by the guideline because of the losses in appropriations resulting from the recession. The current governor had been reluctant to allow this to happen, at least to the extent that institutions would have liked. As the budget situation worsened, he and the General Assembly raised the tuition reauthorization by \$43 million for the spring 1991 semester and by an additional \$43 million for the 1991-92 academic year. Not only is in-state tuition high and increasing, but Virginia will require that non-residents be charged a full 100 percent of educational cost.

Virginia institutions currently receive nearly 53 percent of their total revenues from sources other than state appropriations, tuition being the largest source of non-general fund revenue. After the 1991 legislative session this will be 55 percent, almost exclusively because of the increase in tuition. Virginia public institutions are among the most expensive in the country. If the tuition formula is made dysfunctional by continued authorizations of higher and higher non-general revenue fund expectations, then this percentage will only increase.

#### **Governor's Initiatives and Incentive Funding**

A key part of any state's budgeting process for higher education is the priorities of the governor and his or her administration. In the spring of every odd-numbered year, as the Virginia governor puts together the budget package to deliver the following January for the next biennium, the governor, college presidents, and Council staff identify key issues that should be addressed by higher education. Such a meeting has the result of establishing specific governor's initiatives for higher education in the budget, which then become part of the governor's guidance memorandum.

As a result of these meetings and at the urging of the Council of Higher Education, Virginia has been an active state in establishing quality/excellence programs. Since 1980, Virginia has expanded the Eminent Scholars program to attract top faculty, and begun a program called Funds for Excellence, a program of competitive grants for curriculum innovation and excellence, and Commonwealth Centers, a program of one-time competitive grants awarded to seven institutions in specialized areas. Governor Gerald Baliles made international issues a major theme of his administration. This led to the establishment of competitive grants for projects in international trade and education. Virginia has also mandated and funded institutionally based student outcomes assessment. Most of these initiatives have been popular, although the amounts are small when compared with base funding.

Eminent Scholars, actually begun in 1964 but widely expanded by Council initiative, has been a particularly successful program at the University of Virginia, The College of William and Mary, and George Mason University. The money is used for salary supplements. The state matches each dollar of investment yield from institutional endowment funds raised exclusively for the program and spent on the program, with one general fund dollar. George Mason, for example, has been able to raise over \$1 million to attract prominent national figures to its faculty.

This is not to suggest that all meetings between the governors and higher education have led to new initiatives or that all governors' initiatives have led to incentive funding programs. Although quality and excellence funds are not substantial when compared with the amounts for the base budget, they nonetheless signal a strong desire on the part of state policymakers to build incentive funding into the budget process. And of course, they often then become part of institutions' base funding.

Further movement in the direction of incentive funding is strongly suggested in The Case for Change, the Report of the Commission on the University of the 21st Century. The commission looked at all aspects of Virginia higher education and made recommendations for the future. Institutions were given planning money in the second year of the 1990-92 biennium to implement ideas contained in the report, and most likely the next biennium will contain a governor's guidance memorandum on implementing initiatives contained in the report.

### Conclusion

Some observations show that the budget guidelines in Virginia are declining in relevance because of a move toward greater institutional fiscal flexibility, strong efforts by institutions to protect their base budgets, the ambivalence of institutions about their effectiveness, and moves in funding decisions that emphasize incentives and quality and de-emphasize enrollment, as was stated in The Case for Change.

In addition, Virginia has entered the uncertainty of a fiscal crisis which could further weaken the use of the budget guidelines. Not only does the state budget crisis threaten to weaken the guidelines, it also greatly affects the base funding of institutions. The base can no longer be protected if the economy continues to falter and longer-term fiscal problems materialize. Even before the current fiscal crisis, "growth by reallocation" was a message that state policymakers were sending to institutions. For the immediate future, higher education in Virginia faces difficult times. There is some risk that longer-term fiscal problems\* will persist beyond the current fiscal downturn, weakening state higher education funding and, consequently, the use of the operating guidelines beyond the weakening that has already taken place.

In our opinion, however, the future use of budget guidelines should remain secure as long as Virginia recovers economically to resume its place as one of the fastest-growing Eastern Seaboard states and as long as the Council of Higher Education retains its favorable position with the governor's office and state General Assembly, two of the most important bodies that support guideline usage. Both of these occurrences seem likely. The guidelines fund primarily growth, and growth in the current decade has the potential for being substantial. Institutions, from historically black colleges to the University of Virginia, view the guidelines process as equitable, even when they may not obtain all of the funding they request for the programs the guidelines permit and when they sometimes believe that the guidelines lead to the same

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\* Problems faced by all states, including: declining federal support to state and local governments, federal mandates in medicaid spending, spending on corrections, and resistance to new taxes, as well as regional economic differences indigenous to Virginia, i.e., the differences between the economic fortunes of two fast growing regions, suburban Richmond and metropolitan Washington, D.C., and the remainder of the state.

results as would an incremental process. Again, we would be remiss to deny that certain institutions take strong exception to the fairness or appropriateness of certain guidelines. If the guidelines can remain intact through the current difficult fiscal period and if the longer-term fiscal problems can be held at bay, the guidelines can play a vital role in seeing that future growth in the state economy and in the college-bound population (projected for the late 1990s) is translated into adequate and equitable levels of funding for Virginia institutions.

Since their inception, the guidelines have been funded at 95 percent of formula. In addition, Virginia has experienced full funding of the capital projects and its facilities maintenance reserve guideline while instituting a highly successful set of incentive funding programs. Overall, the formulas have been successful even as they have declined somewhat in use. They have evolved over time to become an effective measuring rod of state support.

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## WASHINGTON

The second of the two non-formula states we examined in more depth was Washington. Washington was selected because it used formulas extensively prior to their discontinuance in the 1983-85 biennium. We thought that it would be interesting to find out why highly complex formulas were rejected after nearly 15 years of use. In addition we wished to see what process was put in its place. Investigating both of these questions made our decision to review Washington worthwhile.

### Adoption of Formula Funding

Washington, like many states in the post-war years of the baby boom, experienced tremendous growth in its college-age population. Enrollment doubled in the 1960s. It was during this period that formulas came into use as a way of ensuring that the distribution of large increases in funding was managed and that funds were distributed equitably.

A formula for faculty staffing was begun in 1965. It was later scrapped until negotiations led to the establishment of standardized funding formulas in 1970. Standardized quantitative formulas were developed cooperatively by the four-year colleges and universities for instruction, libraries, student services, and plant operations and maintenance. Formulas were also developed for the community colleges.

The instruction funding rested primarily on student/faculty ratios, library funding on the number of holdings and acquisitions, student services on enrollment, dormitory occupancy and related factors, and plant management and operations depended on a variety of factors related to utilities, janitorial services and related factors. High-cost areas in instruction were identified as such for special consideration in the budget process. Thus the basic formulas in Washington were set in the early 1970s. They were developed to ensure that the higher education expansion was carried out in an equitable manner. The formulas did, in the words of all interviewed, "a good and fair job" of allocating money to the state institutions. As enrollments increased, funding increased commensurately. In short, the formulas for funding calculations were not dissimilar to those of other states developing their formulas. Formula ratios in instruction, for example, led to a determination on minimum dollar per-student amounts and the numbers of faculty for each institution.

### Disenchantment with the Formulas

In the mid-1970s, the Washington state formulas would undergo modification and become more intricate and more complex in some functional areas and simplified in others. But before long, weaknesses in the formulas became apparent, and by the late 1970s and early 1980s a combination of events and realizations occurred that began their demise. First, enrollment leveled-off and adherents to the state formula were hit with the realization that the formulas were good when enrollment grew (each additional student brought in a certain level of new state dollars) but bad during enrollment decline because the marginal savings realized from each less student was met with an average level of decline in state appropriations.

Second, and very closely coupled with the first, was that state support, even in the best of fiscal times, did not come close to fully funding the formula. The highest overall "percentage of formula" reached was 89 percent. In the late 1970s and early 1980s, a slump in the national economy hit the state's lumber and agriculture industries as well as the state's major manufacturer (Boeing), leading to severe state revenue shortages. In addition, passage of new legislation for lower education would further erode the higher education funding base.

Formulas dropped to an overall level of 69 percent of the requested full-funding amount. Even if the formulas had been perceived as sound and as an equitable distribution mechanism for state monies, faith in them was eroding as levels of state financial support decreased.

Third was a growing disenchantment with the complexity of the formulas. Since their inception, a number of sub-formulas were developed under the major formulas for each area of expenditure. More than one of the persons interviewed said that the legislature became distrustful of the formulas when their perceived complexity became far too great. "Formulas lost their meaning," said one interviewee. "And when funding dipped legislators asked, 'What does it mean when one says that we're at X percent of the formula?' It had no meaning to us or to them anymore." Part of this disenchantment appears attributable to a turnover in the legislature. "Newly elected legislators were not part of the 'formula bureaucracy,'" is how one observer put it.

There developed a perception, even among legislative fiscal staff, that university budget preparers were the only ones who understood the formulas—a feeling that formulas were being manipulated by the knowledgeable. Many in the state capital viewed the formulas as complex and/or inflexible while others on the campuses found them malleable enough to meet institutional needs. Institutional representatives were also suspicious of formula tinkering by the legislature, legislative staff, and the Office of Financial Management (OFM, the governor's budget office). Thus feelings of mistrust permeated the process.

Fourth, the larger institutions felt that the formula approach had too much of a leveling effect on their institutions, even though salaries were differentially based. There was strong sentiments on the part of the University of Washington, in particular, that its role and mission as a research institution were not being met adequately in the formula calculations.

The fifth major reason for the demise of comprehensive formulas in Washington was continued institutional disputes (although how vigorous is hard to assess) over funding levels. When funding got tight, the University of Washington and Washington State University could end-run the formula to obtain ever-increasing amounts of money in line item appropriations. According to a 1984 report reviewing funding, the amount of non-formula money ranged between 25 and 35 percent of the state's total appropriation for higher education. The regional institutions did not have the political strength to accomplish end-runs of any significant dollar amount on their own, and they were left with the realization that the formula was not, as stated by one long-time player, "politically fail-safe." Thus the regional institutions, which saw protection and equity (similar levels of funding for similar needs) in the formulas when they were working, became increasingly disenchanted with them as well.

### **Search for an Alternative**

By the early '80s, debates and discussions led to studies on alternative funding mechanisms in various quarters such as the Office of Financial Management, the legislature, and the Council of Postsecondary Education (the state coordinating board). Particularly vocal in criticizing the formulas was the University of Washington. Its actions and subsequent work on the issue prompted others to act.

In the budget for the 1983-85 biennium, the legislature made a major turn away from the complex formula and instituted a funding approach for the biennium that was much more "macro" in nature. For example, it required the spending of minimum dollars per student and set minimum faculty levels. It set parameters to major parts of institutional budgets and specified student/faculty ratios "rather than explicit formula levels." Despite being prescriptive on the issue of educational quality by setting such minimums, the legislature's actions signaled a diminished role for the formula process in making legislative funding decisions. Others saw it as evidence of a major policy shift to more legislative control of institutions.



The next major stage in the review of the Washington state funding and formula process occurred with the release of a consultant's report prepared for the Council on Postsecondary Education. The report was made to the Temporary Committee on Educational Policies, Structure and Management in January 1984, a special blue ribbon panel reviewing all of education in Washington. The report was highly critical of the funding formulas, citing and amplifying the problems above. In place of the formulas, the report recommended that expenditures from comparable institutions from other states be used to define adequacy of funding. Adequate levels of funding would then be determined by comparing faculty salary levels, faculty/student ratios, and library holdings and expenditures for instruction, administration, instructional equipment, and plant maintenance.

The use of comparison institutions for funding guidelines was not altogether new in Washington. The state had been doing a seven state comparison to help in setting faculty salaries since the mid-1960s and continued the comparisons later within the existing formula process. Each institution was compared with all comparable public institutions in the seven states for purposes of presenting a salary budget line to the legislature. Also by 1980, the University of Washington had begun to do its own in-house peer institution comparisons with other public research institutions to confirm that it was underfunded in such comparisons. This prompted its administration to begin to press for adoption of the recommendations to the Temporary Committee contained in the consultant's report.

In preparation for the 1987-89 biennium, the governor's budget office, Office of Financial Management, issued a report and assumed the role of assigning eight peer institutions to each Washington institution. It declared that the peers were to be used for benchmarks for the funding cycle. Substantial increases were realized for all institutions in the biennium. The formula process was now near complete death.

#### **Governance and Coordination Restructuring**

Intertwined with the budget process is the governance structure—the two are invariably symbiotic. To an objective observer, Washington appears to be a state whose higher education system is characterized by both a large degree of autonomy and a large degree of central authority. Each of the six four-year institutions has an institutional governing board. There is no central university administration or governance system. Nonetheless, a large degree of control is exercised over institutions by the legislature, the governor's office, and the coordinating board. The issue of tight controls exercised by the state, especially in fiscal matters, was a major issue during the formula debate and to this day remains very much on the minds of institutional leaders.

Washington wrestled with the structure of governance in the mid-80s. The coordinating board, the Council of Postsecondary Education, was considered weak and ineffectual. Washington toyed with the creation of a superboard (single governing board) and other governance structures, and after much debate the Council was replaced by an alternative that was politically acceptable. Washington did not create a central governing board—instead it created a reconstituted and much stronger coordinating board. The new board was created in 1986 and named the Higher Education Coordinating Board—the HEC board for short. In addition to stronger statutory powers, the selection of well-respected state citizens to serve on the HEC board also strengthened it.

#### **Full Adoption of Peer Comparisons**

One of the HEC board's first statutory duties was to write a master plan for the state. A major element of the board's master plan deliberations was to decide on a funding mechanism for the state institutions. And it did. Just as the Council of Postsecondary Education had spent considerable time trying to answer and articulate the legislature's dissatisfaction with the funding formulas, the new HEC board tried to articulate a new funding structure to replace them. Its decision was heavily influenced by the recent use of peer comparisons by the Office of Financial Management, the earlier report to the Temporary

Committee, the known legislative disenchantment with the formulas, and the considerable influence of the University of Washington. Spending six months visiting campuses and discussing options, the HEC board fully endorsed a peer system of funding. But instead of using eight peers, the HEC board recommended using the Carnegie classification system devised by the Carnegie Foundation for the Advancement of Teaching, and as revised in 1987.

The peer system came about in part because, like any state, Washington wished to see how its higher education institutions were doing in comparison with other states. According to a 1988 study by the Maryland higher Education Commission, as many as 24 states use peer comparisons, largely on a regional basis or for help in setting faculty salaries, library funding, and overall faculty/student ratios. But Washington made the decision to go beyond comparisons - it decided to use the national comparisons as the benchmarks for actual funding of Washington institutions. As noted earlier, comparison states had been used to assist in setting faculty salaries, and so the introduction of their usage on a broader basis was to some a logical expansion of that thinking--i.e., to keep institutions competitive on a national scale and to assess the state's commitment to higher education in relation to other states.

The HEC board decided to use the total revenues per student as the sole measure of comparison and to use all peers within the appropriate category of the Carnegie classification system (with some modifications) as the peer group for each Washington institution. This meant that the University of Washington would be compared with the public university Research I institutions (excluding those without medical schools), Washington State University with the public land-grant university Research I and II institutions (excluding those without veterinary schools), and Central, Eastern, and Western Washington Universities with all public Comprehensive I institutions. Evergreen State College, because of its unique educational mission, was not required to have peer comparisons for funding. This modified Carnegie list gave the University of Washington 24 peers, Washington State University 22 peers, and the regional institutions 284 peers.

In moving to a peer system, the HEC board set a standard for quality--that Washington state institutions should be at the 75th percentile (in the top 25 percent) of the funding level per student of their national peer institutions. The HEC board feels that this is evidence of the state's renewed commitment to excellence. No Washington state institution is at or above the 75th percentile although some are much closer than others. The difference between where an institution is and the 75th percentile is known as the "peer gap."

For all practical purposes, the peer system uses institutional revenues per FTE student for tuition and state appropriations. These figures are reported to the Integrated Postsecondary Education Data System (IPEDS) operated by the National Center for Education Statistics of the U.S. Department of Education. There was some debate as to how to count research and indirect cost recovery as well as tuition waivers. Those institutions that reported waivers as revenue feel it unfavorably inflates their revenue per student if other institutions in the state do not count waivers or do not have large numbers of them. The latest IPEDS data are for academic year 1987-88, so an inflation factor is built in for the subsequent years using the Higher Education Price Index.

