Community College Budgeting and Financial Planning Issues
A Case Study

A case study which explicates how the Kentucky Community and Technical College System, approaches budgeting.

by Jennifer Krieger

Background

Soon after his election in 1995, Kentucky governor Paul E. Patton instituted a plan to restructure the commonwealth’s system of postsecondary education to create a more efficient system designed to prepare Kentuckians for jobs in the new era. While Patton looked at all of postsecondary education, he focused on the 29 community and technical colleges distributed across the state, many close enough to compete for students and funds. The legislation enacted to combine these community and technical colleges is known as the Postsecondary Education Improvement Act of 1997 or House Bill 1 (HB1). HB1 established the Kentucky Community and Technical College System (KCTCS), which joined 14 established community colleges and 15 postsecondary technical institutions, first into districts and later into 16, two-year comprehensive colleges (KCTCS 2008). The process of amalgamating two distinct systems into one coordinated system presented an immense challenge. Operating on 68 campuses throughout the state, the 16 colleges and approximately 11,000 full-time and part-time administrators, faculty, and staff are provided with leadership, service, and support by staff working from the KCTCS system office. KCTCS today serves approximately 106,500 students (KCTCS 2011).
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The Kentucky Community and Technical College System

KCTCS operates as a system as defined by Merriam-Webster (2011, ¶ 1–2): “a regularly interacting or interdependent group of items forming a unified whole … a group of interacting bodies under the influence of related forces.” Operating as a system provides economies of scale in operational areas such as purchasing and staffing. The KCTCS system office also provides consolidated services to the colleges in the areas of budgeting and planning, academic support services, advancement, marketing, web services, accounting, audit services, and technology support. As an example, there may be five staff members in the system office dedicated to payroll, five to purchasing, five to budgeting, and so on. This allows individual colleges to dedicate fewer staff members to these tasks and avoids duplication of effort. Being part of the KCTCS system affords individual colleges leverage and influence in legislative lobbies that they would not otherwise have.

Being part of a system avoids duplication of programs, services, administration, and related functions. Student transfer and articulation are simplified. Policies and procedures are more easily coordinated. Tuition costs are kept consistent. Marketing efforts can be combined and a common brand projected. Synergy and best practices result, allowing KCTCS to strive toward a common vision, common goals, and a legislated mission for the state’s community and technical colleges.

KCTCS has organized its work through solid planning, including three strategic plans implemented during the past decade: 2000–05 (KCTCS 1999) and 2006–10 (KCTCS 2005) and 2010–16 (KCTCS 2009). Strategic planning within KCTCS is a broad-based, inclusive process that promotes participation at all levels. Budgets are tied to the strategic plan throughout the system.

In the first 10 years following Kentucky’s postsecondary education reform, KCTCS has made tremendous strides toward achieving its vision to be the premier community and technical college system in the nation. The challenge is to continue moving KCTCS toward Kentucky’s long-term goals for 2020—an educated and trained workforce, global competitiveness, a standard of living above the national average, and lifelong learning.

KCTCS Governance Issues

Similar to the administrative nucleus of a four-year university, the KCTCS system office forms the administrative core of its 16 colleges. The system board of regents, president, cabinet, and 15 administrative units maintain the mission of providing leadership, service, and support to the KCTCS colleges. The board of regents consists of 14 members, six of whom are constituent members. All other members are appointed by the governor.

Each of the 16 colleges is administered by a college president and a separate college board of directors. The 16 college presidents and the system office cabinet, consisting of the KCTCS chancellor and vice presidents, compose the KCTCS president’s leadership team.

The KCTCS governing structure was formed by the state general assembly. There is no local tax support for the individual colleges; as long as the KCTCS colleges continue to be primarily supported by state appropriations and tuition and fees revenue, then the governance structure is appropriate.

