

MINUTES
KCTCS Board of Regents
Finance, Technology, and Human Resources Committee
September 14, 2017

Committee Members Present:

Ms. Lisa V. Desmarais, Committee Chair
Mr. Barry K. Martin, Committee Vice-Chair
Dr. Gail R. Henson
Ms. Mary R. Kinney

Mr. Gavin B. Posey
Mr. Donald R. Tarter
Mr. Mark A. Wells

CALL TO ORDER

Committee Chair Lisa V. Desmarais called to order the meeting of the Kentucky Community and Technical College System Board of Regents Finance, Technology, and Human Resources Committee at 2:15 p.m. (CT) on September 14, 2017. The meeting was held in Room C90 of the John H. Gray Building at Madisonville Community College. The press was notified of the meeting on September 6, 2017. Hon. Mike Murray, KCTCS General Counsel, served as parliamentarian.

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

**WELCOME OF NEW
COMMITTEE
MEMBERS**

Chair Desmarais extended a welcome on behalf of the Finance, Technology, and Human Resources Committee to Dr. Gail Henson, as a newly assigned committee member. Dr. Henson is the Vice Chair of the Board of Regents and previously served on the Academic Affairs and Curriculum Committee. She welcomed Ms. Mary Kinney, as a newly assigned committee member. Ms. Kinney is the elected staff representative from Owensboro Community and Technical College and she previously served on the Academic Affairs and Curriculum Committee. Chair Desmarais welcomed Mr. Gavin Posey, as a newly assigned committee member. Mr. Posey is one of the newly elected student representatives from West Kentucky Community and Technical College to the Board.

**APPROVAL OF
MINUTES**

Chair Desmarais asked if there were any corrections to the June 8, 2017, minutes presented in the meeting materials. There being none, the minutes were declared approved as presented.

**ADDITIONS OR
CHANGES TO THE
AGENDA**

There were no additions or changes to the agenda.

**ACTION:
RATIFICATION OF
PERSONNEL
ACTIONS**

RECOMMENDATION: That the KCTCS Board of Regents ratify the personnel actions listed in the agenda materials.

Chair Desmarais 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.

President Box shared some background on the reporting of the Personnel Action. He noted that on March 19, 1998, the Board of Regents delegated to the KCTCS President the authority to administer personnel actions, with such actions to be presented to the Board for review and ratification at each regularly scheduled Board meeting. Personnel actions occur regularly throughout the year and those personnel actions are allowed to take place, subject to Board of Regents ratification at the next Board meeting.

President Box noted that the format of this agenda item was developed in consultation with the Board of Regents and has been used for the past several years to provide the Board basic information for its action, without providing unnecessary detailed data.

President Box also shared that beginning with this report, the personnel actions will now reflect the number of current full-time regular vacant positions that are in the System.

Chair Desmarais called for discussion. There being none, she called for a motion.

MOTION: Dr. Henson moved and Mr. Tarter 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.

***ACTION: THE
KENTUCKY WORK
READY SKILLS \$100
MILLION BOND POOL
– KCTCS PROJECT
AWARDS – ROUND
TWO***

RECOMMENDATION: That the KCTCS Board of Regents approve the renovation of the Welding Facility Training Lab at Hopkinsville Community College awarded in the second round of the Kentucky Work Ready Skills Initiative, a \$100 million statewide bond program led by the Kentucky Education and Workforce Cabinet.

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

President Box noted that the Kentucky Work Ready Skills Initiative is aimed at building a highly trained, modernized workforce in the Commonwealth to meet the needs of employers and promote sustainable incomes for Kentuckians. The initiative encourages private sector employers, high schools or secondary technical schools, and postsecondary institutions, among other entities, to develop partnerships and submit applications for the construction and equipping of new facilities; renovations or upgrades of facilities; or the purchase of new or upgraded equipment, software, or furnishings that will aid in workforce training and education.

It was noted that Kentucky Revised Statute (KRS) 45.760(7) requires that an unbudgeted capital construction project with a scope greater than \$1,000,000 be approved by the KCTCS Board of Regents and submitted to CPE for approval. In December 2016, the Board approved ten projects over \$1,000,000 in which KCTCS would serve as the fiscal agent, to be funded by the Work Ready Skills Initiative Pool. Seven of the ten projects were included as finalists in Round One of the awards.

The Welding Facility Training Lab at Hopkinsville Community College (HCC) was part of a Round Two award to Christian County for a total of \$4.3 million. HCC will receive \$2.3 million of the \$4.3 million dollar award. Since the award amount is greater than \$1.0 million, Board approval is required.