The State of Washington collects all tuitions from the institutions, and they are re-appropriated back as part of general revenue appropriations as the fiscal year begins. Washington is also a tuition formula state, whereby tuition is set as a percent of the cost of instruction (25 percent at the regional state universities and 33-1/3 percent at the University of Washington and Washington State University).

The setting of salaries is still controlled by the legislature. But a salary recommendation from the HEC board, as part of the overall budget request, is made to the governor using the Carnegie peers. The amount of money appropriated for salaries is counted toward closing the peer gap. Whether the Office

of Financial Management uses the Carnegie comparisons or the eight peers it designated earlier, is unclear.

The HEC board makes its funding recommendations for the governor's budget using the peer system. By all indications, the governor's budget staff use peers as part of the governor's budget request and the legislative fiscal staff use it when that request is delivered to the legislature. The process is not in statute, however—it exists as HEC board policy and its use has been adopted by the governor's staff and legislative staff.

### **Controversies over the New System**

Using such a macro approach to funding has not been without controversy. Some institutions feel disadvantaged in the use of the peers. Central Washington University, for example, feels that the Carnegie classification system provides too broad a number of institutions for comparison, especially in that it must be compared with all 284 Carnegie I schools on tuition and fees. "Its rationality has not been explained," says a representative of CWU. There are also admitted inadequacies with the IPEDs data, in part because they are prone to institutional self-reporting errors.

One of the biggest controversies arose when institutions found out where they fell in terms of their relationship to their national peers and where other state institutions fell in relation to theirs. For example, Western Washington University and the University of Washington were well below their national peers and Washington State University and Central Washington University were much closer to their peers. Washington State and Central Washington felt that this gave others an impression that they were relatively well funded, an impression that the two, not surprisingly, disputed immediately.

It is the intent of the legislature to close the "peer gap" of each institution over a number of biennia—not instantaneously. But of course controversy lies in the amount of new monies that will flow to those institutions well below the 75th percentile compared with those institutions that are much closer to their national peers. The controversies may lead to subsequent efforts to change the implementation of the peer system, even if the system is used only to set benchmarks.

Use of the peer system in Washington is still evolving. Depending on to whom one speaks, it is working or not working or will succeed or not succeed as the funding mechanism for the future. It has not become formalized to the extent that it can be classified as a funding formula of its own. In fact, institutions still develop their own incremental budget requests for inclusion in the governor's budget (all with an eye on the peer institutional numbers). The governor's budget office, the legislative fiscal staff, and the HEC board are, for the most part, favorably disposed to the peer system and use it as a benchmark for funding decisions. Though they stress the fact that the peer system is new and many bugs need to be worked out, they are committed to that it works or seeing that it at least be given a chance to work.

The state's prime goal is to provide a funding environment that is stable, adequate and conducive to the striving for excellence. That goal does exist as stated HEC board policy as SAFE, which stands for stability, adequacy and focused excellence.

### **Analysis**

Full use of national peer comparisons as benchmarks for state funding would minimize the competition and conflicts between institutions in the budget and appropriations process, if and when such comparisons are accepted as the funding mechanism. As in the case of formulas, peer funding is a way to de-politicize the funding of higher education and reduce conflict among institutions, at least to the extent that such conflicts can be reduced, if that is a desirable goal. Governance structures and budget

processes in many states may supersede this assumption; that is, states with centralized governance structures and budget processes may have already minimized competition and conflicts.

A critic of a peer comparison funding process representing the perspective of a comprehensive state institution may feel that the years and levels of underfunding in relation to the state's major institutions (at least for the institutional functions that are similar) would be "grandfathered in" by virtue of the fact that the comprehensive institution would be measured against a set of national peers (i.e., all 284 state colleges and universities) which themselves have been historically underfunded. Comprehensive institutions can make a strong case in almost every state that they have been underfunded in relation to the "flagship institutions." One must also recognize that there are a number of comprehensive state colleges and universities that have been underfunded in relation to all 284 comprehensive state institutions (or some subset of the 284 that would more closely resemble their national peers), and they could benefit if such a funding process was developed for their state.

Although the formula process in Washington had weaknesses (including its failure to minimize institutional competition), and though it may have been viewed alternatively fair or unfair, it nonetheless provided funding based on existing relationships between in-state institutions. The University of Washington and Central Washington University are not peers, but they have much in common by the very fact that they have both been funded by the same legislature, through the same process, in the same state. Something here is lost if peer funding systems are used too extensively. The macro approach of the peer process, if used in isolation from other funding considerations and if used to drive budgets rather than serve as a benchmark, diminishes the funding history of each institution and puts a fence around each in terms of its funding relationship with other institutions in the state.

A number of situations and possibilities exist in which an institutions relative position among its peers could change. Increases in institutional appropriations may be the biggest factor that changes one's relation to one's peers, but it is not the only one. Dramatic increases in tuition that mask large shortfalls in state appropriations could keep an institution in the same relative position. The financial position for peer comparison could also change dramatically during prolonged state recessions. For example, if an institution remains stagnant in terms of state funding (and other revenues) but its peers in other states have experienced sustained declines because of chronic state funding shortfalls, that institution would appear to be in a relatively good financial situation despite stagnant funding—a prospect that any institution would find disturbing. The above scenarios, however, are unlikely to happen in Washington or elsewhere unless the most rigid of funding mechanisms is developed and enforced.

The Washington experience is instructive in another regard. In Washington, it is an understatement to say that not all institutions liked the old formula. The formula's demise was due in part to distrust in the legislature. In states where an institutional consensus exists on the value of a current formula, however, it is imperative that institutions and coordinating boards spend sufficient time to educate all new legislative members and staff and governor's staff on the workings and merits of the formula. The legislature, especially in its role as appropriator, must feel that it has sufficient say in the funding process beyond simply voting on levels of funding. Legislators will also desire some level of accountability back to the legislature on the expenditure of public funds -- higher education representatives must explain how accountability exists within the formula.

## Conclusion

Washington should be watched to see whether its experiment works. A number of persons interviewed say that refinements will most definitely be made in the process eventually leading to a level of complexity that the legislature will not understand or accept. Others feel that refinements will only make the system more acceptable. A number of external and related factors play important roles--the condition of the state economy, the current tension between quality and access, the continued push by institutions for greater

fiscal flexibility, and the need to provide educational services to the citizens of the rapidly growing Puget Sound area.

Comprehensive state colleges and universities should be particularly interested in the peer comparison funding process, for if indeed it has the effect of "grandfathering in" historical underfunding patterns on a national level, then that outcome will be of major concern.

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## MISSISSIPPI

### Overview of Mississippi Higher Education

Mississippi operates two systems of state-funded higher education that function under separate state-level boards:

- The state's eight senior institutions comprise a university system, collectively known as the Institutions of Higher Learning (IHL), that is governed by the Board of Trustees of State Institutions of Higher Learning.
- The state's fifteen two-year institutions, which are each locally governed but receive over one-half of their funding from state taxes, are coordinated at the state level by the State Board of Community and Junior Colleges.

Although state support for the community colleges is based in part on formula processes, this case study on formula funding in Mississippi concerns only the Institutions of Higher Learning.

The eight universities in the IHL span the range of types for senior institutions, including a land-grant university, an urban university, regional universities, historically black institutions, and a state university for women (the first in the nation and one of only two remaining in the United States). In terms of their Carnegie classifications:

- one is classified as Research 2
- two are classified as Doctoral 1
- two are classified as Comprehensive 1
- three are classified as Comprehensive 2

Compared to the typical sizes for state universities in most other states, Mississippi's institutions are small, with the largest campus enrolling 14,430 and the entire eight-campus system enrolling just 57,255. The development and maintenance of funding formulas for this diverse mix of institutions has been a constant challenge for the central staff of the IHL over the years.

### Current Reliance on Budget Formulas

Like all so-called "formula states," Mississippi uses a combination of formula and non-formula approaches for funding its universities and their programs. Formulas are used to determine most of the general university portion of the budgets for the eight universities, but selected research and service centers are funded on a line-item basis from the same appropriation as the formula. Also, the budgets for a variety of special units (e.g., agricultural experiment station, cooperative extension service, medical installations, etc.) are separately appropriated and are determined without the use of formulas. In those budgets that are determined by formula, the calculations consider both the need for state general revenue appropriations and student tuition and general fees.

Formula calculations are performed twice each year, at two different stages in the annual budget cycle:

- The IHL relies on formulas each fall to generate the major part of its annual request for state appropriations for the coming year.

- The IHL uses formulas again in late spring to allocate the legislative appropriation among the eight universities.

Despite the request being generated by formula, the budget staffs of both the governor and the legislature use incremental analyses in determining their recommendations. The executive and legislative budget proposals, and the final appropriation itself, appear to be most heavily influenced by the remaining availability of new dollars after various state entitlement programs are funded. Even when new funds are available, specific programmatic issues (e.g., salary competitiveness, off-campus learning opportunities) rather than the formula calculations are the basis for determining funding increases.

The formulas used during the two stages of the budget cycle are generally similar, but the formula distribution among the universities invariably is changed to some extent between the fall's request and the following spring's allocation. Some of the reasons for modifications in the formula distribution over the past several years have included:

- The need to accommodate specific provisions of the appropriation, such as opening a new resident center for off-campus instruction.
- The funding rates used in the request formula need to be adjusted to match the limits of the appropriation (e.g., if the rate used for faculty salaries can not be funded with the dollars available).
- Newer data have become available for use in formula calculations (e.g., updated enrollments, additional square feet from construction of academic space, etc.).
- The formula itself has been revised, perhaps based on recommendations of a study committee or staff, for example, to revise student-teacher ratios at the graduate level.

The continuing flux in the formulas has caused some presidents to question whether the IHL actually has 'a formula' or just a new round of political decisions masked as mathematical calculations.

### **History of Formula Development**

Mississippi has a long history in the use of formulas to distribute funding among the eight state universities. This case study focuses on a major modification to the formula in 1987 and several subsequent evolutionary revisions. A brief description of earlier formula use, however, is important in understanding the 1987 modifications.

#### ***Pre-1987 Formula Development***

During the 1960s and early 1970s, the IHL employed a fairly simple formula approach. The key calculation was the projection of enrollments by level, converted in turn to faculty salary amounts using student:faculty ratios by level and average salary rates. Other functional areas were funded with "add-on percentages," such as 10% of academic salaries for student services, etc.

During the mid-1970s, Mississippi was one of many states that implemented comprehensive state-level higher education information systems. The Mississippi data system was designed to include highly detailed information on students, faculty, finances and other aspects of institutional operations at the state

level. One factor in making this significant investment in information support was the desire for data that would be needed to design a new funding model.

The resulting formula was expressed in a unit cost format, with separate funding rates for sixty-six categories based on the 22 HEGIS disciplines and three levels on instruction (lower, upper, graduate). Almost all institutional costs were captured in these unit cost rates, including allocated shares of indirect costs for libraries, student affairs, general administration and plant operations and maintenance. The cost-based funding factors were regenerated annually, using actual expenditure experience from the prior year. This model continued to be used, with minor refinements, until 1987.

### ***Formula Development from 1987 to 1991***

A combination of events during the summer and fall of 1987 created a fertile ground for making dramatic changes in Mississippi's formula funding process.

- The Board of Trustees decided to replace its relatively weak executive-secretary style of state-level administration with a commissioner of higher education, who had broadened responsibilities to create a "system" of universities.
- When the new commissioner was employed, one of his specific charges from the board was to resolve the continuing disputes among the presidents about the equity of the formula used in distribution of the state appropriation.
- The board itself expressed a further concern that one institutional sector (the largest or what Mississippi terms its "comprehensive" universities) had lost its relative competitiveness in per-student funding rates when compared to the other institutional categories due to the way the formula averaged costs across all institutional types.
- The state was in the process of electing a new governor, who campaigned using the theme that "Mississippi will never be last again," and promised funding rates for education across all levels that would approach regional averages.

Against this backdrop of events, the board authorized the new commissioner of higher education to hire an external consultant to assist the IHL in the development of new funding formula. Much of the development of the current funding system took place in late 1987, although a series of refinements (within the same general model) continue to be implemented even through the current fiscal year.

### ***1987 - 1988***

After the selection of the consultant, the council of presidents (without other staff) met frequently on Sunday mornings from September through November as a formula development task force. Under the leadership of the new commissioner, the presidents reached agreement on a number of policy issues to guide the initial formula revision activity.



- The time was ripe to sell the funding needs of the universities using a new formula since there would be a new governor, who was publicly committed to education, and a large number of new legislators.
- Since the board was concerned that disputes among the presidents about the previous formula had provided a reason for the legislature to express doubts about higher education's funding needs, the presidents committed to "agree to agree" on the new formula and present a unified front to state policy makers.
- The broad design of the new formula should be based on external standards or funding targets rather than the regeneration of prior year data and, to the extent possible, should de-emphasize the incentives for enrollment growth by decoupling full-time-equivalent students as the driving force in the formula whenever possible. (This strategy was consistent with the governor's desire to be regionally competitive and the board's demand to lessen competition among the universities.)
- The best way to win public and legislative support for the university's funding needs would be to emphasize the importance of higher education to the growth of the state economy.

The immediate political opportunity, the evolution of working relationships between the presidents and the new commissioner, and the sacrifice of meeting on Sundays added a sense of urgency to the work on the new formula.

During this two-month period, most attention was directed to the instruction and research (I&R) portion of the formula. The I&R formula, of course, controlled the largest portion of the total formula budget and provided the greatest opportunity to respond to concerns that the comprehensive universities should receive differential funding. Given the limited time available, the presidents decided to accept – on a temporary basis – fairly generalized formula treatments for the other formula components. Although they recognized the eventual need to refine the formula, the presidents felt the best strategy would be to present a "new formula" to the governor and legislature without any hint of unfinished business.

Five days after the new governor's election, the presidents agreed on a new formula. The board's finance committee met the following day to approve the new formula in a highly publicized special session, and an information packet about the role of higher education in economic growth, the IHL's funding needs and the new formula was hastily prepared for distribution to the media and the legislature.

The 1988 spring session of the state legislature was productive for education in general, and highly successful for the IHL in particular. Public school teachers were granted a multi-year salary increase that would reach the regional average. Riding the wave of political support for education, the IHL with their new funding formula received a 29 percent increase in general revenue appropriations – a rate of growth in state support that easily led the nation. In the subsequent allocation, institutional budget increases ranged from a low of 10 percent to a high of 25 percent. (The overall average increase of 20 percent was less than the appropriated 29 percent since the allocation also included student tuition and fees that were not increased for the 1988-89 fiscal year.)

## 1988 - 1991

After the initial formula was developed and adopted by the presidents, the responsibility to serve on the working group for formula revision shifted to the campus business officers in 1988-89. During the next year, priorities for further formula enhancement focused on needs in the plant operations and maintenance functional area and on technical refinements in how graduate instruction was to be counted for the formula. With the application of a more detailed set of function-based formulas, issues also arose about whether (and how closely) budgets should be controlled to match formula allocation amounts. Even though the IHL requested a 21 percent funding increase, the legislature was able to appropriate only a 3 percent increase due to the costs of annualizing the mid-year salary increases granted to public school teachers in the prior year.

During the 1989-90 fiscal year, efforts to refine the formula continued. A key concern remained the procedure for funding graduate instruction since the problems in properly classifying "graduate II" enrollments (doctoral students command significantly higher funding rates in the formula) had not been resolved. Also, student-faculty ratios were increased across the board by approximately 10 percent. A new issue for the year was the procedure for setting self-generated revenue requirements (primarily student tuition and fees), which was resolved by the implementation of a uniform tuition schedule that was then used to project self-generated income requirements. The legislative session again was disappointing, with only a \$5 million (3 percent) increase systemwide. The shift in self-generated policy had a significant adverse impact on the regional universities which, when coupled with negligible growth in state appropriations for the system, contributed to actual funding reductions for several of the institutions.