KCTCS Budget Development and Reporting

The total operating budget for FY 2012 for KCTCS from all sources of funding is $900 million. KCTCS has both a biennial and an annual budget process. Additions to a budget line in either budget are sought through the KCTCS strategic needs analysis (SNA) process. SNA is a process for assessing long-range system needs that links the biennial budget request with the KCTCS strategic plan. SNA gathers requests from faculty and staff at the 16 colleges as well as from staff at the system office. The level of input is determined by the college president or cabinet member, who can invite requests from all staff or just from management at his or her discretion. These requests are input into the KCTS intranet at each location. Reports are then created that divide the requests by whether they are biennial or annual, recurring or nonrecurring, and capital or current operating; requests are also divided by funding source (grant, general fund, reallocation, etc.) and by business unit or college. Further, requests are divided into position support requests, current expenses, or salary changes (recategorization, position deletion, etc.).

Each request includes a justification and is signed off at various levels with a priority rating assigned at each level. By the time requests are submitted to the local college or system budget office, they have already been prioritized by the college president or cabinet member and are ready to be acted upon. General description reports of the requests are grouped by strategic priority, and the reports are sorted...
by college. The president’s cabinet evaluates the requests (keeping in mind that each cabinet member has requests from his or her particular administrative area) and apportions the available funds. All other requests remain in the database until changed, deleted, or funded.

Capital requests are reported separately. A set of reports by funding source and strategic priority includes detailed budget and revenue information. An additional set of reports by expenditure includes strategic priorities.

The KCTCS leadership team reviews the reports and assigns a systemwide priority to each request. Specific ranking criteria are used to establish the systemwide priority. A funding request is then prepared and presented to the board of regents with the recurring biennial budget.

KCTCS Annual and Biennial Budgeting: Multiple Perspectives

The budget process in the Kentucky state government is multileveled and biennial in nature. The discussion that follows identifies features of the process from three perspectives: (1) the statewide/state budget perspective, (2) the postsecondary education perspective of the Kentucky Council on Postsecondary Education (CPE), and (3) the institutional perspective of KCTCS.

Statewide/state budget level. Kentucky’s constitution vests the exclusive power and duty to tax and spend public money in the state’s general assembly. Enacting the budget is the constitutional means by which the legislative branch addresses public policies and establishes public priorities. The commonwealth’s budget is a complete financial plan for the expenditure of all public funds, and the budget bill is law for the duration of a fiscal biennium.

Postsecondary education level. The Kentucky CPE has the statutory responsibility to make a biennial budget request to the governor and general assembly with regard to specific funding amounts to be appropriated (1) to the budgetary base of the institutions, systems, agencies, and programs; (2) to each individual trust fund in the Strategic Investment and Incentive Funding Program; and (3) for all capital projects to be appropriated from each individual trust fund in the Strategic Investment and Incentive Funding Program. (Created by the CPE, the Strategic Investment and Incentive Funding Program is a system of strategic financial assistance awards to educational institutions to advance the goals of postsecondary education. Examples of the program’s individual trust funds include the research challenge trust fund, comprehensive university excellence trust fund, technology initiative trust fund, physical facilities trust fund, postsecondary workforce development trust fund, and student financial aid and advancement trust fund.) CPE works with the state’s postsecondary institutions (as necessary) to develop information to support its biennial budget request. Specifically, the role of CPE in funding Kentucky postsecondary education in general and KCTCS in particular includes:

- Determining tuition rates for the state postsecondary educational system;
- Establishing policies regarding appropriations, making recommendations for appropriations to the universities and KCTCS to be considered by the governor and general assembly, and supporting strategies for persons to maintain necessary levels of literacy throughout their lifetimes including, but not limited to, appropriations to the Department for Adult Education and Literacy;
- Reviewing and approving all capital construction projects, including real property acquisitions regardless of the source of funding; and
- Developing a uniform financial reporting procedure. In 1997–1998, the general assembly bill allocated $11,768,700 to KCTCS, which included funding for administrative costs. However, before any of the appropriation was expended for administrative costs, KCTCS was required to submit a budget plan that identified the estimated expenditures and purposes to the Interim Joint Committee on Appropriations and Revenue and the Interim Joint Committee on Education: The budget plan was required to include, but was not limited to, appropriations to the Department for Adult Education and Literacy.

