Committee Members Present:
Ms. Robert G. Cooper, Committee Chair
Ms. Ellen R. Braden
Ms. Lisa V. Desmarais
Mr. Porter G. Peeples, Sr.
Ms. Marcia L. Roth
Mr. Donald R. Tarter
Mr. Mark A. Wells

Committee Member Absent:
Mr. Barry K. Martin, Committee Vice-Chair

CALL TO ORDER
Committee Chair Robert G. Cooper called to order the meeting of the Kentucky Community and Technical College System Board of Regents Finance, Technology, and Human Resources Committee at 2:01 p.m. (ET) on March 9, 2017. The meeting was held in Conference Room 102B of the KCTCS System Office in Versailles, Kentucky. The press was notified of the meeting on March 1, 2017. Hon. Mike Murray, KCTCS General Counsel, served as parliamentarian.

There being a quorum present, the meeting began with the approval of minutes.

APPROVAL OF MINUTES
Chair Cooper asked if there were any corrections to the December 1, 2016, minutes presented in the meeting materials. There being none, the minutes were declared approved as presented.

ADDITIONS OR CHANGES TO THE AGENDA
Chair Cooper asked to add an action item to the agenda related to the increased authorization needed for the Owensboro Community and Technical College Advanced Technology Center, Phase II BuildSmart project. There was no objection, therefore the agenda item, Increased Authorization for Owensboro Community and Technical College Advanced Technology Center, Phase II – BuildSmart Project, was added to the end of the agenda.

ACTION: RATIFICATION OF PERSONNEL ACTIONS
RECOMMENDATION: That the KCTCS Board of Regents ratify the personnel actions listed in the agenda materials.
Chair Cooper called on KCTCS President Jay K. Box to present the item. KCTCS Vice President Wendell Followell assisted with the presentation. It was noted that the personnel actions presented were in accordance with reporting guidelines and policies adopted by the KCTCS Board of Regents.

Chair Cooper called for a motion.

MOTION: Ms. Braden moved and Mr. Wells seconded that the Finance, Technology, and Human Resources Committee recommend that the KCTCS Board of Regents ratify the personnel actions listed in the agenda materials.

VOTE: The motion was approved unanimously.
Chair Cooper called on President Box to present the item. Vice President Paul Czarapata assisted with the presentation.

The committee was informed that the KCTCS Technology Solutions 2016 Accomplishments Report is available via a web-based format and can be seen at https://publicsearch.kctcs.edu/publication/ts/Pages/2016AccomplishmentsReport.aspx. This is the fifth annual report.

Vice President Czarapata presented the highlights of the report to the committee.

Chair Cooper called on President Box to present the item. Vice President Followell assisted with the presentation.

President Box noted that KCTCS Board of Regents Policy 5.0 Financial Management delegates the responsibilities to perform financial management functions set forth in Kentucky Revised Statutes (KRS) 164A.550-630 (Financial Management of Institutions of Higher Education) related to the receipt, deposit, collection, retention, investment, disbursement, and accounting of all funds to appropriate officials at KCTCS: the System President, the Treasurer/Vice President of Finance, and the Assistant Treasurer.

At the December 1, 2016 Finance, Technology, and Human Resources Committee meeting, the committee expressed interest in receiving an update on the investment management services provided to KCTCS.

President Box introduced Ryan Barrow, Executive Director, and Brian Caldwell, Deputy Executive Director, from the Kentucky Finance and Administration Cabinet’s Office of Financial Management to give the committee an overview of the investment management services their office provides to KCTCS.

President Box then introduced Carolyn Greer, Managing Director from the Strategic Solutions Group Lew Wallace, and Director of Relationship Management from the Communfund to give the committee an update on the Commonfund’s investment management services provided to KCTCS.

The PowerPoint presentations are available on the KCTCS Board of Regents March 9-10, 2017 meeting website: https://publicsearch.kctcs.edu/board/Pages/201703.aspx

After the presentations, President Box distributed a letter dated March 7, 2017 titled, “Moody’s Investors Service Credit Opinion Report.” Moody’s has assigned KCTCS an enhanced rating of Aa3 with a stable outlook to the fixed rate $59 million Project 116 Agency Fund Revenue Bonds to be issued through the Kentucky State Property and Buildings Commission.
Chair Cooper called for discussion.