In the third year under the new formula (1990-91), no significant new proposals for formula revisions were offered. However, attention was directed to several areas of unfinished business. Graduate instruction was again on the agenda (the graduate II component was dropped in favor of a new PhDs awarded category), and was joined by questions about the physical plant formula, and especially the utilities component. The greatest concern was the deteriorating level of funding generally after two years with only minimal increases in appropriations. The IHL requested a 27 percent increase in funding, but again came away disappointed with an initial 3 percent increase that was followed by a 5 percent mid-year cut-back.

### Description of Current Formula

The current funding system contains eight separate sets of formulas which generally correspond to the functional categories used to account for expenditures. Exhibit 1 lists each formula component, the percent of the overall budget it represents, and the calculation basis. Among the formula areas likely to be addressed during the near future are the library calculation and its possible isolation as a separate formula and control component. The biggest concern continues to be the loss of competitiveness in funding levels.

# EXHIBIT 1

## IHL EDUCATIONAL AND GENERAL FORMULA DISTRIBUTION FY 1991-91

FORMULA	PERCENT OF TOTAL BUDGET	GENERAL APPROACH
<b>1. INSTRUCTION</b> Includes salaries and fringe benefits for faculty members, department chairmen and staff. Also includes funds for faculty travel and instructional supplies and equipment.	55.92	<ul style="list-style-type: none"> <li>FTE Students/Staffing Ratios = FTE Instructors</li> <li>FTE Instructors x Salary Rates (1989-90) = Instructional Salary Budget</li> <li>Salary Budget + Fringe Benefits + Departmental Expense = Instructional Support Budget</li> </ul>
<b>2. RESEARCH</b> Includes all expenditures for research (by individuals as well as by institutes and research centers.)	2.20	<ul style="list-style-type: none"> <li>Dollar amount per Doctoral Degree</li> <li>Awarded FY 1989-90, Varies by Discipline</li> </ul>
<b>3. PUBLIC SERVICE</b> Includes expenditures for non-instructional services to individuals and groups outside the institution.	.80	<ul style="list-style-type: none"> <li>Base Amount per University Mission</li> </ul>
<b>4. ACADEMIC SUPPORT</b> Includes expenditures for the deans and their offices as well as for libraries, museums, computer centers, and audiovisual services.	9.74	<ul style="list-style-type: none"> <li>Base Amount for Staffing plus Allocation by Percent of Required Holdings for the Library</li> <li>9.1% of Instruction, Research and Service for Academic Administration</li> </ul>
<b>5. STUDENT SERVICES</b> Includes expenditures for the admissions and registrar offices. Also includes expenditures for student activities such as cultural events, intramural athletics, and counseling and career guidance.	5.86	<ul style="list-style-type: none"> <li>Base Amount per University</li> <li>Additional Amounts with Rates per Student</li> <li>\$110.00 per Headcount</li> <li>\$125.00 per FTE</li> </ul>
<b>6. INSTITUTIONAL SUPPORT</b> Includes expenditures for executive and fiscal operations as well as for data processing, personnel, security, and community and alumni relations.	10.02	<ul style="list-style-type: none"> <li>17.00% of Instruction, Research and Public Service</li> </ul>
<b>7. OPERATION AND MAINTENANCE OF PLANT</b> Includes expenditures for operating the buildings and maintaining the grounds, utilities, and fire protection.	12.42	<ul style="list-style-type: none"> <li>General Operation &amp; Maintenance based upon number of square feet in use, with allowance for storage, historical buildings and intensity of use. Average funding of \$2.48 per square foot. Utilities funded at actual charges.</li> </ul>
<b>8. SCHOLARSHIPS AND FELLOWSHIPS</b> Includes expenditures for athletic, band, and academic scholarships. Also includes expenditures for other stipends and awards that do not require the student to perform a service or repay the funds.	3.04	<ul style="list-style-type: none"> <li>10.72% of Tuition Income (FTE Students X General Tuition)</li> </ul>
	100.00	

## Conclusions

After nearly four years of experience with the current formula, several observations are offered about the successes and failures of formula budgeting in Mississippi:

1. The board prefers to base funding decisions on a formula in order to reduce divisiveness among the universities when the IHL approaches the legislature for funding.
2. The formula, unfortunately, can not create tax revenues for the state, and the legislature is limited in how much it can appropriate for the IHL regardless of the merits of the formula itself.
3. Agreement on a new formula is easier to reach when there are sufficient new dollars being appropriated to enable all universities to get a funding increase even though their percentage share of the overall appropriation may have diminished.
4. Reallocations that result from changes in the formula (rather than shifts in enrollment) need to be gradual, or support for the formula is undermined.
5. Support for the formula is threatened when funding increases are limited, with the result being that the best strategy for funding growth for an institution is to seek line-item special funding outside the formula.

As this was being written, almost four years had passed since formula revision efforts in Mississippi began. The state again is in the process of electing a governor, and educators are optimistic that better funding will be available in the near future. Unless some restoration of funding levels is forthcoming, the formula will face even greater pressure as additional presidents seek funding increases outside the normal channels.

## References

"Accounting for Progress", Jackson: Institutions of Higher Learning, 1988 through 1991.



**Components of the System – Wide Operating Budget\***  
(millions)

\$1,031.0

\$ 1.2	Program Improvements										
\$ 1.9	Formula Adjustments										
	Enrollment Adjustments										
	Servicing New Buildings										
\$ 21.3	Percentage Adjustments										
	Unclassified										
	Classified										
	OOE										
	1% Retirement										
\$ 9.1	Adjustments to Base for Fringe Benefit Changes										
\$ 664.1											
	General Use Base:										
	<table border="1"> <thead> <tr> <th></th><th>% of total</th></tr> </thead> <tbody> <tr> <td>SGF –</td><td>60.4%</td></tr> <tr> <td>Tuition –</td><td>21.2%</td></tr> <tr> <td>Hospital –</td><td>16.9%</td></tr> <tr> <td>Other –</td><td>1.5%</td></tr> </tbody> </table>		% of total	SGF –	60.4%	Tuition –	21.2%	Hospital –	16.9%	Other –	1.5%
	% of total										
SGF –	60.4%										
Tuition –	21.2%										
Hospital –	16.9%										
Other –	1.5%										
\$ 333.5											
	Restricted Use (Student Unions, Dorms, etc.)										

\* Does not include Capital Improvements or expenditures from sources outside the state budget



**REGENTS FUNDING PLAN (Millions)**  
**1 Percent State General Fund Increase and 10 Percent Tuition Increase**  
**(FY 1995-FY 1997)**

Operating Expenditures	FY 1994			FY 1995				FY 1996				FY 1997			
	SGF	Tuition	Total	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.
KU	104.2	59.6	163.8	105.2	65.6	170.8	4.3%	106.3	72.1	178.4	4.5%	107.4	79.3	186.7	4.6%
Less 20 % -- Board					(1.2)				(2.5)				(3.9)		
Net Gain to Institution					64.4	169.6	3.5%		69.6	175.9	3.7%		75.4	182.8	3.9%
KUMC	73.2	8.7	81.9	73.9	9.6	83.5	2.0%	74.7	10.5	85.2	2.0%	75.4	11.6	87.0	2.1%
Less 20% -- Board					(0.2)				(0.4)				(0.6)		
Net Gain to Institution					9.4	83.3	1.7%		10.2	84.9	1.8%		11.0	86.4	1.9%
KSU	74.6	34.8	109.4	75.3	38.3	113.6	3.9%	76.1	42.1	118.2	4.0%	76.9	46.3	123.2	4.2%
Less 20% -- Board					(0.7)				(1.5)				(2.3)		
Net Gain to Institution					37.6	112.9	3.2%		40.6	116.7	3.4%		44.0	120.9	3.5%
KSU -Ext.	36.7	0.0	36.7	37.1	0.0	37.1	1.0%	37.4	0.0	37.4	1.0%	37.8	0.0	37.8	1.0%
KSU-S	4.3	0.6	4.9	4.3	0.7	5.0	2.1%	4.4	0.7	5.1	2.2%	4.4	0.8	5.2	2.3%
Less 20% -- Board					0.0				0.0				0.0		
Net Gain to Institution					0.6	4.9	1.9%		0.7	5.1	1.9%		0.8	5.2	2.0%
KSU-VMC	7.8	3.8	11.55	7.8	4.2	12.0	4.0%	7.9	4.6	12.5	4.1%	8.0	5.1	13.0	4.3%
Less 20% -- Board					(0.1)				(0.2)				(0.3)		
Net Gain to Institution					4.1	11.9	3.3%		4.4	12.3	3.5%		4.8	12.8	3.6%
WSU	50.7	20.8	71.53	51.2	22.9	74.1	3.6%	51.7	25.2	76.9	3.8%	52.3	27.7	80.0	3.9%
Less 20% -- Board					(0.4)				(0.9)				(1.4)		
Net Gain to Institution					22.5	73.7	3.0%		24.3	76.0	3.2%		26.3	78.6	3.3%
ESU	22.0	7.7	29.7	22.2	8.5	30.7	3.3%	22.4	9.3	31.8	3.5%	22.7	10.2	32.9	3.6%
Less 20% -- Board					(0.2)				(0.3)				(0.5)		
Net Gain to Institution					8.3	30.5	2.8%		9.0	31.4	2.9%		9.7	32.4	3.1%
PSU	22.9	9.7	32.6	23.1	10.7	33.8	3.7%	23.4	11.7	35.1	3.8%	23.6	12.9	36.5	4.0%
Less 20% -- Board					(0.2)				(0.4)				(0.6)		
Net Gain to Institution					10.5	33.6	3.1%		11.3	34.7	3.3%		12.3	35.9	3.5%
FHSU	22.4	6.8	29.2	22.6	7.5	30.1	3.1%	22.9	8.2	31.1	3.2%	23.1	9.1	32.1	3.4%
Less 20% -- Board					(0.1)				(0.3)				(0.5)		
Net Gain to Institution					7.3	29.9	2.6%		7.9	30.8	3.0%		8.6	31.6	2.6%
Total	418.8	152.5	571.28	423.0	167.8	590.7	3.4%	427.2	184.5	611.7	3.6%	431.5	203.0	634.4	3.7%
Total to Board				0.0	(3.1)	(3.1)		0.0	(6.4)	(6.4)		0.0	(10.1)	(10.1)	
Total to Institutions				423.0	164.7	587.7	2.9%	427.2	178.1	605.3	3.0%	431.5	192.9	624.4	3.1%
Systemwide Percent Change				0.01	0.10			0.01	0.10			0.01	0.10		

Assumptions:

1. FY 1994 Base reflects the Governor's recommendation for FY 1994.
2. 1% Increase in SGF; 10% increase in Tuition with 20% of the increase allocated to Board office for distribution back to institutions to achieve 95 percent of peers for faculty salaries
3. Totals may not add due to rounding.



**REGENT'S FUNDING PLAN (Millions)**  
**1 Percent State General Fund Increase and 10 Percent Tuition Increase**  
**(FY 1995 – FY 1999)**

Operating Expenditures	FY 1994			FY 1995				FY 1996				FY 1997				FY 1998				FY 1999			
	SGF	Tuition	Total	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.
KU	104.2	59.6	163.8	105.2	65.6	170.8	4.3%	106.3	72.1	178.4	4.5%	107.4	79.3	186.7	4.6%	108.4	87.3	195.7	4.8%	109.5	96.0	205.5	5.0%
Less 20 % -- Board					(1.2)				(2.5)				(3.9)				(5.5)				(7.3)		
Net Gain to Institution					64.4	169.6	3.5%		69.6	175.9	3.7%		75.4	182.8	3.9%		81.7	190.1	4.1%		88.7	198.2	4.2%
KUMC	73.2	8.7	81.9	73.9	9.6	83.5	2.0%	74.7	10.5	85.2	2.0%	75.4	11.6	87.0	2.1%	76.2	12.7	88.9	2.2%	76.9	14.0	90.9	2.3%
Less 20% -- Board					(0.2)				(0.4)				(0.6)				(0.8)				(1.1)		
Net Gain to Institution					9.4	83.3	1.7%		10.2	84.9	1.8%		11.0	86.4	1.9%		11.9	88.1	1.9%		12.9	89.8	2.0%
KSU	74.6	34.8	109.4	75.3	38.3	113.6	3.9%	76.1	42.1	118.2	4.0%	76.9	46.3	123.2	4.2%	77.6	51.0	128.6	4.4%	78.4	56.0	134.5	4.6%
Less 20% -- Board					(0.7)				(1.5)				(2.3)				(3.2)				(4.2)		
Net Gain to Institution					37.6	112.9	3.2%		40.6	116.7	3.4%		44.0	120.9	3.5%		47.7	125.3	3.7%		51.8	130.2	3.9%
KSU -Ext.	36.7	0.0	36.7	37.1	0.0	37.1	1.0%	37.4	0.0	37.4	1.0%	37.8	0.0	37.8	1.0%	38.2	0.0	38.2	1.0%	38.6	0.0	38.6	1.0%
KSU-S	4.3	0.6	4.9	4.3	0.7	5.0	2.1%	4.4	0.7	5.1	2.2%	4.4	0.8	5.2	2.3%	4.5	0.9	5.4	2.4%	4.5	1.0	5.5	2.5%
Less 20% -- Board					0.0				0.0				0.0				(0.1)				(0.1)		
Net Gain to Institution					0.6	4.9	1.9%		0.7	5.1	1.9%		0.8	5.2	2.0%		0.8	5.3	2.1%		0.9	5.4	2.2%
KSU-VMC	7.8	3.8	11.55	7.8	4.2	12.0	4.0%	7.9	4.6	12.5	4.1%	8.0	5.1	13.0	4.3%	8.1	5.6	13.6	4.5%	8.1	6.1	14.3	4.7%
Less 20% -- Board					(0.1)				(0.2)				(0.3)				(0.4)				(0.5)		
Net Gain to Institution					4.1	11.9	3.3%		4.4	12.3	3.5%		4.8	12.8	3.6%		5.2	13.3	3.8%		5.7	13.8	4.0%
WSU	50.7	20.8	71.53	51.2	22.9	74.1	3.6%	51.7	25.2	76.9	3.8%	52.3	27.7	80.0	3.9%	52.8	30.5	83.2	4.1%	53.3	33.5	86.8	4.3%
Less 20% -- Board					(0.4)				(0.9)				(1.4)				(1.9)				(2.5)		
Net Gain to Institution					22.5	73.7	3.0%		24.3	76.0	3.2%		26.3	78.6	3.3%		28.5	81.3	3.5%		31.0	84.3	3.6%
ESU	22.0	7.7	29.7	22.2	8.5	30.7	3.3%	22.4	9.3	31.8	3.5%	22.7	10.2	32.9	3.6%	22.9	11.3	34.2	3.8%	23.1	12.4	35.5	4.0%
Less 20% -- Board					(0.2)				(0.3)				(0.5)				(0.7)				(0.9)		
Net Gain to Institution					8.3	30.5	2.8%		9.0	31.4	2.9%		9.7	32.4	3.1%		10.6	33.5	3.2%		11.5	34.6	3.4%
PSU	22.9	9.7	32.6	23.1	10.7	33.8	3.7%	23.4	11.7	35.1	3.8%	23.6	12.9	36.5	4.0%	23.8	14.2	38.0	4.2%	24.1	15.6	39.7	4.4%
Less 20% -- Board					(0.2)				(0.4)				(0.6)				(0.9)				(1.2)		
Net Gain to Institution					10.5	33.6	3.1%		11.3	34.7	3.3%		12.3	35.9	3.5%		13.3	37.1	3.5%		14.4	38.5	3.7%
FHSU	22.4	6.8	29.2	22.6	7.5	30.1	3.1%	22.9	8.2	31.1	3.2%	23.1	9.1	32.1	3.4%	23.3	10.0	33.3	3.5%	23.5	11.0	34.5	3.7%
Less 20% -- Board					(0.1)				(0.3)				(0.5)				(0.6)				(0.8)		
Net Gain to Institution					7.3	29.9	2.6%		7.9	30.8	3.0%		8.6	31.6	2.6%		9.3	32.7	3.0%		10.1	33.6	3.2%
Total	418.8	152.5	571.28	423.0	167.8	590.7	3.4%	427.2	184.5	611.7	3.6%	431.5	203.0	634.4	3.7%	435.8	223.3	659.1	3.9%	440.1	245.6	685.7	4.0%
Total to Board				0.0	(3.1)	(3.1)		0.0	(6.4)	(6.4)		0.0	(10.1)	(10.1)		0.0	(14.2)	(14.2)		0.0	(18.6)	(18.6)	
Total to Institutions				423.0	164.7	587.7	2.9%	427.2	178.1	605.3	3.0%	431.5	192.9	624.4	3.1%	435.8	209.1	644.9	3.3%	440.1	227.0	667.1	3.4%
Systemwide % Change				0.01	0.10			0.01	0.10			0.01	0.10			0.01	0.10			0.01	0.10		

**Assumptions:**

1. FY 1994 Base reflects the Governor's recommendation for FY 1994.
2. 1% increase in SGF; 10% increase in Tuition with 20% of the increase allocated to Board office for distribution back to institutions to achieve 95 percent of peers for faculty salaries.
3. Totals may not add due to rounding.