KCTCS level. The KCTCS president is responsible for the development and implementation of systemwide budget policies and procedures. Responsibility has been delegated to the KCTCS vice president for finance for (1) the development and submission of the system’s budget requests in alignment with the strategic plan and (2) the evaluation of the effectiveness of budget implementation in
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requests for capital and strategic needs regardless of funding source. More is better in the SNA request process because it captures ideas regardless of immediate funding.

In April of odd-numbered years, the KCTCS president submits a six-year capital plan to the Kentucky general assembly. In September of odd-numbered years, KCTCS submits a biennial operating and capital budget request. In the spring of even-numbered years, the general assembly enacts the biennial budget. At KCTCS, a focus on centralized budget development with a big dose of management flexibility for budget execution within the individual colleges is the order of the day. The system office sets the broad strokes and the colleges work out the fine points. Once the budget is set for a college, it is up to that college to execute the budget within greatly flexible parameters.

The system sets the broad strokes and the colleges work out the fine points.

College annual budget process. CPE reviews special initiative requests for operating funds in addition to funds needed to achieve the benchmark funding model. (The benchmark funding model is designed to ensure that Kentucky institutions receive funding comparable to that of benchmark institutions.) Each March, the board of regents establishes priorities and parameters for system and college budgets, including compensation increases. In March/April, colleges develop budgets based on the board of regents’ priorities and parameters. Each local college’s board of directors approves the college’s budget. In June, the board of regents approves the KCTCS budget. In July, colleges implement the KCTCS board-approved budget. Each KCTCS college, following guidelines developed by the system president and board of regents, is responsible for preparing an annual operating budget. The budget is developed under the leadership of the college president and chief financial officer in consultation with faculty, staff, and other college administrators. Once complete, the college budget request is submitted through appropriate KCTCS processes to the board of regents for approval.

In KCTCS, revenue from all sources equals expenditures for all programs. Restricted funds are restricted by the giving entity; the board does not decide how to spend these funds. Examples of such funds include financial aid, government grants and contracts, and endowment income.

KCTCS College Budget Processes

College biennial budget request. Each college, through appropriate internal processes involving consultation with faculty, staff, and administrators, is responsible for the preparation of a biennial request that reflects the college mission; the needs of the service area; and the high-priority goals and objectives identified in the state, CPE, and college strategic plans, which are then aligned with the KCTCS strategic plan.

More is better in the request process because it captures ideas regardless of funding.

Based on the strategic plan goals, the KCTCS colleges create budgets using broad-based local input and develop initiatives to be considered in their biennial operating and capital budget requests. These initiatives incorporate funding
Public funds include state appropriations and tuition, which are combined into one category. Public and other unrestricted funds are used to fund board priorities, such as salary increases, benefits fixed-costs increases, and merit bonuses. Expenditures are by category—personnel, operating, and capital outlay. Locally generated funds, such as fund balances and bookstore commissions, are expended by the college that generates them.

Other KCTCS Considerations

Administrative software system. KCTCS supports a single administrative software system, Oracle PeopleSoft, which merges data from the disparate administrative systems. The selection of a single administrative software system was one of the first decisions made by KCTCS administrators. This decision was made based on discussions about what a single administrative software system would allow KCTCS to accomplish, including centralized support services and easier student mobility from one college to another. The software system also allows a single audit of KCTCS financials.

Tuition rate setting. When KCTCS was created, the individual colleges had different tuition rates and different mandatory and nonmandatory fees. Based on the concept of a single system, tuition was made the same at all colleges. The goal was a single sticker price with no fees in addition to tuition.

The KCTCS Funding Model

Funding requirements for KCTCS were built around a set of conditions and assumptions based on parameters agreed upon with CPE and calculated through the KCTCS public funds allocation model. The model was developed by the KCTCS president’s leadership team in 2002 to ensure equity and adequacy and to help move the system toward the goals set forth in HB1 and the system’s own strategic priorities.