Chair Desmarais called for discussion. There being none, she called for a motion.

MOTION: Mr. Martin moved and Ms. Kinney seconded that the Finance, Technology, and Human Resources Committee recommend that the KCTCS Board of Regents approve the renovation of the Welding Facility Training Lab at Hopkinsville Community College awarded in the second round of the Kentucky Work Ready Skills Initiative, a \$100 million statewide bond program led by the Kentucky Education and Workforce Cabinet.

VOTE: The motion was approved unanimously.

**ACTION: KCTCS
INTERIM PROJECT
APPROVAL SCOPE
INCREASE:
PIKEVILLE
TECHNOLOGY
CENTER**

RECOMMENDATION: That the KCTCS Board of Regents approve the scope increase of \$1 million for the construction of the Technology Center to be located on the Pikeville Campus of the Big Sandy Community and Technical College.

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

President Box noted that in 2015 KCTCS received approval to construct an approximate 15,000 square foot technology center with classroom space, lab space, and a high bay training area to house a telecommunications-training project on the Pikeville campus of Big Sandy Community and Technical College.

The project was originally awarded to Pikeville University; switching the project from Pikeville University to Big Sandy Community and Technical College resulted in several delays, as did filing several responses to the Army Core of Engineers about construction specifications.

When bids for construction were received, the bids came in over the project budget.

Grant requirements require the facility to be under construction by December 30,

2017. The current scope of the Pikeville Technology Center is \$4,500,000. This project is funded with \$3,278,000 of grant funds and \$1,222,000 matching agency funds. Matching agency funds need to be increased by \$1 million to bring the scope to \$5,500,000.

Chair Desmarais called for discussion.

During the discussion, it was noted that this is a great opportunity for Big Sandy Community and Technical College.

MOTION: Mr. Martin moved and Mr. Posey seconded that the Finance, Technology, and Human Resources Committee recommend that the KCTCS Board of Regents approve the scope increase of \$1 million for the construction of the Technology Center to be located on the Pikeville Campus of the Big Sandy Community and Technical College.

VOTE: The motion was approved unanimously.

**ACTION: KCTCS
2018-2020 BIENNIAL
BUDGET REQUEST**

RECOMMENDATION: That the KCTCS Board of Regents approve the 2018-20 Biennial Budget requests, operating and capital, for KCTCS to be submitted to the Council on Postsecondary Education (CPE). Statutorily, KCTCS must submit its requests, operating and capital, by November 15, 2017. The KCTCS operating and capital requests will be developed in cooperation with the CPE guidelines.

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

President Box reminded the Board that to formulate the budget, the higher education institutions work through the Council on Postsecondary (CPE). It is well understood that the general funds will be limited so the higher education institutions have agreed not to request full funding restoration in 2018; rather, they are putting forth limited and targeted funding requests. Additionally, addressing the need for restoring public pension funding is likely going to the General Assembly's first priority.

The biennial budget request for operating funds for KCTCS per the guidelines developed by CPE is as follows:

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Base Appropriation	\$181,605,000	\$181,605,000	\$181,605,000
Performance Funding	-		
1. Performance Funding - Inflationary Increase*	-	4,379,400	8,758,800

2. Student Performance Metrics -Growth in Outcomes	-	-	4,159,700
Dual Credit Course Expense**	-	11,700,000	11,700,000
Workforce Trust Funds***	-	5,000,000	5,000,000
Competitive Workforce Initiative****	-	19,100,000	19,100,000
KERS/KTRS Pension Support*****	-	3,300,000	2,300,000
Total** ****	\$181,605,000	\$225,084,400	\$232,623,500

** Assumes that the State funds half of inflationary cost increases each year of the upcoming biennium, calculated by applying a 2.0% annual inflation factor to 2015-16 Educational and Related spending, and that the other half of the cost increases are funded with net tuition and fee revenue. Distribution of these funds would not be growth dependent, but distributed in their entirety, regardless of whether outcome levels increase, decrease, or remain the same.*

***Dual Credit Course Expense: KCTCS is requesting consideration for funding to support the increasing costs of dual credit. The request for support is calculated by totaling expenses and foregone tuition and fees based on FY 2016-17actuals and adding in the FY 2017-18 tuition rate increase (3.85%).*

**** CPE anticipates inclusion of a request of \$5.0 million in bond funds earmarked for KCTCS within the request for “Bucks for Brains.” The funds would establish a Workforce Endowment with KCTCS to provide a dollar for dollar match.*