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**REGENTS FUNDING PLAN (Millions)**  
**2 Percent State General Fund Increase and 10 Percent Tuition Increase**  
**(FY 1995-FY 1997)**

Operating Expenditures	FY 1994			FY 1995				FY 1996				FY 1997			
	SGF	Tuition	Total	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.
KU	104.2	59.6	163.8	106.3	65.6	171.8	4.9%	108.4	72.1	180.5	5.1%	110.6	79.3	189.9	5.2%
Less 20 % -- Board					(1.2)				(2.5)				(3.9)		
Net Gain to Institution					64.4	170.7	4.2%		69.6	178.0	4.3%		75.4	186.0	4.5%
KUMC	73.2	8.7	81.9	74.7	9.6	84.2	2.8%	76.2	10.5	86.7	2.9%	77.7	11.6	89.3	3.0%
Less 20% -- Board					(0.2)				(0.4)				(0.6)		
Net Gain to Institution					9.4	84.1	2.6%		10.2	86.4	2.7%		11.0	88.7	2.7%
KSU	74.6	34.8	109.4	76.1	38.3	114.4	4.5%	77.6	42.1	119.7	4.7%	79.2	46.3	125.5	4.8%
Less 20% -- Board					(0.7)				(1.5)				(2.3)		
Net Gain to Institution					37.6	113.7	3.9%		40.6	118.2	4.0%		44.0	123.2	4.2%
KSU -Ext.	36.7	0.0	36.7	37.4	0.0	37.4	2.0%	38.2	0.0	38.2	2.0%	38.9	0.0	38.9	2.0%
KSU-S	4.3	0.6	4.9	4.4	0.7	5.0	3.0%	4.5	0.7	5.2	3.0%	4.6	0.8	5.4	3.1%
Less 20% -- Board					0.0				0.0				0.0		
Net Gain to Institution					0.6	5.0	2.7%		0.7	5.2	2.8%		0.8	5.4	2.9%
KSU-VMC	7.8	3.8	11.55	7.9	4.2	12.1	4.6%	8.1	4.6	12.7	4.8%	8.2	5.1	13.3	4.9%
Less 20% -- Board					(0.1)				(0.2)				(0.3)		
Net Gain to Institution					4.1	12.0	4.0%		4.4	12.5	4.1%		4.8	13.0	4.2%
WSU	50.7	20.8	71.53	51.7	22.9	74.6	4.3%	52.8	25.2	77.9	4.5%	53.8	27.7	81.5	4.6%
Less 20% -- Board					(0.4)				(0.9)				(1.4)		
Net Gain to Institution					22.5	74.2	3.7%		24.3	77.1	3.9%		26.3	80.1	4.0%
ESU	22.0	7.7	29.7	22.4	8.5	30.9	4.1%	22.9	9.3	32.2	4.2%	23.3	10.2	33.6	4.3%
Less 20% -- Board					(0.2)				(0.3)				(0.5)		
Net Gain to Institution					8.3	30.7	3.6%		9.0	31.9	3.7%		9.7	33.0	3.8%
PSU	22.9	9.7	32.6	23.4	10.7	34.0	4.4%	23.8	11.7	35.6	4.5%	24.3	12.9	37.2	4.6%
Less 20% -- Board					(0.2)				(0.4)				(0.6)		
Net Gain to Institution					10.5	33.9	3.8%		11.3	35.2	3.8%		12.3	36.6	4.0%
FHSU	22.4	6.8	29.2	22.8	7.5	30.3	3.9%	23.3	8.2	31.5	4.0%	23.8	9.1	32.8	4.1%
Less 20% -- Board					(0.1)				(0.3)				(0.5)		
Net Gain to Institution					7.3	30.1	3.4%		7.9	31.2	3.6%		8.6	32.3	3.6%
Total	418.8	152.5	571.3	427.2	167.8	594.9	4.1%	435.7	184.5	620.2	4.3%	444.4	203.0	647.4	4.4%
Total to Board				0.0	(3.1)	(3.1)		0.0	(6.4)	(6.4)		(10.1)	(10.1)	(10.1)	
Total to Institutions				427.2	164.7	591.9	3.6%	435.7	178.1	613.8	3.7%	444.4	192.9	637.3	3.8%
Systemwide Percent Change				0.02	0.10			0.02	0.10			0.02	0.10		

Assumptions:

1. FY 1994 Base reflects the Governor's recommendation for FY 1994.
2. 2% Increase in SGF; 10% increase in Tuition with 20% of the increase allocated to Board office for distribution back to institutions to achieve 95 percent of peers for faculty salaries.
3. Totals may not add due to rounding.



2 Percent State General Fund Increase and 10 Percent Tuition Increase  
(FY 1995-FY 1999)

Operating Expenditures	FY 1994			FY 1995				FY 1996				FY 1997				FY 1998				FY 1999			
	SGF	Tuition	Total	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.	SGF	Tuition	Total	% Incr.
KU	104.2	59.6	163.8	106.3	65.6	171.8	4.9%	108.4	72.1	180.5	5.1%	110.6	79.3	189.9	5.2%	112.8	87.3	200.0	5.3%	115.0	96.0	211.0	5.5%
Less 20 % -- Board					(1.2)				(2.5)				(3.9)				(5.5)				(7.3)		
Net Gain to Institution					64.4	170.7	4.2%		69.6	178.0	4.3%		75.4	186.0	4.5%		81.7	194.5	4.6%		88.7	203.7	4.7%
KUMC	73.2	8.7	81.9	74.7	9.6	84.2	2.8%	76.2	10.5	86.7	2.9%	77.7	11.6	89.3	3.0%	79.2	12.7	92.0	3.0%	80.8	14.0	94.8	3.1%
Less 20% -- Board					(0.2)				(0.4)				(0.6)				(0.8)				(1.1)		
Net Gain to Institution					9.4	84.1	2.6%		10.2	86.4	2.7%		11.0	88.7	2.7%		11.9	91.1	2.8%		12.9	93.7	2.9%
KSU	74.6	34.8	109.4	76.1	38.3	114.4	4.5%	77.6	42.1	119.7	4.7%	79.2	46.3	125.5	4.8%	80.7	51.0	131.7	5.0%	82.4	56.0	138.4	5.1%
Less 20% -- Board					(0.7)				(1.5)				(2.3)				(3.2)				(4.2)		
Net Gain to Institution					37.6	113.7	3.9%		40.6	118.2	4.0%		44.0	123.2	4.2%		47.7	128.4	4.3%		51.8	134.2	4.4%
KSU -Ext.	36.7	0.0	36.7	37.4	0.0	37.4	2.0%	38.2	0.0	38.2	2.0%	38.9	0.0	38.9	2.0%	39.7	0.0	39.7	2.0%	40.5	0.0	40.5	2.0%
KSU-S	4.3	0.6	4.9	4.4	0.7	5.0	3.0%	4.5	0.7	5.2	3.0%	4.6	0.8	5.4	3.1%	4.7	0.9	5.5	3.2%	4.7	1.0	5.7	3.3%
Less 20% -- Board					0.0				0.0				0.0				(0.1)				(0.1)		
Net Gain to Institution					0.6	5.0	2.7%		0.7	5.2	2.8%		0.8	5.4	2.9%		0.8	5.4	2.9%		0.9	5.6	3.0%
KSU-VMC	7.8	3.8	11.55	7.9	4.2	12.1	4.6%	8.1	4.6	12.7	4.8%	8.2	5.1	13.3	4.9%	8.4	5.6	14.0	5.0%	8.6	6.1	14.7	5.2%
Less 20% -- Board					(0.1)				(0.2)				(0.3)				(0.4)				(0.5)		
Net Gain to Institution					4.1	12.0	4.0%		4.4	12.5	4.1%		4.8	13.0	4.2%		5.2	13.6	4.4%		5.7	14.3	4.5%
WSU	50.7	20.8	71.53	51.7	22.9	74.6	4.3%	52.8	25.2	77.9	4.5%	53.8	27.7	81.5	4.6%	54.9	30.5	85.4	4.7%	56.0	33.5	89.5	4.9%
Less 20% -- Board					(0.4)				(0.9)				(1.4)				(1.9)				(2.5)		
Net Gain to Institution					22.5	74.2	3.7%		24.3	77.1	3.9%		26.3	80.1	4.0%		28.5	83.4	4.1%		31.0	87.0	4.2%
ESU	22.0	7.7	29.7	22.4	8.5	30.9	4.1%	22.9	9.3	32.2	4.2%	23.3	10.2	33.6	4.3%	23.8	11.3	35.1	4.4%	24.3	12.4	36.7	4.6%
Less 20% -- Board					(0.2)				(0.3)				(0.5)				(0.7)				(0.9)		
Net Gain to Institution					8.3	30.7	3.6%		9.0	31.9	3.7%		9.7	33.0	3.8%		10.6	34.4	3.9%		11.5	35.8	4.0%
PSU	22.9	9.7	32.6	23.4	10.7	34.0	4.4%	23.8	11.7	35.6	4.5%	24.3	12.9	37.2	4.6%	24.8	14.2	39.0	4.8%	25.3	15.6	40.9	4.9%
Less 20% -- Board					(0.2)				(0.4)				(0.6)				(0.9)				(1.2)		
Net Gain to Institution					10.5	33.9	3.8%		11.3	35.2	3.8%		12.3	36.6	4.0%		13.3	38.1	4.2%		14.4	39.7	4.3%
FHSU	22.4	6.8	29.2	22.8	7.5	30.3	3.9%	23.3	8.2	31.5	4.0%	23.8	9.1	32.8	4.1%	24.2	10.0	34.2	4.2%	24.7	11.0	35.7	4.3%
Less 20% -- Board					(0.1)				(0.3)				(0.5)				(0.6)				(0.8)		
Net Gain to Institution					7.3	30.1	3.4%		7.9	31.2	3.6%		8.6	32.3	3.6%		9.3	33.5	3.7%		10.1	34.8	3.8%
Total	418.8	152.5	571.28	427.2	167.8	594.9	4.1%	435.7	184.5	620.2	4.3%	444.4	203.0	647.4	4.4%	453.3	223.3	676.6	4.5%	462.4	245.6	708.0	4.6%
Total to Board				0.0	(3.1)	(3.1)		0.0	(6.4)	(6.4)		0.0	(10.1)	(10.1)		0.0	(14.2)	(14.2)		0.0	(18.6)	(18.6)	
Total to Institutions				427.2	164.7	591.9	3.6%	435.7	178.1	613.8	3.7%	444.4	192.9	637.3	3.8%	453.3	209.1	662.4	3.9%	462.4	227.0	689.3	4.1%
Systemwide % Change				0.02	0.10			0.02	0.10			0.02	0.10			0.02	0.10			0.02	0.10		
Assumptions:																							

1. FY 1994 Base reflects the Governor's recommendation for FY 1994.
2. 2% Increase in SGF; 10% increase in Tuition with 20% of the increase allocated to Board office for distribution back to institutions to achieve 95 percent of peers for faculty salaries.
3. Totals may not add due to rounding.



PROPOSED BILL NO. \_\_\_\_\_  
 For Consideration by House Appropriations Committee  
 March 16, 1993

AN ACT concerning state educational institutions under the supervision and control of the state board of regents; relating to financing the operations thereof; creating the regents faculty salary enhancement fund; making and concerning appropriations for the fiscal years ending June 30, 1995, and June 30, 1996, and June 30, 1997; authorizing certain transfers, imposing certain restrictions and limitations, and directing or authorizing certain receipts and disbursements and acts incidental to the foregoing; amending K.S.A. 76-719 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. For the fiscal years ending June 30, 1995, and June 30, 1996, and June 30, 1997, appropriations are hereby made, restrictions and limitations are hereby imposed, and transfers, fees, receipts, disbursements and acts incidental to the foregoing are hereby directed or authorized as provided in this act.

(b) The appropriations made by sections 2 through 12 shall not be subject to the provisions of K.S.A. 46-155 and amendments thereto.

Sec. 2.

FORT HAYS STATE UNIVERSITY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$22,600,000
For the fiscal year ending June 30, 1996.....	22,900,000
For the fiscal year ending June 30, 1997.....	23,100,000

Sec. 3.

## KANSAS STATE UNIVERSITY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$75,300,000
For the fiscal year ending June 30, 1996.....	76,100,000
For the fiscal year ending June 30, 1997.....	76,900,000

## Sec. 4.

KANSAS STATE UNIVERSITY--EXTENSION SYSTEMS AND  
AGRICULTURE RESEARCH PROGRAMS

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$37,100,000
For the fiscal year ending June 30, 1996.....	37,400,000
For the fiscal year ending June 30, 1997.....	37,800,000

## Sec. 5.

## KANSAS STATE UNIVERSITY VETERINARY MEDICAL CENTER

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$7,800,000
For the fiscal year ending June 30, 1996.....	7,900,000
For the fiscal year ending June 30, 1997.....	8,000,000

## Sec. 6.

## KANSAS STATE UNIVERSITY--SALINA, COLLEGE OF TECHNOLOGY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$4,300,000
For the fiscal year ending June 30, 1996.....	4,400,000
For the fiscal year ending June 30, 1997.....	4,400,000

## Sec. 7.

## EMPORIA STATE UNIVERSITY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

## Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$22,200,000
For the fiscal year ending June 30, 1996.....	22,400,000
For the fiscal year ending June 30, 1997.....	22,700,000

## Sec. 8.

## PITTSBURG STATE UNIVERSITY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

## Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$23,100,000
For the fiscal year ending June 30, 1996.....	23,400,000
For the fiscal year ending June 30, 1997.....	26,600,000

## Sec. 9.

## UNIVERSITY OF KANSAS

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

## Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$105,200,000
For the fiscal year ending June 30, 1996.....	106,300,000
For the fiscal year ending June 30, 1997.....	107,400,000

## Sec. 10.

## UNIVERSITY OF KANSAS MEDICAL CENTER

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

## Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$73,900,000
For the fiscal year ending June 30, 1996.....	74,700,000
For the fiscal year ending June 30, 1997.....	75,400,000

Sec. 11.

WICHITA STATE UNIVERSITY

(a) There is appropriated for the above agency from the state general fund for the fiscal years specified as follows:

Operating expenditures (including official hospital-ity)

For the fiscal year ending June 30, 1995.....	\$51,200,000
For the fiscal year ending June 30, 1996.....	51,700,000
For the fiscal year ending June 30, 1997.....	52,300,000

Sec. 12.

STATE BOARD OF REGENTS

(a) There is appropriated for the above agency from the following special revenue fund for the fiscal years specified all moneys now or hereafter lawfully credited to and available in such fund, except that expenditures shall not exceed the following:

Regents faculty salary enhancement fund

For the fiscal year ending June 30, 1995.....	No limit
For the fiscal year ending June 30, 1996.....	No limit
For the fiscal year ending June 30, 1997.....	No limit

Sec. 13. (a) There is hereby created in the state treasury the regents faculty salary enhancement fund which shall be administered by the state board of regents in accordance with this section and the provisions of appropriations acts.

(b) During the fiscal year ending June 30, 1995, and each fiscal year thereafter, the state board of regents shall allocate and transfer moneys from the regents faculty salary enhancement fund to a faculty salary enhancement account of the restricted fees fund of each state educational institution. The allocations and transfers shall be made on the basis of the additional amounts required to fund the salaries of persons who are officers or employees in the unclassified service under the Kansas civil service act at each state educational institution and who are teaching or research members of the faculty of the state educational institution to the level of 95% of the average of the sal-

aries of faculty positions at the peer institutions designated by the state board of regents for the state educational institution.