The Kentucky CPE establishes benchmark funding goals for each postsecondary education institution using established benchmark institutions in order to provide equitable funding in relation to benchmarks. When they are available, CPE designates new funds for benchmark funding adjustments. KCTCS must allocate these new funds among the colleges and for systemwide operations; the system has in place a method to distribute new benchmark funding allocations in an equitable manner. The funding model generates a total systemwide funding level approximately the same as the CPE benchmark funding objective for KCTCS.

A set of data elements that may be measured objectively has been identified to drive the model, including semester credit hours, student full-time equivalency, headcount enrollment, square footage of space, and support rates based on comparison with other states. These elements are associated with the base funding level needed to provide necessary postsecondary education services; are based on comparisons with benchmark states, benchmark funding goals, and standard higher education reporting; and are reviewed annually and adjusted as indicated. Data entered and maintained in the KCTCS PeopleSoft system are used in the model.

The KCTCS public funds allocation model measures the adequacy and equity of funding for individual colleges and the system office. As such, model calculations serve as the starting point for the development of recurring budget requests. The model includes components that address all HB1 mandates for KCTCS (KCTCS n.d.).

The model is designed to calculate the public funds base allocation for each college and for system operations and support. The model is not intended to be used as an internal college budget development tool; setting college priorities and allocating funds to achieve system priorities is the responsibility of the college presidents.

The model addresses only recurring budget allocations. Nonrecurring allocations such as debt service and mandated tuition scholarship funds are allocated each year based on need and the availability of funding. The model neither allocates funds to cover all college activities (e.g., bookstores, customized training), nor does it account for all sources of funds available to the colleges (e.g., auxiliary revenue, noncredit tuition, grants, contracts, gifts).

The model is intended to apportion only a base level of public funding. It uses both internal and external measures to ensure equity and adequacy. The average salary in KCTCS benchmark states is used as the benchmark salary. Other average expenditures in KCTCS benchmark states are also used in each funding component where possible.

A comprehensive study is conducted each year to determine operating costs by instructional group. The distribution of expenditures by program classification system group in KCTCS benchmark states is examined annually.

KCTCS system operations and support funding is a component of the model. The factor used for determining the total system operations and support recurring budget is
a percentage of college allocations based on KCTCS benchmark states.

**Serving Community Needs**

The Kentucky Postsecondary Education Reform Act of 1997 (HB1) not only created KCTCS, but also identified its institutions as the primary driver of all workforce and economic development initiatives in the commonwealth. Major economic changes, including the competitive pressures of the global marketplace, changing demographics, and the need for higher-level technical and supervisory skills, are looming on Kentucky’s horizon. The KCTCS president recently held dialogue sessions with community leaders statewide that provided a stark view of the demands of the new economy and the powerful forces that threaten Kentucky’s economic stability.

The new economy has drastically changed the workplace by demanding that 21st-century Americans work more with their brains than their hands. This demand is placing increasing pressure on American workers to get more education and embrace a philosophy of lifelong learning. Employers need workers who possess the essential skills that allow them to respond to the constant technological changes in today’s world.

In response to these forces, KCTCS has launched a strategic workforce competitiveness initiative in order to reengineer its workforce training programs to align them more closely with the needs and competitive strategies of Kentucky’s businesses and industries. This initiative includes:

- New programs and delivery systems tailored to the expressed training needs of business and industry;
- Opportunities for online skills training for current workers;
- Broader outreach from KCTCS colleges to business and industry; and
- Constant responsive communication between business, industry, and KCTCS.

A well recruited, trained, and retrained workforce ensures both Kentucky’s survival and an even stronger and more resilient economy in the future.