***** KCTCS is requesting recurring funding to target the areas of Health Care, Advanced Manufacturing, Transportation/Logistics, Business Services/Information Technology, and Construction/Trades. As the only higher education institution in Kentucky statutorily mandated to provide workforce education and training, KCTCS has a pivotal role in addressing Kentucky’s skilled labor shortage and meeting the needs of business and industry.*

****** This request reflects consideration for the fact that state pension costs continue to escalate at an ever-increasing rate. Discussion of increases as high as 66 percent for the KERS could occur by the end of 2018-2020 without pension reform. To offset this possible increase, KCTCS assumed a KERS increase of 10.53% in FY 2019 and 6.0% increase in FY 2020. KCTCS assumed a 3.0% increase for KTRS in FY 2019 and a 3.0% increase in FY 2020.*

******Total reflects anticipated achievement of all performance funding measures, workforce trust funds, competitive workforce initiative, and KERS/KTRS pension support.*

For 2016-18, the Capital Budget Request is \$514,500,000. The KCTCS President has worked with the 16 KCTCS college presidents, university presidents and the CPE President to develop a biennial capital budget request that fully meets the capital needs of KCTCS for 2018-20.

The proposed KCTCS 2018-20 biennial capital budget request:

- Recognizes the economic situation facing the Commonwealth of Kentucky in the 2018-20 biennium.
- Recognizes the need for an additional general fund appropriation for each institution of postsecondary education.
- Provides opportunity for the institutions and the CPE to cooperatively seek additional funding.

The proposed KCTCS 2018-20 biennial capital budget request is based on the *KCTCS 2018-24 Six-Year Capital Plan* [compiled from project information submitted by the 16 KCTCS college presidents through a Strategic Needs Analysis (SNA) submitted pursuant to statute to the Legislative Capital Planning Advisory Board.]

President Box noted that at the time of the development of this agenda item, CPE Staff's final recommendations concerning KCTCS requests were not yet known. Therefore, all requests, operating and capital, discussed with CPE Staff are included.

Chair Desmarais called for discussion.

During the discussion, it was noted that the KERS/KTRS proposed rates have gone from 66 percent to 84 percent so that the current budget request of \$3.3 million and \$2.3 million may change to reflect the increased rate.

President Box also shared that every college has a capital project and the projects have been prioritized according to the rubric. The first two capital projects are BuildSmart projects for construction, as the first stage of these projects were for design only.

MOTION: Mr. Martin moved and Dr. Henson seconded that the Finance, Technology, and Human Resources Committee recommend that the KCTCS Board of Regents approve the 2018-20 Biennial Budget requests, operating and capital, for KCTCS to be submitted to the Council on Postsecondary Education (CPE). Statutorily, KCTCS must submit its requests, operating and capital, by November 15, 2017. The KCTCS operating and capital requests will be developed in cooperation with the CPE guidelines.

VOTE: The motion was approved unanimously.

**UPDATE: KCTCS
QUARTERLY
FINANCIAL REPORT**

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

It was reported that information for the fourth quarter of fiscal year 2016-17, which ended June 30, 2017, 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 \$787 million reflect 94 percent of the budgeted revenue and appropriated funds. Current fund expenditures and budget reserve through the fiscal year total \$702 million, 84 percent of the expenditures budgeted for the year. As of the end of the fourth quarter, tuition for 2016-17 was at 100 percent received.

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. While significantly influenced with declining enrollment and associated tuition shortfalls, the reduction in state appropriation and the negative effect of the state's pension liability, KCTCS's Statement of Net Position remains fiscally sound at \$505 million as of June 30, 2017.

Chair Desmarais called for discussion.

During the discussion, questions regarding KCTCS long-term investments in the stock market were asked. It was noted that KCTCS investments are compared with other postsecondary institutions at one, three, and five-year intervals and KCTCS is competitive with their investments.

Chair Desmarais called for discussion. There being none, she moved to the next agenda item.

**UPDATE: SUPPLIER
DIVERSITY REPORT**

Chair Desmarais 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 \$3.1 million (6.2 percent) of a total \$51.4 million in impactable discretionary spend with diverse suppliers. Dollars spent with diverse suppliers was less in FY 2017 (6.2 percent) as compared to 2016 (9.4 percent). Dollars spent with all suppliers decreased due to continued tight budgetary constraints of flat state appropriations and lower tuition revenues due to enrollment declines.

President Box noted that the total does not reflect a purchase that was ordered, but not received, in FY 2016-17 of \$935,000. The purchase will be counted in the FY 2017-18 expenses.