Sec. 14. K.S.A. 76-719 is hereby amended to read as follows:  
76-719. (a) Subject to K.S.A. 76-742 and amendments thereto, the board of regents shall fix tuition, fees and charges to be collected by each state educational institution. If a state educational institution collects a student-activity fee, the funds so collected shall be set apart and used for the purpose of supporting appropriate student activities.

(b) All moneys collected by a state educational institution for tuition, less any refunds pursuant to K.S.A. 76-738 and amendments thereto, for academic year 1994-95 or for any academic year thereafter shall be remitted to the state treasurer as prescribed by law. The entire amount of each such remittance shall be deposited in the state treasury. The amount of each such remittance that is equal to 20% of that portion of such remittance that is attributable to any increase in the rates of tuition above the rates of tuition in effect for academic year 1993-94, shall be credited to the regents faculty salary enhancement fund. The remainder of each such remittance shall be credited to the general fees fund of the state educational institution.

Sec. 15. K.S.A. 76-719 is hereby repealed.

Sec. 16. Effective date. This act shall take effect and be in force from and after July 1, 1993, or the date upon which the omnibus reconciliation spending limit bill of 1993 becomes effective, whichever is later, and its publication in the statute book.

Nov. 1992

## TIGHT TIMES HIT HIGHER EDUCATION

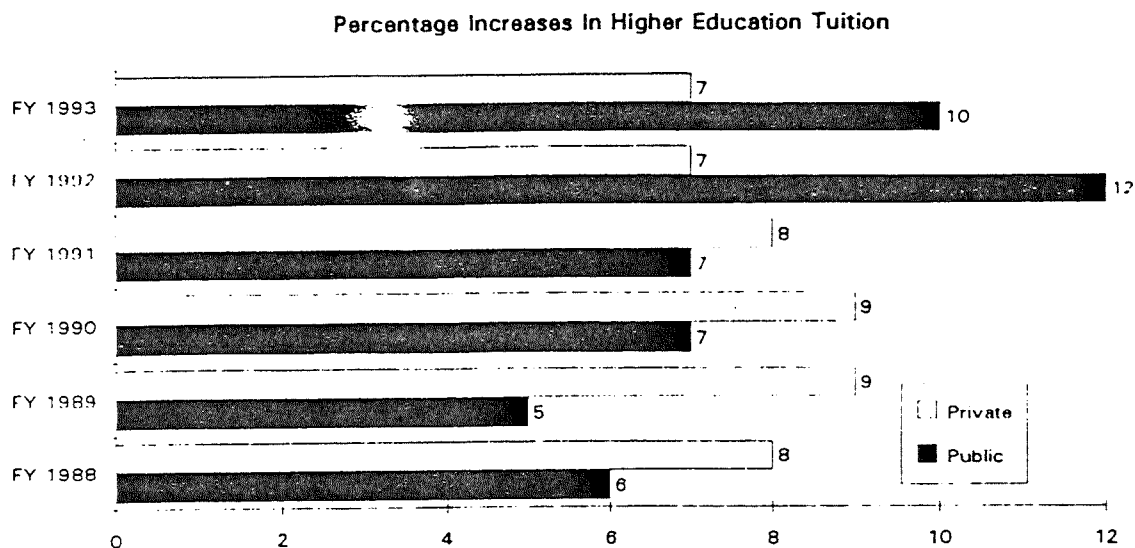
## The Budgetary Wake-Up Call

Public higher education has been getting lots of wake-up calls from state budget decisions. Although final statistics aren't yet out, it appears that state appropriations for higher education for FY 1993 showed less percentage growth than the increases for K-12 education and for state budgets as a whole. In many states, basic operating allocations were frozen or cut. Several of the states that have already announced cutbacks in enacted FY 1993 budgets have made cuts in higher education disproportionate to higher education's share of total appropriations.

## State Appropriation Cuts

The fiscal stringency in higher education has been widespread as indicated by the table below. It shows the percentage change in state appropriations for higher education over the two year period ending with appropriations for the current fiscal year. The national total is a negative number, the first time this has happened in the history of the statistics and probably in the history of the nation.

Percentage Increase In State Higher Education Appropriations, FY 1991-FY 1993								
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Nevada	27%	18	Idaho	5%		United States	-1%
2	Arkansas	25	19	Delaware	4	35	Georgia	-1
3	Oregon	16	20	Colorado	4	36	Illinois	-1
4	South Dakota	16	21	North Carolina	4	37	Wyoming	-2
5	Utah	13	22	Michigan	4	38	Vermont	-3
6	North Dakota	12	23	Mississippi	3	39	Maryland	-3
7	Oklahoma	12	24	West Virginia	3	40	Minnesota	-4
8	New Jersey	10	25	Kansas	3	41	New York	-5
9	Hawaii	9	26	Iowa	3	42	Ohio	-7
10	Nebraska	9	27	Indiana	2	43	Connecticut	-7
11	New Mexico	9	28	Kentucky	2	44	Rhode Island	-7
12	Texas	9	29	Arizona	1	45	Maine	-7
13	Montana	8	30	New Hampshire	1	46	Alaska	-7
14	Wisconsin	7	31	Alabama	1	47	Florida	-9
15	Washington	6	32	Missouri	0	48	Massachusetts	-10
16	Louisiana	6	33	Pennsylvania	0	49	California	-12
17	Tennessee	5	34	South Carolina	-1	50	Virginia	-13



### Tuition Increases A Nationwide Pattern

Tuition went up this year in 49 states. The table shows the percentage increases at flagship institutions this year. A few may have additional increases later this academic year.

Percentage Increase In Tuition And Fees, Flagship Universities, FY 1993								
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Arizona	0.0%	18	New Jersey	5.0%	34	Indiana	9.8%
2	North Dakota	0.9	19	New Hampshire	5.2	35	Wyoming	10.6
3	Oklahoma	1.9	20	Delaware	5.4	36	Minnesota	11.6
4	Kentucky	3.3	21	Louisiana	5.4	37	Florida	11.9
5	Hawaii	3.6	22	South Carolina	5.8	38	Nevada	12.2
6	Alabama	3.7	23	Arkansas	6.0	39	Connecticut	12.7
7	North Carolina	4.0	24	Tennessee	6.2	40	Rhode Island	12.7
8	Massachusetts	4.1	25	Utah	6.2	41	Texas	13.2
9	Colorado	4.1	26	New Mexico	6.6	42	Michigan	13.5
10	West Virginia	4.2	27	Wisconsin	7.2	43	Iowa	14.1
11	Washington	4.4	28	Nebraska	7.7	44	Maine	14.8
12	Alaska	4.5	29	Maryland	8.0	45	Vermont	15.8
13	Oregon	4.7	30	Kansas	8.2	46	Virginia	16.0
14	Georgia	4.8		US- 50 Univ.	8.9	47	Montana	19.6
15	South Dakota	4.8	31	Illinois	9.0	48	Missouri	20.9
16	Idaho	4.9	32	Ohio	9.0	49	California	23.2
17	Pennsylvania	4.9	33	Mississippi	9.6	50	New York	25.9



Only **Arizona** failed to raise tuition at its flagship, but made its mark elsewhere. The typical Arizona community college raised tuition by 12%. Only three states held increases below the rate of inflation while about half the states raised tuition at least twice the rate of inflation.

### Dollar Amounts Of Increases Substantial

The tuition increase percentages aren't a full reflection of the impacts on students and state budgets because some states are starting from a much lower base than others. This can readily be seen from the table below showing the dollar amount of the increases.

Increase In Tuition And Fees, Flagship Universities, FY 1993								
Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Arizona	\$0	18	Louisiana	\$112	34	Mississippi	\$214
2	North Dakota	20	19	Utah	122	35	Pennsylvania	216
3	Oklahoma	33	20	Oregon	123	36	Ohio	231
4	North Carolina	48	21	Kansas	136	37	Indiana	251
5	Hawaii	50	22	Wyoming	137	38	Illinois	274
6	Idaho	60	23	Texas	145	39	Iowa	276
7	Kentucky	60	24	Nebraska	156	40	Montana	310
8	Alabama	72	25	South Carolina	157	41	Minnesota	329
9	West Virginia	78	26	Wisconsin	158	42	Maine	330
10	Alaska	80	27	Florida	176	43	Rhode Island	400
11	South Dakota	95	28	Nevada	180	44	Connecticut	439
12	Washington	96	29	Delaware	190	45	Missouri	487
13	Georgia	99	30	New Jersey	194	46	Michigan	519
14	Colorado	100	31	New Hampshire	196	47	Virginia	536
15	New Mexico	102	32	Massachusetts	199	48	California	550
16	Arkansas	106	33	Maryland	205	49	New York	592
17	Tennessee	110		50 State Av.	212	50	Vermont	838

Whether these increases are viewed as constituting significant new barriers to higher education opportunities depends on the observer. Some student groups like to view them in terms of the added work a student would have to undertake to pay them. With an average of \$5 an hour in take-home pay, the \$212 average represents an additional working week.

The table is a decent proxy for state legislators' and governors' perceptions of state fiscal situations. The small increases are concentrated in the Southern and Western states which have weathered the national economic conditions better than most states and which have a tradition of relatively low tuition. The reverse situation applies to New England, which dominates the bottom ranks of the table.

### State Tuition Policies Differ

Public university tuition, at least for state residents, is still well below charges at private institutions, where this year's average tuition and fees average about \$10,500 at four year institutions and are nearly \$20,000 at institutions like MIT (\$18,000), Harvard (\$17,674), and Yale (\$17,500). The table shows current tuition and fees at the flagship universities of each state.

Tuition And Fees, Flagship Universities, FY 1993								
Rank	State	Amount	Rank	State	Amount	Rank	State	Amount
1	Texas	\$1,245	18	Alabama	\$2,008	34	Missouri	\$2,812
2	North Carolina	1,261	19	South Dakota	2,073	35	Indiana	2,821
3	Idaho	1,296	20	Utah	2,104	36	South Carolina	2,843
4	Wyoming	1,430	21	North Dakota	2,166	37	New York	2,877
5	Hawaii	1,437	22	Louisiana	2,170	38	California	2,919
6	Arizona	1,590	23	Georgia	2,175	39	Minnesota	3,158
7	Florida	1,649	24	Nebraska	2,188	40	Illinois	3,328
8	Nevada	1,650	25	Iowa	2,228	41	Rhode Island	3,540
9	New Mexico	1,656	26	Washington	2,274	42	Delaware	3,721
10	Oklahoma	1,783	27	Wisconsin	2,344	43	Virginia	3,890
11	Kansas	1,798	28	Mississippi	2,435	44	Connecticut	3,902
12	Arkansas	1,838	29	Colorado	2,540	45	New Hampshire	3,941
13	Alaska	1,870	30	Maine	2,565	46	New Jersey	4,040
14	Montana	1,892		50-State Av.	2,594	47	Michigan	4,365
15	Tennessee	1,898	31	Oregon	2,721	48	Pennsylvania	4,618
16	Kentucky	1,904	32	Maryland	2,778	49	Massachusetts	5,062
17	West Virginia	1,928	33	Ohio	2,799	50	Vermont	6,150

At the bottom end of the table there are states where the flagship public university costs nearly as much as private universities. Some of these (e.g., University of Michigan, Penn State, and the University of Vermont) have many of the governmental characteristics of private institutions, such as autonomy in setting tuition, admission standards, salaries, and purchasing procedures. At the top of the table are the states that have clung most arduously to holding tuition low enough so that moderate income residents with academic abilities can reasonably aspire to attend without scholarship assistance.

There are logical reasons why tuition would be lower in the many sparsely populated states that predominate in the first column than in larger industrial states. In the smaller states, the flagship state university is serving students who are served at regional state universities (often with lower tuition) in the larger states. Among larger states, **Texas** and **Florida** have maintained low tuition at flagships, but traditionally low-tuition states of **California** (#38) and **New York** (#37) have clearly abandoned the practice.

The low-tuition approach is still maintained in some community colleges. The table below shows charges that illustrate the wide variations among states.

Community College Tuition And Fees, FY 1993, Selected Institutions		
<u>State</u>	<u>Institution</u>	<u>Amount</u>
California	Los Angeles Valley	\$120
California	Santa Barbara City	135
North Carolina	Piedmont	575
Texas	Austin	680
Kansas	Kansas City (KN)	750
Mississippi	Gulf Coast	860
Florida	Broward	930
Illinois	Chicago	985
Georgia	Atlanta Metropolitan	1,137
Virginia	Northern Virginia	1,260
Connecticut	Greater Hartford	1,276
Colorado	Aurora	1,510
Pennsylvania	Bucks County	1,680
Maryland	Anne Arundel	1,720
Ohio	Columbus State	1,764
Michigan	Wayne County	1,790
New York	Nassau	1,940
Massachusetts	Mass Bay	1,980
New York	Bronx	2,204

Northeastern states have offset some of their fiscal problems by relatively high tuition in community colleges as well as in universities. Patterns diverge among Midwestern states. Despite fiscal pressures, **California** and **Florida** are maintaining low tuition at community colleges. However, the tuitions shown have moved considerably from the days when some states pointed with pride to tuition-free higher educational opportunities.

### Implications Of Tuition Increases

State decisions on tuition have impacts in many dimensions including: (1) economic opportunity, (2) educational attainment, (3) state budgets, and (4) private institutions.

**Economic Opportunity:** The tradition of open access to education through the teen years and beyond is uniquely American. Most nations screen most youth out of a college stream at early ages. With increasing demands for education as a basis for top jobs in the economy, the American public school philosophy has been extended to higher education. The approach is typified by low tuition community colleges and state university systems with low entry requirements (e.g., a degree from any high school in the state) and low tuition.

The table shows the latest statistics on the percentage of each state's population that has completed four or more years of college.

Percentage Of Population Aged 25 And Over With Four Or More College Years, 1991								
Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Colorado	32.2%	18	Nebraska	22.7%	34	South Dakota	18.8%
2	Massachusetts	29.8	19	Arizona	22.5	35	Louisiana	18.6
3	Connecticut	28.4	20	Minnesota	22.3	35	Ohio	18.6
3	Vermont	28.4	20	North Dakota	22.3	37	North Carolina	18.5
5	Hawaii	27.0	20	Utah	22.3	38	Idaho	18.4
6	New Hampshire	26.4	23	New Mexico	21.6	38	Pennsylvania	18.4
7	New Jersey	26.2		United States	21.4	40	Nevada	18.3
8	Washington	26.0	24	Texas	21.1	41	South Carolina	17.9
9	Kansas	25.0	25	Wyoming	21.0	42	Iowa	17.6
10	Maryland	24.9	26	Georgia	20.9	43	Michigan	17.5
11	Alaska	24.5	27	Montana	20.5	44	Tennessee	15.8
12	California	24.2	27	Wisconsin	20.5	45	Alabama	15.4
13	Illinois	24.0	29	Oklahoma	20.2	46	Kentucky	14.8
14	Oregon	23.8	30	Maine	19.7	47	Indiana	14.7
15	New York	23.4	31	Florida	19.5	48	Mississippi	14.5
16	Virginia	23.0	32	Delaware	19.3	49	Arkansas	13.7
17	Rhode Island	22.8	33	Missouri	19.2	50	West Virginia	11.9

The state rankings reflect two, sometimes conflicting, demographic influences. The first is the long-standing stronger orientation to educational attainment in the North, particularly the Northeast, relative to other regions, particularly the Southeast. The second is the impact of strong in-migration within the U.S., which has brought large numbers of highly educated new residents to states like **Colorado**. The recipe for a bottom ranking, typified by **West Virginia**, is being a Southeastern state experiencing out-migration for at least a decade.

**Impact On Private Higher Education:** In broad overview, state-subsidized higher education competes with unsubsidized private higher education, particularly in the lower end of the market typified by private commuter colleges such as the Catholic universities found in many urban areas. Many of these institutions and lower-tier private liberal arts colleges have experienced enrollment drops, difficulties in maintaining enrollment without dropping admission standards, and financial reversals. Many have eliminated programs. Some smaller institutions have closed.