During the discussion, the cost of services provided by the Commonfund were reviewed. Staff stated they would perform an analysis of the fees charged versus the return benefits of investments managed by Commonfund.

Chair Cooper called on President Box to present the item. Vice President Ffollowell assisted with the presentation.

The KCTCS Board of Regents discussion of the following budget variables was needed in order to provide guidance in the development of the 2017-18 proposed budget for consideration at the June 9, 2017 Board of Regents meeting.

It was noted for fiscal year (FY) 2017-18; five percent ($9,080,300) of the KCTCS state appropriation of $181,605,000 (which includes the Kentucky Fire Commission and the Kentucky Board of Emergency Medical Services) must be placed in the new Postsecondary Education Performance Fund (the Fund).

All dollars held within the Fund are to be awarded based on performance. As KCTCS is a sector unto itself, KCTCS will receive the full appropriation held within the Fund to distribute to the colleges based on each college’s individual performance. Upon receipt of the Fund’s dollars, the total state appropriation for KCTCS will resume the balance of $181,605,000. Dollars held within the Fund are anticipated to be released by April 1, 2018.

The Postsecondary Education Funding Model Working Group was established by the 2016-18 Biennial Budget along with the Fund to develop the funding model for the allocation of the General Fund appropriation set aside for performance funding. President Box was a member of the Working Group and was successful in ensuring that KCTCS was recognized as its own sector.

KCTCS’ two-year sector performance funding model follows the same principles that are being recommended by the Working Group for Kentucky’s four-year public universities, but includes sector specific metrics of Targeted Industry; High-Wage, High-Demand; Underprepared Credentials; and, Transfers to more quickly respond to the needs of business and industry and recognize the matriculation of KCTCS students who transfer to four-year institutions.

In addition to state appropriations, the other primary source of funds to support the KCTCS operating budget is tuition revenue. In spring 2017, CPE will establish a tuition rate increase ceiling for each of the universities and KCTCS for the 2017-18 academic year. Last year, CPE approved an increase of $9 per credit hour. In the approval of last year’s increase, special consideration was given to the need for KCTCS to support measures of safety and security on its campuses.
In 2017-18, each $1 increase in KCTCS tuition per credit hour rate for Kentucky residents and rate increases for students from out-of-state will generate almost $1.3 million in new tuition revenue.

Fixed costs in property insurance and certain employee benefits are expected to increase in 2017-18, including the increased cost of retirement contributions to the Kentucky Employees Retirement System (KERS), health insurance coverage for continued participation in the state and University of Kentucky health insurance plans, workers’ compensation, long-term disability, and unemployment insurance.

KCTCS continues its commitment to sustainability by pursuing energy efficiency initiatives, including energy savings performance contracts. With the implementation of energy savings performance initiatives, increases in utilities for existing facilities are expected to be largely offset in 2017-18.

It was noted that the Board of Regents was directed in March 2015 to conduct a study to analyze KCTCS’ current classification and compensation structure for accuracy in banding and titling and market competitiveness. The Board participated in a workshop at the September 15-16, 2016 meetings where the results of the Hanna Resource Group (HRG) study of the KCTCS current compensation and classification system were presented in detail. The study assessed KCTCS employment positions in comparison to the market for both faculty and staff. At the December 2, 2016 Board of Regents meeting, the Board passed a Resolution Adopting the KCTCS Compensation and Classification Philosophy and Guiding Principles. This resolution included the Compensation and Classification Philosophy guidelines that were developed from the HRG study.

Implementation of the study is proposed to begin in 2017-18 using the Philosophy and Guiding Principles and an updated salary schedule developed to reflect current market pay. Phase I implementation of the study will bring all regular full-time faculty and staff positions up to the minimum salary of their respective new bands.

In order to address hard-to-fill and hard-to-retain positions for faculty and staff, KCTCS is proposing to employ the use of non-recurring salary supplements as a tool to enable the filling and retention of personnel in the identified hard-to-fill/retain position. Hard-to-fill/retain positions may be local in nature enabling one college to address their specific need without affecting other colleges not facing difficulty with that specific faculty or staff position. Hard-to-fill/retain positions will be reviewed and approved annually to ensure the position(s) continues to be a hard-to-fill/retain position.