**Measuring and Reporting Outcomes**

The determination of what to measure starts with the KCTCS strategic plan, including system goals, core indicators, measures, and targets. In the KCTCS planning process, the board of regents determines what to measure, and those items are articulated as core indicators with their own specific measures, each with a specific target. The data are then made part of the institutional enterprise resource planning system; otherwise, people’s confidence in the data is challenged. What is measured is based entirely on the strategic plan: it is clear from the beginning what is to be measured and how it will be reported. The routine of measurement keeps everyone focused on each core indicator.

It is clear what is to be measured and how it will be reported.

**Conclusion**

From its origin in 1997, KCTCS has maintained its vision of being recognized as the nation’s best comprehensive community and technical college system and has achieved a number of successes (KCTCS 2007).

- KCTCS consolidated 14 community colleges and 15 technical schools into 16 comprehensive community and technical colleges operating on 68 campuses within a 30-minute drive of 95 percent of the citizens in the commonwealth.
- KCTCS 10-year enrollment increased dramatically from 51,643 students in 1998 to 92,828 students in 2008. In 2012, KCTCS will enroll over 106,000 students.
- KCTCS students represented 45.5 percent of all undergraduate students enrolled in Kentucky’s public postsecondary institutions in 2010.
- KCTCS is the largest provider of postsecondary education and workforce training in the commonwealth, with 4,850 businesses served in 2007 via workforce initiatives.
- KCTCS awarded $460 million in financial aid to 71 percent of its students through local, state, and federal grants and loans in 2007.
- KCTCS trained nearly 160,000 individuals through community, economic development, and fire and rescue programs in 2007.
- KCTCS colleges awarded 20,970 credentials in 2006–07, representing a 560 percent increase for the decade.
• The board of regents approved or ratified 2,765 new programs, diplomas, options, and certificates over the past 10 years.
• KCTCS offers 600 credit program options.
• Enrollment in online courses increased from 1,336 students in 2000 to 23,800 students in 2007.
• KCTCS provides over 65 online credentials—degrees, diplomas, and certificates—and is the primary supplier of online programs and courses through the Kentucky Virtual Campus (formerly Kentucky Virtual University [KYVU].)
• Funded primarily by state appropriations and student tuition, KCTCS oversees a budget that has increased to approximately $900 million annually.
• During the past decade, the system board of regents authorized 54 capital projects at the 16 colleges. Projects range from renovation of existing facilities to construction of entirely new campuses.
• These successes have been achieved because of the clear advantages gained by operating as a system. The structure of KCTCS
  • Provides economies of scale;
  • Consolidates services (e.g., purchasing, payroll, budget, accounting, grants management);
  • Reduces duplication and costs by providing a system office that centralizes and simplifies functions;
  • Avoids duplication of effort, programs, services, and administration;
  • Simplifies student transfer and articulation from one college to another and from KCTCS to universities;
  • Coordinates policies and procedures;
  • Keeps tuition costs consistent across the system;
  • Combines marketing efforts resulting in projection of a common brand;
  • Results in synergy and best practices;
  • Allows KCTCS to strive toward a common vision, values, goals, and legislated mission for the colleges;
  • Allows a single audit of KCTCS financials;
  • Provides a single administrative software system;
  • Affords leverage and influence in legislative lobbies;
  • Prepares Kentuckians for high-growth, high-wage jobs in the new era;

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• Results in what is now the largest provider of postsecondary education and workforce training in Kentucky;
• Provides a home in the system office for such programs as Veterans Services, Adult Ag Program, Crisis Management, Kentucky Board of Emergency Medical Services, Fire Commission, Fire Safety and Training, Kentucky Center of Excellence in Automotive Manufacturing, and Ready-to-Work; and
• Maintains a measure of management flexibility for each college.

Of course, no transformation is without its challenges, which included those involved in implementing the new system, consolidating 29 separate institutions into 16, and requiring the colleges to have both a systemwide and a local focus.

For KCTCS, the transformation of the past decade symbolizes not only the remarkable creation and growth of the system, but the lives that have been changed as a result of the system’s success. 🌟

References