State policy in support of private higher education is much less uniform than in support of public institutions. Many states have substantial student aid program components that follow the students, the higher education equivalent of the voucher plans some advocate for elementary and secondary education.

Per Capita Federal R&D Obligations To Universities And Colleges, FY 1990								
<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	Maryland	\$121	18	Iowa	\$38	34	Wyoming	\$21
2	Massachusetts	106		United States	36	35	Nebraska	18
3	Utah	69	19	North Dakota	35	36	Nevada	18
4	Connecticut	58	20	Missouri	33	37	New Jersey	18
5	Vermont	56	21	Oregon	33	38	Kansas	18
6	Rhode Island	52	22	Minnesota	32	39	Louisiana	16
7	Colorado	50	23	Alabama	32	40	Montana	16
8	Washington	48	24	Arizona	31	41	Mississippi	14
9	New Hampshire	47	25	Illinois	30	42	Florida	14
10	New York	47	26	Michigan	29	43	West Virginia	12
11	North Carolina	45	27	Tennessee	27	44	South Carolina	12
12	Pennsylvania	45	28	Texas	27	45	Oklahoma	11
13	New Mexico	45	29	Georgia	26	46	Kentucky	10
14	Alaska	44	30	Virginia	26	47	Idaho	10
15	California	43	31	Delaware	26	48	Arkansas	10
16	Hawaii	43	32	Indiana	25	49	Maine	8
17	Wisconsin	40	33	Ohio	23	50	South Dakota	8

Federal R&D money is highly concentrated among states because it is highly concentrated among institutions. The top ten recipients of R&D funds accounted for 24% of the total. The leaders are primarily institutions with special laboratories associated with a particular federal agency. The leaders in sharing about \$9 billion in federal funds are Johns Hopkins (MD), Stanford (CA), MIT (MA), the University of Washington, UCLA (CA), and the University of Michigan. The bright spot in federal R&D funding is in health research, which is much more widely distributed among universities than spending by NASA, Defense, and the Department of Energy.

### BIG CHANGES COMING IN HIGHER EDUCATION?

The fiscal environment has stimulated intense discussion of changes in state policies for the financing and governing of public institutions. The discussion appears to be concentrated *within* the higher education community.

#### External Forces For Change

Higher education has always had external critics, including some in nearly every legislature.

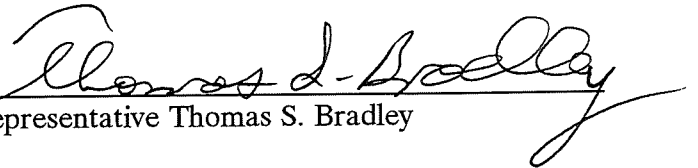
**SUBSTITUTE FOR HOUSE BILL NO. 2211**

**House Appropriations Subcommittee Report**

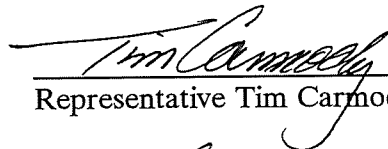
**KPERS Omnibus Retirement Bill**



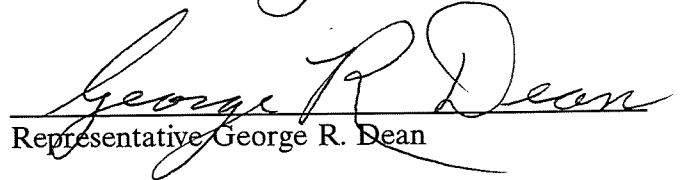
Representative David J. Heinemann  
Subcommittee Chairperson



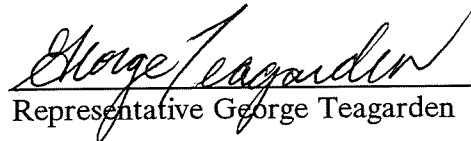
Representative Thomas S. Bradley



Representative Tim Carmody



Representative George R. Dean



Representative George Teagarden

## SUBCOMMITTEE REPORT

**Agency:** Retirement Issues

**Bill No.**

**Bill Sec.**

**Analyst:** Conroy/Efird

**Analysis Pg. No.**

**Budget Page No.**

The House Subcommittee on Retirement consisting of Representatives Heinemann, Bradley, Carmody, Dean, and Teagarden conducted meetings on the Kansas Public Employees Retirement System (KPERs) budget, specific retirement bills, and general policy issues. Information was received from Mr. Meredith Williams, Executive Secretary of KPERs, and from other various interested parties concerning retirement issues. The Subcommittee held public hearings on all retirement bills assigned to it by the Chairman of the Appropriations Committee.

The Subcommittee concurs with the conclusion of the KPERs Retirement Study Commission that some fundamental changes to the benefit structure of KPERs should be made. The Subcommittee recommends several enhancements to allow our public servants to retire with dignity and financial security so that they will not have to live near the poverty level during their golden years. The enhancements will help reward those individuals that have made public service a life-time career.

Based on the available information, the Subcommittee recommends the following changes and enhancements for retirants and active members of KPERs, Kansas Police and Fire (KP&F), and the Judge's Retirement System. The changes have a net annual actuarial cost to the state of \$5.58 million, of which \$4.8 million will be from the State General Fund and first be reflected in FY 1996. The bill would also require increased state contributions of \$118,000 in FY 1994 and \$244,000 in FY 1995, both amounts from the State General Fund. The changes will also require an annual increase to the local units of government of \$1.9 million in calendar year 1994 and \$1.7 million in calendar year 1995. The Subcommittee recommends that all of the changes be placed into Substitute for H.B. 2211 to form an omnibus retirement bill.

### KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

**1. KPERs -- NORMAL RETIREMENT AT AGE 62 WITH TEN YEARS OF SERVICE OR 85 "POINTS".** (H.B. 2211 and H.B. 2504) Provide for normal retirement at age 65 or 62 with a minimum ten years of service; or an 85 point plan when an individual's combination of age and years of service reach 85 (*e.g.*, age 55 with 30 years of service or age 60 with 25 years of service). The Subcommittee assumes that a career for a KPERs employee would span three decades or 30 years. The Subcommittee also notes that according to the 1992 Comparative Study of Major Public Pension Plans by the Joint Survey Committee on Retirement Systems and the Retirement Research Committee of the State of Wisconsin, out of 85 major public retirement systems, 52 permit normal retirement at age 62 with ten years of service. Normal retirement for KPERs members is currently at age 65; or age 60 or over with 35 years of service; or 40 years of service regardless of age (except for the period July 1, 1992 to July 1, 1993, a 90 point plan is in effect).

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	0.5%	\$ 13,400,000
KPERS Local	0.4	2,500,000

**2. KPERS -- INCREASE THE PARTICIPATING SERVICE RATE TO 1.75 PERCENT.** (H.B. 2211 and H.B. 2504) Increase the participating service rate from 1.4 percent to 1.75 percent of final average salary (FAS) for members who retire on and after July 1, 1993. Currently, the participating service rate is generally 1.4 percent of FAS, but it is 1.5 percent for all years of participating service for those who retire on or after August 1, 1987 with 35 years of credited service.

The Subcommittee notes that all KPERS employment is covered by Social Security. This fact must be taken into account in determining the appropriate formula to provide the desired salary replacement ratio. Most benefit experts indicate that a replacement ratio of approximately 80 percent of the employee's pre-retirement salary would be appropriate. For the typical KPERS employee, the Social Security replacement ratio should approximate 30 percent. This means that the rest of the formula should yield approximately 50 percent of the salary at the end of 30 years. The 1.4 percent of final average salary does not meet this standard. However, the 1.75 percent of final average salary will result in a ratio slightly above the 50 percent level.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	3.6%	\$ 96,500,000
KPERS Local	4.0	24,700,000

**3. KPERS -- POST-RETIREMENT BENEFIT INCREASE.** (H.B. 2504) Provide a one-time 15 percent increase (with a \$200 a month maximum) or a \$50 per month minimum increase, whichever is greater, for retirees with 15 or more years of service who retire prior to July 1, 1993; and a 5 percent or \$10 per month increase, whichever is greater, for retirees with less than 15 years of service who retire prior to July 1, 1993. The Subcommittee points out that one of the great concerns of retirees is the effect of inflation on the purchasing power of retired KPERS members. Legally, there is no contractual right to any increase once the individual is retired. In the last decade, the KPERS retired members have received ad hoc increases on an almost annual basis. In fact, retired members have received increases greater than the increase in the Consumer Price Index.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	0.4%	\$ 10,700,000
KPERS Local	0.3	1,900,000



**4. KPERS -- DEATH BENEFIT.** (H.B. 2211 and H.B. 2504) Increase the retirant death benefit from \$2,500 to \$4,000. The benefit is paid to the member's beneficiary. When first established in 1982, the benefit was \$1,500. The 1987 Legislature increased the benefit from \$2,000 to \$2,500.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	0.1%	\$ 2,700,000
KPERS Local	0.1	600,000

**5. KPERS -- LOWER INTEREST CREDITED TO A MEMBER'S ACCOUNT FOR NEW EMPLOYEES.** (H.B. 2211 and H.B. 2504) For employees who first become KPERS members on and after July 1, 1993, interest would be credited to their account at the rate of 4 percent. Current members would continue to have interest credited at the actuarial assumed interest rate (presently at 8 percent). The Subcommittee notes that since KPERS is a defined benefit plan (the benefits are statutorily guaranteed based upon a percentage of average salaries and years of service credit) the interest credited to a member's account **only** comes into play when individuals withdraw their contributions prior to retirement and terminate employment.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	(0.1)%	\$ (2,700,000)
KPERS Local	(0.1)	(600,000)

**6. KPERS -- EXTEND THE POP-UP OPTION PROVISIONS TO MEMBERS WHO RETIRED PRIOR TO JULY 1, 1982.** (H.B. 2211, H.B. 2504 and H.B. 2247) This change provides that if a joint annuitant under an option predeceases the retirant, the retirant's benefit increases to the maximum as though the member had never elected a survivor option. Individuals who retired since July 1, 1982 currently have this benefit.

**COST:** Negligible impact on the employer contribution rates for KPERS State/School and KPERS Local.

**7. KPERS -- EXTEND THE AMORTIZATION PERIOD FOR PRIOR SERVICE LIABILITY.** (H.B. 2211 and H.B. 2504) Extend the amortization period of the past service liability to 35 years from July 1, 1993 to July 1, 2028. The present amortization period for the State-Nonschool will expire in 2002 and for State-School in 2011. Local units' amortization periods vary depending on when they affiliated with KPERS. Extending the amortization period for KPERS' past service liability has the effect of reducing the employer contribution rate, but extending the period of time for repayment.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	(1.8)%	\$ (48,300,000)
KPERS Local	(2.2)	(13,600,000)

**8. KPERS – MODIFY AMORTIZATION PAYMENTS.** (H.B. 2211 and H.B. 2504)

The Subcommittee recommends changing from a level annual dollar amortization payment to having amortization payments computed on a level percentage of payroll basis using an assumed annual payroll growth of 4 percent.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	(1.9)%	\$ (50,900,000)
KPERS Local	(1.6)	(9,900,000)

**9. KPERS – CHANGE FUNDING METHOD TO PROJECT UNIT CREDIT.** (H.B. 2211 and H.B. 2504)

The Subcommittee recommends changing the computation of the amortization payments so as to remain level as a percent of payroll. Currently, the payments are computed to remain a level dollar amount per year.

Each actuarial funding method produces a unique "normal cost." Under the entry age normal cost method, KPERS current funding method, the normal cost is calculated as the annual amount that will be sufficient to fund benefits for current active employees under the assumption that the current plan has always been in effect and the normal costs have always been paid annually. This normal cost is calculated to remain level as a percentage of an individual employee's career. The projected unit credit method provides that the normal cost is calculated by dividing the present value of an employee's projected benefit by the number of years between the employee's entry into the plan and employee's expected retirement or termination. As a result, the projected unit credit method allocates a pro rata portion of the employee's projected benefit to each year of service. An analogy can be made to whole life insurance where premiums stay level as the insured ages as opposed to term insurance which requires increasing premiums in later years.

	<u>Rate Change</u>	<u>Annual Cost</u>
KPERS State/School	(0.6)%	\$ (16,100,000)
KPERS Local	(0.6)	(3,700,000)

In addition, the Subcommittee recommends that the amortization payments be computed on a level percentage of payroll basis using an assumed annual payroll growth of 4 percent.

**10. KPERS -- EMPLOYER/EMPLOYEE CONTRIBUTION RATES.** (H.B. 2211 and H.B. 2504) Statutorily set the employer contribution rate at 3.3 percent for the State/School rate in FY 1995 (current law) and at 2.2 percent for local units of government in calendar year 1994 (current law is 1.9 percent). Increase the employer rates starting in the next fiscal year and calendar years by 0.1 percent each year until the rates are equal to the actuarial determined rate certified by the KPERS Board. It is estimated that this will occur in about 1998. Each 0.1 percent of additional employer contributions currently has a value of \$2.7 million for the State/School rate (of which \$2.3 million would be from the State General Fund) and \$0.6 million for local units of government. The Subcommittee does not recommend any change in the current employee contribution rate of 4 percent.

	<u>State/School</u>		<u>Local</u>
FY 1994	3.3%	CY 1993	1.9%
FY 1995	3.3	CY 1994	2.2
FY 1996	3.4	CY 1995	2.3
FY 1997	3.5	CY 1996	2.4
FY 1998	3.6	CY 1997	2.5

**11. KPERS -- MEMBERSHIP ELIGIBILITY FOR SCHOOL EMPLOYEES.** (H.B. 2146 and H.B. 2156) The Subcommittee recommends that on and after July 1, 1993, an eligible school employee would be one whose employment is not seasonal or temporary and whose employment requires at least 630 hours of work per year or 3.5 hours of work per day for at least 180 days. The change would also extend coverage to employees who are concurrently employed by two or more school employers and whose combined employment meets the aforementioned minimum hourly requirements. Under current law the minimum requirement is 1,000 hours per year and there is no provision for covering concurrent employment. The Subcommittee also recommends that the Joint Committee on Pensions, Investments, and Benefits and the KPERS Retirement Study Commission review the issue of whether substitute teachers should receive KPERS School participating service credit.

The Attorney General issued an opinion last fall which mandated strict adherence to the 1,000 hour requirement. Without the proposed change, certain school employees who are employed less than full time during the school year would no longer be eligible for KPERS membership. There are several special education employees who split time between districts but cannot attain KPERS coverage under current law as each district is treated as a separate employer in determining eligibility.

**COST:** Negligible impact on the employer's contribution rate for the State/School rate.

**12. KPERS -- RAISE EARNING LIMITATIONS FOR CERTAIN RETIRANTS.** Raise from \$10,200 to \$10,560 the calendar year earning limitation applicable to retirants under KPERS who are subject to an earnings limitation. The increased amount is the same as the Social Security limit for 1993 for beneficiaries whose ages are 65 through 69. Currently, there is no earning limitation for KPERS retirants who retired before July 1, 1988. For those who retired after June 30, 1988, there also is no limitation unless the retirant is employed by the same employer for whom he or she worked during the last two years of KPERS participation. In such cases, retirants may receive

KPERS benefits until earnings equal \$10,200 in a calendar year, and at that point they may elect to terminate employment and continue to receive benefits, or continue employment with benefits suspended, or revoke their retirement and again become a participating member of KPERS. Currently exempted from the earnings restriction are substitute teachers, elected officials, and officers, employees and appointees of the Legislature.

**COST:** No actuarial cost.

**13. KPERS -- EXTEND SPECIAL KPERS-CORRECTIONAL CLASS.** Extend for one year (until June 30, 1994) the special disability coverage and early retirement options for KPERS-Correctional. The current special disability KPERS-Correctional benefits are scheduled to expire on June 30, 1993. The Department of Corrections proposed several changes concerning the special KPERS-Correctional class, but the Subcommittee had several questions relating to the cost of the enhancements as proposed by the Department.