On September 20, 2017, KCTCS will host the fifth annual KCTCS Supplier Diversity Fair at the Frankfort Convention Center. More than 200 guests and up to 60 exhibitors are expected to attend. Buyers and officials from other organizations and suppliers such as Commerce Lexington, Lexington-Fayette Urban County Government, Fayette Co. Public Schools, UK, U of L, and others will be in attendance. The event includes not only the opportunity for diverse suppliers to highlight their business, but also breakout sessions instructing diverse suppliers on how to increase their opportunities to do business with KCTCS.

Chair Desmarais called for discussion. There being none, she moved to the to the next agenda item.

**UPDATE: OTHER
POSTEMPLOYMENT
BENEFIT (OPEB)
TRUST**

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

President Box noted that at the December 2012 KCTCS Board of Regents meeting, this committee recommended and the Board of Regents approved by resolution to establish an Other Post-Employment Benefits (OPEB) Trust for the health insurance benefit of eligible employees in KCTCS 403(b) retirement plans.

As of June 30, 2017, the KCTCS Section of 115 IRR Trust is fully funded with \$186 million in assets and \$163 million in liabilities. The liability is actuarially calculated based on factors such as current and projected levels of trust funding, changes, and projected changes in the number of participants expected to draw against the trust, current and future projected health care rates, and the trust's current value and projected earnings from investments.

Chair Desmarais called for discussion.

During the discussion, it was noted that once everyone is out of the pool, any remaining money in the pool can be rolled over and the asset would come back to the Board for it to be determined how to use the asset.

**UPDATE:
TECHNOLOGY
SOLUTIONS REPORT**

Chair Desmarais called on President Box to present the item. Vice President Paul Czarapata assisted with the presentation.

It was noted that Technology Solutions are continuing one-day training summits at the colleges to give faculty and staff exposure to software such as OneDrive, SharePoint, Office 365, security best practices, and advising. There are four Summits scheduled for this fall at Ashland Community and Technical College,

Henderson Community College, West Kentucky Community and Technical College, and Southeast Kentucky Community and Technical College. In addition to the Summits, System Office Technology Solutions staff make regular college visits to engage with college staff and share ways that they can help with training, technology, reporting, etc.

The KCTCS Mobile Application has been around 2.5 years now and has a 4.8 out of 5 star rating in the Apple store and 4.4 out of 5 star rating in the Android store. Several marketing campaigns have been run at the colleges to raise awareness and increase usage of the apps. Over 45,000 students use the app.

Vice President Czarapata gave a brief demonstration of the sign-on experience with the MyPath Single Sign-On that the System Office Technology Solutions department developed to help faculty, staff, and students. MyPath offers one point of entrance to several technology systems.

Chair Desmarais called for discussion. There being none, she moved to the to the next agenda item.

**UPDATE: OFFICE OF
AUDIT SERVICES
REPORT**

Chair Desmarais 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 18 audits completed thus far for the FY 2016-17 and it has been concluded that KCTCS is operating within expected norms and risk levels.

Two audits were performed due to college leadership changes. The audit performed at Henderson Community College had five reportable findings and the audit at Hazard Community and Technical College showed one reportable finding. There are four additional audits expected due to presidential or financial leadership changes at Elizabethtown Community and Technical College, Maysville Community and Technical College, Southeast Kentucky Community and Technical College and West Kentucky Community and Technical College.

Standard audit reviews included the System Office non-payroll payment processes with one reportable finding, and the Environmental Health and Safety Compliance with no reportable findings.

Special reviews were conducted for Student Financial Aid including Return to Title IV funds, Elizabethtown Community and Technical College cash security after a relocation of the Business Affairs office on campus, and a compliant-based special review on complaints involving outside employment and misuse

of employee time.

KCTCS overall risk profile is low based on this assessment. For FY 2018, the highest relative risk units are Student Financial Aid at a 2.8 medium risk; Federal and State Grants and Contracts at a 2.5 medium risk; and Human Resources/Organizational Development at a 2.5 medium risk.

The FY 2018 Audit Plan was developed in May 2017. It calls for scheduled routine audits of Treasury Operations, Veterans Affairs, and the KY Center for Excellence in Automotive Manufacturing, and college visits to Ashland, Owensboro, and Southcentral. It also includes ongoing review of Return to Title IV calculations in Student Financial Aid and external audit assistance.

Chair Desmarais called for discussion. There being none, she moved to announce the next meeting dates.

NEXT MEETING

The next regularly scheduled Finance, Technology, and Human Resources Committee meeting is for November 30, 2017, at the KCTCS System Office, Versailles, Kentucky.

ADJOURNMENT

Dr. Henson moved and Mr. Posey 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 3:56 p.m. (ET).

11/30/17

Date Approved by the
Finance, Technology, and Human
Resources Committee

Lisa V. Desmarais
Committee Chair