Implementation of Phase I of the study over a projected 3-year period will cost approximately $1.1 million per year inclusive of benefits and market adjustments for hard-to-fill/retain positions.
As in the past, the Board must determine compensation increases for KCTCS faculty and staff for 2017-18. In 2016-17, due to a decline in state appropriations and reduced tuition revenue due to declining enrollment, KCTCS decided to forego a request of the Board of Regents to approve a salary increase. For 2017-18, each 1.0 percent salary increase for full-time faculty and staff will cost approximately $2.2 million in salary and $0.5 million in additional retirement benefits for a total of $2.7 million per 1.0 percent increase.

Additionally, each year since 1998-99, the Board of Regents has funded the cost of faculty promotions in rank. In fiscal year 2017-18, the cost of faculty promotions will be approximately $0.8 million.

Chair Cooper called for discussion.

During the discussion of the budget scenarios, the committee expressed interest in bringing faculty and staff up to the minimum pay band and other efforts to improve the retention of good employees. President Box agreed to develop budget scenarios with tuition revenue increases to accommodate compensation increases to the committee for review.

**UPDATE: KCTCS QUARTERLY FINANCIAL REPORT**

Chair Cooper called on President Box to present the item. Vice President Followell assisted with the presentation.

It was reported that information for the second quarter of fiscal year 2016-17, which ended December 31, 2016, was derived from the KCTCS Administrative Financial System. The Statement of Revenues and Expenditures reflects the actual program and operational expenditures compared to the fiscal year 2016-17 budget approved by the KCTCS Board of Regents on June 10, 2016.

Total revenues of $501 million reflect 60 percent of the budgeted revenue and appropriated funds. Current fund expenditures and budget reserve through the fiscal year total $240 million, 29 percent of the expenditures budgeted for the year. As of the end of the first quarter, tuition and charges realized to date are up $3.7 million as compared to the same period ending December 31, 2015. Total expenditures realized to date are down $29.3 million as compared to the same period ending December 31, 2015. Total revenues over expenditures are up $14.6 million as compared to the same period ending December 31, 2015. The Statement of Net Position, although not specifically required in the Board’s Annual Budget Adoption Resolution, has also been included in the Quarterly Financial Report to give the Board a periodic snapshot of the KCTCS financial position using the most common accounting-based schedule.

**UPDATE: SUPPLIER DIVERSITY REPORT**

Chair Cooper called on President Box to present the item. Vice President Followell assisted with the presentation.

KCTCS defines diverse suppliers as those businesses owned by ethnic minorities, women, veterans, or the physically challenged. Fiscal year (FY) 2017 data indicates that KCTCS has spent $1.7 million (6.4 percent) of a
total $26.9 million in impactable discretionary spend with diverse suppliers. Dollars spent with diverse suppliers was less in FY 2017 (6.4 percent) as compared to 2016 (12.6 percent). Dollars spent with all suppliers decreased in FY 2017 (8.1 percent) as compared to 2016 due to continued tight budgetary constraints of flat state appropriations and lower tuition revenues due to enrollment declines.

On October 3, 2016, KCTCS received the 2016 Corporate Champion of Diversity Award at the Lexington’s Urban League Annual Empowerment Banquet. KCTCS received this award in recognition of activities, community relations, workplace representation, and use of suppliers. KCTCS was selected because of the many initiatives, processes, and procedures that have been successfully implemented over the last several years.

It was noted that on October 12, 2016, KCTCS held the fourth annual KCTCS Supplier Diversity Fair at the Frankfort Convention Center. More than 200 guests and exhibitors attended this event.

**UPDATE: OFFICE OF AUDIT SERVICES**

Chair Cooper called on Mr. Glenn Paige, Office of Audit Services (OAS) Director, to provide a semi-annual report on the activities of the OAS.

The OAS conducts internal audits of KCTCS colleges and system-level departments, as well as special reviews requested by KCTCS management. Due to reorganization within KCTCS, Audit Services now reports to the KCTCS General Counsel.

There were seven special reviews due to a college or financial leadership change conducted thus far for FY 2016-17. Eleven audits have been completed thus far for the FY 2016-17 and it has been concluded that KCTCS is operating within expected norms and risk levels.

For Gateway Community and Technical College, a review was completed in January 2017 with no reportable findings. A review was completed for Madisonville Community College in December 2016 with no reportable findings. Elizabethtown Community and Technical College, Hazard Community and Technical College, Maysville Community and Technical College, Southeast Kentucky Community and Technical College, and West Kentucky Community and Technical College will receive audits March through May 2017 due to leadership changes.