The Subcommittee notes that the special KPERS - Correctional class was established by the 1982 Legislature and has been extended on an annual basis every year since 1982. The Subcommittee recommends that the Joint Committee on Pensions, Investments and Benefits and the KPERS Retirement Study Commission review and make recommendations to the 1994 Legislature concerning the future of the special KPERS-Correctional class. The study should review the original premise for creation of the special class and the following options:

1. Should the members be moved into the Kansas Police and Fire Retirement System?
2. Should the special KPERS-Correctional class be made permanent with a complete review of the employee classifications in the various correctional groups and the requirements for belonging to the special class?
3. Should the members be moved back into regular KPERS.
4. Should other employee classes in similar agencies be considered for inclusion with the KPERS Correctional class (e.g., Larned State Hospital)?

The Subcommittee recommends very strongly that the special KPERS-Correctional class should not be extended on a temporary basis beyond June 30, 1994, and that a final and permanent solution to the policy issue concerning which retirement system these state employees should be affiliated with be made by the 1994 Legislature.

**14. KPERS School Employee Representative Membership.** Allow KPERS School members who are elected or appointed to a full-time position as an employee representative the option to retain membership in KPERS if they continue to make the employee contributions. Payments would be based on their last covered salary and payments would be made monthly to the Retirement system.

**COST:** No actuarial cost.

## KANSAS POLICE AND FIRE RETIREMENT SYSTEM

**1. KP&F. INCREASE PARTICIPATING SERVICE RATE TO 2.5 PERCENT.** (H.B. 2212 and H.B. 2504) Increase the benefit formula from 2.0 percent to 2.5 percent and the maximum benefit from 70 percent of final average salary to 80 percent for all who retire on and after July 1, 1993. A member of KP&F would reach the proposed maximum benefit after 32 years of service.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	2.4%	\$ 504,000
KP&F Local	2.4	3,700,000

**2. KP&F -- POST-RETIREMENT BENEFIT INCREASE.** (H.B. 2504) Provide a one-time 15 percent (with a \$200 a month maximum) or \$50 per month minimum increase, which ever is greater, for retirees with 15 or more years of service who retire prior to July 1, 1993 and a 5 percent or \$10 per month increase, whichever is greater, for retirees with less than 15 years of service who retire prior to July 1, 1993.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	1.4%	\$ 294,000
KP&F Local	1.4	2,200,000

**3. KP&F -- INCREASE DEATH BENEFIT.** (H.B. 2212 and H.B. 2504) Increase the retirant death benefit from \$2,500 to \$4,000.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	0.2%	\$ 42,000
KP&F Local	0.2	312,000

**4. KP&F -- CANCER AS SERVICE CONNECTED DISABILITY.** (H.B. 2212 and H.B. 2504) Enlarge the service-connected death and disability benefits to presume that cancer for those members with 5 or more years is service connected. Currently, heart and lung disease is presumed to be service connected.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	0.1%	\$ 21,000
KP&F Local	0.1	156,000

**5. KP&F – NON-DUTY DEATH BENEFITS PAID TO SPOUSE AT ANY AGE.** (H.B. 2212 and H.B. 2504) Provide that non-duty death benefits become payable to a spouse at any age. Under current law they are not payable until the spouse has attained age 50 unless there are unmarried children under age 18 or under age 23 for those children who are full-time students.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	0.1%	\$ 21,000
KP&F Local	0.1	156,000

**6. KP&F – TIER I DISABILITY BENEFITS.** (H.B. 2212 and H.B. 2504) Provide that disability benefits for Tier I members could exceed 50 percent if the members years of service multiplied by the benefit formula provided a greater percentage.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	0.1%	\$ 21,000
KP&F Local	0.1	156,000

**7. KP&F – EXTEND THE POP-UP OPTION PROVISIONS TO MEMBERS WHO RETIRED PRIOR TO JULY 1, 1982.** (H.B. 2212 and H.B. 2504) Provide that if a joint annuitant under an option predeceases the retirant, the retirant's benefit increases to the maximum as though the member had never elected a survivor option. Individuals who retired since July 1, 1982 currently have this benefit.

**COST:** Negligible impact on the employer contributions rates for KP&F State and KP&F Local.

**8. KP&F – LOWER INTEREST CREDITED TO A MEMBER'S ACCOUNT FOR NEW MEMBERS.** (H.B. 2212 and H.B. 2504) For employees who first become KPERS members on and after July 1, 1993, interest would be credited to their account at the rate of 4 percent. Current members would continue to have their interest credited at the actuarial assumed interest rate (presently at 8 percent). The interest credited to a member's account **only** comes into play when individuals withdraw their contributions prior to retirement and terminates employment.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	(0.1)%	\$ (21,000)
KP&F Local	(0.1)	(156,000)

**9. KP&F -- EXTEND THE AMORTIZATION PERIOD FOR PRIOR SERVICE LIABILITY.** (H.B. 2212 and H.B. 2504) Extend the amortization period of the past service liability to 35 years from July 1, 1993. Employers with past service liability have their own calculated liability for which they make annual payments.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	(1.2)%	\$ (252,000)
KP&F Local	(1.2)	(1,900,000)

**10. KP&F -- MODIFY AMORTIZATION PAYMENTS.** (H.B. 2212 and H.B. 2504) Change from a level annual dollar amortization payment to having amortization payments computed on a level percentage of payroll basis using an assumed annual payroll growth of 4 percent.

	<u>Rate Change</u>	<u>Annual Cost</u>
KP&F State	(3.1)%	\$ (650,000)
KP&F Local	(3.1)	(4,800,000)

**11. KP&F -- ELIMINATE CONSERVATOR REQUIREMENT FOR MINORS OF DISABLED MEMBERS.** The 1992 Legislature mandated that KP&F benefits that were due to minors of KP&F members had to be made to a legally appointed conservator of such minor. The Subcommittee recommends that this unnecessary and costly mandate be eliminated and instead that the payment be made to the custodial parent. No actuarial cost.

**12. KP&F -- EMPLOYER CONTRIBUTION.** Increase the employer contribution for the Highway Patrol, Regents police, and the Kansas Bureau of Investigation to the latest actuarially certified rate. The current statutory rate for FY 1995 for the Patrol is 9.3 percent, 6.5 percent for Regents police, and 8.2 percent for the KBI. The new rate is 9.7 percent for the Highway Patrol, 8.4 percent for the KBI, and 6.8 percent for the Regents police.

**13. KP&F -- BRAZELTON GROUP.** For those members of the Brazelton lawsuit group, freeze their Social Security set off at their original Social Security amount when they first retire. The adjustment would be prospective only for those already retired. No actuarial cost.

## JUDGES' RETIREMENT SYSTEM

**1. JUDGES -- NORMAL RETIREMENT AT AGE 62 WITH TEN YEARS OF SERVICE OR 85 POINTS.** (H.B. 2216) Provide for normal retirement at age 65 or age 62 with ten years of service; or an 85 point plan when an individual's combination of age and years of service (e.g., age 55 with 30 years of service or age 60 with 25 years of service) reach 85. The current normal retirement system for judges is age 65.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	2.9%	\$ 403,000

**2. JUDGES -- INCREASE THE PARTICIPATING SERVICE RATE TO 3.5 PERCENT.** (H.B. 2216 and H.B. 2504) Increase the benefit formula from 3.3 percent to 3.5 percent and the maximum benefit from 65 percent of final average salary to 70 percent for members who retire on and after July 1, 1993. Currently a member who affiliated prior to June 30, 1987 receives 5 percent of final average salary per year of service for up to ten years and 3.3 percent for more than ten years (combined prior and participating) not to exceed 65 percent of final average salary. Member who affiliated prior to June 30, 1987 would achieve the proposed maximum amount after 15.7 years of service. Currently, a member who affiliated after June 30, 1987 receives 3.3 percent of final average salary for all years of service and would achieve the proposed maximum amount after 20 years of service.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	0.8%	\$ 111,000

**3. JUDGES -- POST-RETIREMENT BENEFIT INCREASE.** (H.B. 2504) Provide a one-time 15 percent (with a \$200 a month maximum) or \$50 per month minimum increase, whichever is greater, for retirees with 15 or more years of service who retire prior to July 1, 1993, and a 5 percent or \$10 per month increase, whichever is greater, for retirees with less than 15 years of service who retire prior to July 1, 1993.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	0.5%	\$ 70,000

**4. JUDGES -- DEATH BENEFIT.** (H.B. 2216 and H.B. 2504) Increase the retirant death benefit from \$2,500 to \$4,000.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	0.1%	\$ 14,000



**5. JUDGES -- EXTEND THE POP-UP OPTION PROVISIONS TO MEMBERS WHO RETIRED PRIOR TO JULY 1, 1982.** (H.B. 2216 and H.B. 2504) Provide that if a joint annuitant under an option predeceases the retirant, the retirant's benefit increases to the maximum as though the member had never elected a survivor option. Individuals who retired since July 1, 1982 currently have this benefit.

**COST:** Negligible impact on the employer contribution.

**6. JUDGES -- SURVIVING SPOUSE ELECT OPTION.** Provide that if a judge with fifteen or more years of service dies, and was not of retirement age, the spouse could elect one of the survivor options at the time the member would have been of retirement age.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	0.5%	\$ 70,000

**7. JUDGES -- EXTEND THE AMORTIZATION PERIOD FOR PRIOR SERVICE LIABILITY.** (H.B. 2216 and H.B. 2504) Extend the amortization period of the past service liability to 35 years from July 1, 1993 to July 1, 2028.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	(2.7)%	\$ (376,000)

**8. JUDGES -- LOWER INTEREST CREDITED TO A MEMBER'S ACCOUNT FOR NEW EMPLOYEES.** (H.B. 2216 and H.B. 2504) For judges who first become members on and after July 1, 1993, interest would be credited to their account at the rate of 4 percent. Current members would continue to have interest credited at the actuarial assumed interest rate (presently at 8 percent). The interest credited to a member's account **only** comes into play when an individual withdraws their contributions prior to retirement and terminates employment.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	(0.1)%	\$ (14,000)

**9. JUDGES -- DISTRICT MAGISTRATE JUDGES INTO JUDGES' RETIREMENT SYSTEM.** Provide an election for district magistrate judges to enter the Judges' Retirement System for future service only. Currently, district magistrate judges are members of KPERS. Also provide those members that elect into the system the option to bring all of their participating service into the new retirement plan. The individual would be required to pay the full cost of transferring the

participating service from KPERS to the Judges' system. However, the individual would receive credit for the employee contributions already made to KPERS. There would be an increased employer contribution of approximately \$104,000 beginning in FY 1994 and thereafter.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	--%	\$ 104,000

**10. JUDGES -- EMPLOYER CONTRIBUTION.** Increase the employer contribution rate for FY 1995 from 7.7 percent to 8.0 percent to reflect the latest actuarially certified rates.

**11. JUDGES -- TECHNICAL ADJUSTMENTS.** The Subcommittee recommends that following technical adjustments to the Judges' Retirement System:

**a. Service Credit Determination.** Determine a judge's service credit by rounding to the nearest quarter as is done for KPERS.

**b. Final Average Salary Determination.** Determine a judge's final average salary on the same quarterly basis as is done for KPERS.

**c. Benefit Options.** Delete requirement for pre-selection of survivor benefit options.

**d. Group Insurance Reserve.** Increase, beginning in FY 1994, from 0.3 to 0.4 percent of compensation the employer contribution for group insurance for members of the Judges' Retirement System.

	<u>Rate Change</u>	<u>Annual Cost</u>
State	0.1%	\$ 14,000

## REGENTS RETIREMENT ISSUES

### 1. INCREASE IN THE TIAA/CREF EMPLOYEE/EMPLOYER CONTRIBUTIONS.

The Subcommittee recommends that the current employer contribution for Regents TIAA/CREF members increase from 8.0 percent to 8.5 percent. In addition, the Subcommittee recommends that the employee's retirement contribution for Regents TIAA/CREF members increase from 5.0 to 5.5 percent. The Governor recommended that the employer contribution increase from 8.0 to 9.0 percent in FY 1994. The estimated cost in FY 1994 for the Governor's recommended enhancement is \$2,461,174 (State General Fund) and is contained in S.B. 43. The Senate deleted the funds pending enactment of legislation that would increase employer contribution. The Subcommittee recommends that the employer contribution be increased 0.5 percent and that \$1,230,587 (State General Fund) be considered at the appropriate time for addition to S.B. 43.

**2. REGENTS EARLY RETIREMENT AGE.** Provide that members of the faculty at Regents institutions could retire as early as age 55. Under current law the earliest a faculty member may retire is age 60. There are a small number of these individuals who are entitled to a retirement benefit under KPERS for service prior to 1962. Anyone who retires under the normal retirement age of 65 has to take an actuarial reduction in benefits. There would be no actuarial or administrative costs for this change.

**3. DELETE REGENTS MANDATORY RETIREMENT AGE.** In order to comply with federal law, delete the requirement that faculty must retire upon attainment of age 70.

### **KPERS INVESTMENT/OTHER CHANGES**

**1. REAL ESTATE INVESTMENT CAP.** Amend the current investment cap of 10 percent in alternative investments (real estate, direct placements, and other nontraditional investments outside the established, nationally recognized public stock exchanges and government securities market) to exclude real estate and lower the cap on the remaining alternative investments to 5 percent of the portfolio. The commercial real estate market is deemed by industry experts to be in or near a cyclical market trough. Indicators are that the trough in market prices may last up to several years. However, this would appear to be a good time for the long-term real estate investor to be making additional investments in real estate from a market cycle perspective. In fact, market values have already begun to rise in a few select markets and submarkets. The fact that KPERS is currently prevented from making additional real estate investments may mean that a significant buying opportunity is being lost, which could have an adverse impact both on KPERS' investment performance for many years in the future and on its ability to meet its future liabilities.

**2. TORT CLAIMS COVERAGE FOR TRUSTEES.** Clarify that members of the KPERS Board of Trustees are covered by the Kansas Tort Claims Act. Language would be similar to coverage provided members of the Kansas Development Finance Authority.

**3. CIVIL ACTIONS STATUTE OF LIMITATIONS.** Clarify that the ten year statute of limitations for civil actions brought by or on behalf of KPERS as provided by 1992 H.B. 2096 is to be applied retroactively.

**4. UNCLASSIFIED POSITION.** Provide for the transfer of the Member Services Officer from the classified to the unclassified service.

### **KPERS TECHNICAL CHANGES**

**1. KPERS BOARD OF TRUSTEE EXPENSES.** Provide that members of the new KPERS Board of Trustees (established on July 1, 1993) will receive subsistence (legislative rate) and mileage for attending meetings. 1992 S.B. 526, through an oversight, did not provide for the payment of expenses for trustees.

2. **MILITARY SERVICE.** Remove the reference to "in time of war or national emergency" to called to active duty to eliminate problems with the Gulf War or Somali situations.

3. **DISABLED MEMBERS' SALARY ASSUMPTION.** Establish a uniform five percent salary increase assumption for purposes of determining final average salary upon the retirement of a disabled member and for purposes of determining the current salary level for life insurance benefits. This change applies to KPERS, KP&F, and the Judges' retirement systems.

4. **BENEFIT DURATION.** Allow benefits to be paid through the month-end for any month that eligibility exists (*e.g.*, death of a retirant).

5. **PARTICIPATING EMPLOYER REPORTING AND REEMPLOYMENT.** Delete language relating to quarterly reporting in the event of death or termination of employment and delete repayment upon withdrawal of contributions and reemployment with any participating employer within 60 days.

6. **ACTUARIAL REPORTING REQUIREMENT.** Delete the requirement that a special actuarial report be prepared in conjunction with each three-year general investigation of the actuarial experience of the system and forwarded to the Legislative Coordinating Council.

7. **QUASI-GOVERNMENTAL PARTICIPATING EMPLOYERS.** Clean-up definition of eligible participating employer that was approved by the 1992 Legislature.

## **REDUCTION IN EXECUTIVE AND LEGISLATIVE BRANCH FTE POSITIONS**

1. **REDUCTION IN FTE POSITIONS.** The Subcommittee recognizes that as many as 1,600 state employees who are not currently eligible for normal retirement will have the opportunity for unreduced retirement benefits with the passage of Sub. H.B. 2211. Given the financial constraints that the state must deal with in FY 1994 and FY 1995, the Subcommittee recommends that opportunity to down-size state government should not be passed up, even to a small degree.

The Subcommittee estimates that approximately 800 state employees that are currently not eligible for unreduced retirement benefits would retire with the passage of Sub. H.B. 2211. The Subcommittee recommends that executive branch agency heads would need to certify to the Governor that a position vacated by the retirement of an individual is necessary and required for the agency to fulfill its statutory responsibilities. If the Governor disagrees with the agency head or if the agency head voluntarily gives up the FTE positions, the Governor would direct the Secretary of Administration to lower the FTE position limitation for the agency by 1.0 FTE. However, the Governor could not authorize the refilling of more than 75 percent of the positions that become vacant due to retirements in a fiscal year. The State Finance Council could increase the position limitation beyond the 75 percent if requested to do so by the Governor. The Subcommittee estimates that 200 state positions could be abolished by the end of FY 1994. Salary savings would be captured through the appropriations process in 1994.

The Subcommittee would also apply the same requirements and restrictions on the Legislative Branch. The legislative agency heads would need to request permission of the Legislative Coordinating Council to refill any Legislative Branch position that becomes vacant due to a retirement. The Legislative Coordinating Council could not authorize the refilling of more than 75 percent of the vacant positions unless specific positive action is taken by the Council.



# SUB-COMMITTEE PROPOSAL (KPERs)

CURRENT PROVISIONS		LOCAL	
		RATE CHANGE	ANNUAL COST
Actuarial Required Rate*:		2.2%	\$13.6 Million
<b>Benefit Changes:</b>			
*Normal retirement at age 65; 60 with 35 years; any age with 40 years	*Lower eligibility requirements for normal retirement (62 + 10 or 85 points)	+0.4	+2.5
*Participating service formula is 1.4%	*Increase participating service formula to 1.75%	+4.0	+24.7
*No automatic COLA; ad hoc only	*Provide a 15% or \$50 per month increase for retirees with 15 or more years of service with a \$200 cap. Provide a 5% or \$10 per month increase for retirees with less than 15 years of service.	+3	+1.9
*Death benefit is \$2,500	*Increase death benefit to \$4000	+0.1	+6
*Same interest rate as actuarial assumption (8%)	*Lower interest on new employees contribution accounts to 4%	-0.1	-0.6
Contribution rate impact of benefit changes		+4.7%	+\$29.1
<b>Changes in Funding Provisions:</b>			
*Amortization period for State will expire in 2002; schools in 2011	*Extend amortization period to 35 years from 7/1/93	-2.2	-13.6
*Amortization payments are computed to remain level dollar amount per year	*Compute amortization payments to remain level as % of payroll (based on 4% annual payroll growth)	-1.6	-9.9
*Funding method is frozen initial liability which is a variation of entry age normal	*Change funding method to projected unit credit	-0.6	-3.7
Contribution rate impact of funding changes		-4.4%	-27.2%
<b>Total Contribution Rate Impact</b>		<b>2.5%</b>	<b>\$15.5</b>

\* The employer contribution rate currently established under K.S.A. 74-4920 would need to be amended to reflect the actuarial determined rate (2.2%) which was based on the most recent valuation and certified by the Board of Trustees at its meeting of January 8, 1993; effective calendar year 1995 for Locals, the rate would increase .1 percent per year until the rate was equal to the actuarial determined rate certified by the KPERs Board. Based on rough projections, this will occur in about 1999 or 2000.

March 16, 1993

**KPERs**



## SUB-COMMITTEE PROPOSAL (KPERS)

CURRENT PROVISIONS		STATE/ SCHOOL	
		RATE CHANGE	ANNUAL COST
<b>Current Rate*:</b>		3.3%	\$88.5 Million
<b>Benefit Changes:</b>			
*Normal retirement at age 65; 60 with 35 years; any age with 40 years	*Lower eligibility requirements for normal retirement (62 + 10 or 85 points)	+0.5	+13.4
*Participating service formula is 1.4%	*Increase participating service formula to 1.75%	+3.6	+96.5
*No automatic COLA; ad hoc only	*Provide a 15% or \$50 per month increase for retirees with 15 or more years of service with a \$200 cap. Provide a 5% or \$10 per month increase for retirees with less than 15 years of service.	+4	+10.7
*Death benefit is \$2,500	*Increase death benefit to \$4000	+0.1	+2.7
*Same interest rate as actuarial assumption (8%)	*Lower interest on new employees contribution accounts to 4%	-0.1	-2.7
Contribution rate impact of benefit changes		4.5%	\$120.6
<b>Changes in Funding Provisions:</b>			
*Amortization period for State will expire in 2002; schools in 2011	*Extend amortization period to 35 years from 7/1/93	-1.8	-48.3
*Amortization payments are computed to remain level dollar amount per year	*Compute amortization payments to remain level as % of payroll (based on 4% annual payroll growth)	-1.9	-50.9
*Funding method is frozen initial liability which is a variation of entry age normal	*Change funding method to projected unit credit	-0.6	-16.1
Contribution rate impact of funding changes		-4.3%	-115.3
<b>Total Contribution Rate Impact</b>		<b>3.5%</b>	<b>\$93.8</b>

\* The employer contribution rate currently established under K.S.A. 74-4920 (3.3 percent for State/School) would remain the same; effective Fiscal Year 1996 for State/School, the rate would increase .1 percent per year until the rate was equal to the actuarial determined rate certified by the KPERS Board. Based on rough projections, this will occur in about 1999 or 2000.

March 16, 1993

**KPERS**

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**SUB-COMMITTEE PROPOSAL****JUDGES**

<b>CURRENT PROVISIONS</b>	<b>PROPOSED CHANGES</b>	<b>RATE CHANGE</b>	<b>ANNUAL COST</b>
	<b>Actuarial Required Rate*:</b>	8.0%	\$1.1 Million
	<b>Benefit Changes:</b>		
•Normal retirement is age 65	•Normal retirement at 62/10 or 85 points	+2.9%	+ .403
•Formula is 3.3% to maximum 65% FAS	•Formula to 3.5% up to maximum of 70% FAS	+ .8	+ .111
•No automatic COLA: ad hoc only	•Provide a 15% or \$50 per month increase for retirees with 15 or more years of service with a \$200 cap. Provide a 5% or \$10 per month increase for retirees with less than 15 years of service.	+ .5	+ .070
•Death benefit is \$2,500	•Retired member death benefit to \$4,000	+ .1	+ .014
•No pre-retirement death benefits	•Pre-retirement death benefits same as KPERS	+ .5	+ .070
•Interest rate is actuarial assumption (currently 8%)	•Reduce interest rate to 4% for new judges	- .1	- .014
		<hr/>	<hr/>
	Contribution rate impact of benefit changes	+4.7%	+\$ .654
	<b>Changes in Funding Provisions:</b>		
	•Extend Amortization* period to 35 years from 7/1/93	<u>-2.7%</u>	<u>-.376</u>
	Contribution rate impact of benefit changes	-2.7%	-\$ .376
	<b>Final Contribution Rate</b>	<b>10.0%</b>	<b>\$1.378</b>

\* The employer contribution rate currently established under K.S.A. 74-4920 (7.7%) will need to be amended to reflect the actuarial determined rate (8.0%) which was based on the most recent valuation and certified by the Board of Trustees at its meeting of January 8, 1993.



**SUB-COMMITTEE PROPOSAL  
KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM**

CURRENT PROVISIONS	PROPOSED CHANGES	LOCAL	
		RATE CHANGE	ANNUAL COST
	Current Uniform Participating Service Rate*:	6.8%	\$10.6 Million
	<b>Benefit Changes:</b>		
•Formula is 2% to a maximum of 70% of FAS	•Formula to 2.5% for all years of service up to maximum of 80% of FAS	+2.4	+3.7
•No automatic COLA: ad hoc only	•Provide a 15% or \$50 per month increase for retirees with 15 or more years of service with a \$200 cap. Provide a 5% or \$10 per month increase for retirees with less than 15 years of service.	+1.4	+2.2
•Death benefit is \$2,500	•Retired member death benefit to \$4,000	+.2	+.312
•(a) Cancer is not service-connected	•Treat cancer as service-connected disability		
•(b) Non-duty death benefit paid to spouse at age 50	•Non-duty death benefits paid to spouse at any age		
•(c) Tier I disability benefits cannot exceed 50%, FAS	•Disability benefits for Tier I could exceed 50% if member has over 25 years of service	+.3	+.468
•Interest rate is based on assumption (currently 8%)	•Reduce interest rate to 4% for new members	<u>-1</u>	<u>-156</u>
	Contribution rate impact of benefit changes	+4.2%	+\$6.524
<hr/>			
	<b>Changes in Funding Provisions:*</b>		
•Each employer has a separate amortization period	•Extend amortization period to 35 years from 7/1/92	-1.2	-1.9
•Amortization payments are computed as level dollar payments	•Compute amortization payments remain level as a percent of payroll	<u>-3.1</u>	<u>-4.8</u>
	Contribution rate impact of funding changes	-4.3%	-\$6.7
	<b>Final Contribution Rate</b>	<b>6.7%</b>	<b>\$10.424</b>

\* Each employer has their own past service liability for which they make annual payments. The payments are in addition to the costs reflected on this page.

March 16, 1993

**KPER**

ATTACHMENT 3c



**SUB-COMMITTEE PROPOSAL  
KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM**

		STATE	
CURRENT PROVISIONS	PROPOSED CHANGES	RATE CHANGE	ANNUAL COST
	Current Uniform Participating Service Rate*:	6.8%	\$1.4 Million
	Benefit Changes:		
•Formula is 2% to a maximum of 70% of FAS	•Formula to 2.5% for all years of service up to maximum of 80% of FAS	+2.4	+.504
•No automatic COLA: ad hoc only	•Provide a 15% or \$50 per month increase for retirees with 15 or more years of service with a \$200 cap. Provide a 5% or \$10 per month increase for retirees with less than 15 years of service.	+1.4	+.294
•Death benefit is \$2,500	•Retired member death benefit to \$4,000	+2	+.042
•(a) Cancer is not service-connected	•Treat cancer as service-connected disability		
•(b) Non-duty death benefit paid to spouse at age 50	•Non-duty death benefits paid to spouse at any age		
•(c) Tier I disability benefits cannot exceed 50%, FAS	•Disability benefits for Tier I could exceed 50% if member has over 25 years of service	+3	+.063
•Interest rate is based on assumption (currently 8%)	•Reduce interest rate to 4% for new members	-1	-.021
	Contribution rate impact of benefit changes	+4.2%	+\$ .882
Changes in Funding Provisions:*			
•Each employer has a separate amortization period	•Extend amortization period to 35 years from 7/1/93	-1.2	-.252
•Amortization payments are computed as level dollar payments	•Compute amortization payments remain level as a percent of payroll	-3.1	-.650
	Contribution rate impact of funding changes	-4.3%	-\$ .902
	Final Contribution Rate	6.7%	\$1.38

\* Each employer has their own past service liability for which they make annual payments. The payments are in addition to the costs reflected on this page.

March 16, 1993

**KPER**

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Amendment to HB 2211

New Section 1(a). Any state officer or employee who is a member of the Kansas public employees retirement system and who retires during the period commencing January 1, 1994, and ending December 31, 1995, and who is at least 55-years-old with the completion of 20 years of credited service or is any age with the completion of 30 years of credited service, may retire under the provisions of K.S.A. 74-4901, et. seq. and amendments thereto and shall be entitled to any full retirement benefit as provided by law and such member's retirement benefit shall not be subject to any early retirement benefit reduction as otherwise provided by law.

(2) Any state officer or employee who is a member of the Kansas police and firemen's retirement system and who retires during the period commencing January 1, 1994, and ending December 31, 1995, and who is at least 55-years-old with the completion of 20 years of credit service, if retiring pursuant to K.S.A. 74-4957 and amendments thereto or who is at least 55 years of age with the completion of 20 years of credited service, 50 years of age with the completion of 25 years of credited service or 60 years of age with the completion of 15 years of credited service, if retiring pursuant to K.S.A. 74-4957a, may retire under the provisions of K.S.A. 74-4951, et. seq. and amendments thereto and shall be entitled to: a) add five years of such members actual age to be counted in determining such member's eligibility for retirement; and (B) any full retirement benefit as provided by law and such member's retirement benefit shall not be subject to any early retirement benefit reduction as otherwise provided by law.

(b) Any state officer or employee member of the Kansas public employees retirement system shall be entitled to have such officer's or employee's member's years of participating service utilized in calculating such state officer's or employee's retirement benefit as provided in K.S.A. 74-4915, 74-4958 and 74-4958a and amendments thereto increased by five years of participating service shall be used in such calculation of such state officer's or employee's member's retirement benefit.

(c) Any such state officer or employee member of the Kansas public employees retirement system shall be entitled to have such state officer's or employee's member's monthly

retirement benefit increased by an amount equal to \$100. Such payments shall be paid by the Kansas public employees retirement system to such retirant, except that any payment of increased retirement benefit pursuant to this section shall terminate upon such retirant attaining 62 years of age.

(d) Any state officer or employee member of the Kansas public employees retirement system upon retirement during the time specified in subsection (a) (1) or (2), who is participating in the state health care benefits program shall be entitled to have the monthly amount required to be paid by such retirant for the cost of the state health care benefits program to be reduced by \$50, except that no such reductions pursuant to this section shall be made upon such retirant attaining 65 years of age. The Kansas state employees health care commission shall certify to the Kansas public employees retirement system the monthly amount required to be paid pursuant to the provisions of this subsection and the system shall pay any such required monthly amounts to the commission and upon receipt of such payments, the commission shall remit such payments to the state treasurer for deposit in the state treasury to the credit of the cafeteria benefits fund pursuant to K.S.A. 75-6513 and amendments thereto.

(e) The division of the budget and the governor shall include in the budget and in the budget request for appropriations for personnel services the amount required to satisfy the employer's obligation under this section as certified by the board of trustees of the system, and shall present the same to the legislature for allowance and appropriation. Such employer's obligation shall be paid in annual installments for a period not to exceed 20 years.



## EXPLANATION OF AMENDMENT TO HB 2211

-Amendment basically consists of the early retirement provisions of last year's HB 3162 and it would create a two year window to allow for early retirement of state KPERS and state KP&F employees.

-This would be in addition to, not instead of the 85 point plan proposed by the KPERS Study Commission.

-State KPERS would be affected for those who were at least 55-years-old and with at least 20 years of service or who are any age with at least 30 years of service. The estimates are that approximately 2,000 state employees would be in the eligible population to take advantage of this provision.

-State KP&F employees would have five years "added" to their ages for purposes of retirement.

-If half of those eligible retired and half of those positions remained open, the state would save approximately \$18 million for FY '94.

-The amendment provides for \$50 in monthly health insurance credits and a \$100 supplemental income until age 62 to compensate for the fact that social security will start until then.

-The amendment includes a "years of participating service" enhancement of five years.

-The manner in which it would work is illustrated by the attached sheet, which uses last year's numbers.

# STATE OF KANSAS EARLY RETIREMENT PROGRAM

March , 1992

Employees Age 55 With 20 Years Service,  
Or Any Age With 30 Years Service  
(55/20/30)

## ELIGIBLE EMPLOYEE DATA

Number of Employees	2,346
Participation Level	50%
Expected Retirees	1,173
Average Salary	29,654
Average Age	59.0
Average Years Service	29.1

	Fiscal Year 1993	Fiscal Year 1994
<b>Savings From Unfilled Positions</b> (50% Filled Step "A", 50% Unfilled)	26,336,445	26,544,749
<b>Less Agency Budget Costs</b>		
Sick Leave Payout	5,136,814	0
Annual Leave Payout	3,312,376	0
\$50/Mo. Health Care Premium	621,995	590,770
\$100/Mo. Social Security Suppl.	984,452	859,844
<b>Total Agency Budget Costs</b>	<u>10,055,637</u>	<u>1,450,614</u>
<b>Savings Net of Agency Costs</b>	16,280,808	25,094,135
<b>Less Retirement Fund Costs *</b>		
Waiving Early Ret. Penalties, 5 Years Service Credit, & 1.75% Formula In Base Benefit	0	6,981,696
<b>TOTAL NET SAVINGS</b>	<u><b>\$16,280,808</b></u>	<u><b>\$18,112,439</b></u>

\* Estimated costs from the retirement fund are extrapolations from actuarial estimates provided by Segal Co. for a 1.9% multiplier. The actuarial estimates were computed by considering the impact each separate component has on the other incentive components.