A special review for Student Financial Aid performed on-going tests of Return to Title IV funds for random samples of students who received financial aid, but withdrew during the semester. These tests and other procedures are in response to external audit findings from prior A-133 audits of federal funds, from which the KCTCS Board of Regents and President Box directed that significant improvements be made to strengthen and standardize processes within the student financial aid process. Results from the Uniform Guidance (formerly A-133) audit by our external auditors, Crowe Horwath, for FY 2016, indicated a reduction in findings: from 7 findings and 45 instances in 2015, to 3 findings and 15 instances in 2016.
Another special review was performed at Madisonville Community College for the Madisonville Community College Workforce Solutions department. A complaint filed by a Workforce Solutions employee of Madisonville Community College alleged that certain grant funds were not being used in accordance with their intended purpose. The grants in question are Accelerated Opportunities; Workforce Innovation and Opportunity Act; and Kentucky Coal Academy. A review of the grant funds in question was conducted back to FY 2014, along with interviews of college personnel familiar with these grants. No evidence of misuse of grant funds was found.

KCTCS overall risk profile is low based on this assessment. For FY 2016-17, the highest relative risk units are Student Financial Aid at a 2.9 medium risk; Federal and State Grants and Contracts at a 2.8 medium risk; and Human Resources/Organizational Development at a 2.6 medium risk.

Chair Cooper called for discussion.

The timing of leadership changes and college audits were discussed. Staff reported that the audits are on track and time spent on the college campuses has been reduced.

RECOMMENDATION: That the KCTCS Board of Regents approve an increased authorization of $3,000,000 for the Owensboro Community and Technical College’s BuildSmart project for the construction of the Advanced Technology Center – Phase II, increasing the total authorization of the project from $12,000,000 to $15,000,000.

Chair Cooper called on KCTCS President Jay K. Box to present the item. KCTCS Vice President Wendell Followell assisted with the presentation.

It was noted that KCTCS was notified by the Kentucky Finance Cabinet officials of an issue with the Owensboro BuildSmart project on March 7, 2017. KRS 45.760(6) requires that capital construction projects with a scope greater than $1,000,000 be approved by the KCTCS Board of Regents and submitted to the CPE for approval.

On April 26, 2016, the Peyronnin Construction Company was awarded the construction contract for Phase II of the Owensboro Advanced Technology Center for $8,572,805. The contract completion date was August 24, 2017. On January 9, 2017, Peyronnin Construction filed for Chapter 7 bankruptcy. The project was approximately 30 percent complete at that time.

The project has a 100 percent surety bond. The week of March 5, 2017, the bankruptcy court released the surety company to complete the construction contract. In an agreement between the Commonwealth of Kentucky Finance and Administration Cabinet and the surety company, the Cabinet will enter into a construction contract with Danco Construction for completion of the project. The surety company will reimburse any difference between the current contract price and the new negotiated contract price for the project’s
completion. It is anticipated the new contract price will exceed the original contract price.

Additional authorization from the Capital Project Bond Oversight Committee of the Kentucky General Assembly will be required for the new contract price. Therefore, the KCTCS Board of Regents is requested to approve an authorization increase of $3,000,000 to cover the additional anticipated costs. The surety company will absorb all additional costs. The Board approved the original project at $12 million in December 2014 with the rest of BuildSmart projects.

Chair Cooper called for a motion.

MOTION: Mr. Wells moved and Ms. Desmarais seconded that the Finance, Technology, and Human Resources Committee recommend that the KCTCS Board of Regents approve an additional authorization of $3,000,000 for the Owensboro Community and Technical College’s BuildSmart project for the construction of the Advanced Technology Center – Phase II, increasing the total authorization of the project from $12,000,000 to $15,000,000.

VOTE: The motion was approved unanimously.

NEXT MEETING

The next regularly scheduled Finance, Technology, and Human Resources Committee meeting is for June 8, 2017 at Somerset Community College, Somerset, Kentucky.

ADJOURNMENT

Mr. Wells moved and Mr. Tarter seconded that the Finance, Technology, and Human Resources Committee adjourn.

VOTE: The motion was approved unanimously. The Finance, Technology, and Human Resources Committee meeting adjourned at 3:27 p.m. (ET).