

MINUTES
KCTCS Board of Regents
Finance, Technology, and Human Resources Committee
March 15, 2018

Committee Members Present:

Ms. Lisa V. Desmarais, Committee Chair
Mr. Barry K. Martin, Committee Vice-Chair
***Mr. Martin left the meeting at 2:30 p.m.*
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 1:30 p.m. (ET) on March 15, 2018. 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 7, 2018. Honorable Michael Murray, KCTCS General Counsel, served as parliamentarian.

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

APPROVAL OF MINUTES

Chair Desmarais asked if there were any corrections to the November 30, 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.

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

MOTION: Dr. Henson moved and Mr. Martin 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.

DRAFT

INFORMATION: KCTCS BUDGET SCENARIOS

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

A discussion involving budget assumptions was needed in order to provide guidance in the development of the 2018-19 proposed budget for consideration at the June 15, 2018 Board of Regents meeting.

President Box provided an overview of the 2018-20 biennial state appropriations to KCTCS as proposed by Governor Bevin during his state budget recommendation to the Kentucky General Assembly:

<u>Budget Year</u>	<u>Operating Base</u>	<u>Perf. Funding</u>	<u>Enacted Red.</u>	<u>Total Enacted/Proposed</u>
2017-18	\$172,524,800	\$9,080,200	\$1,816,100*	\$179,788,900*
2018-19	\$166,729,000	-	-	\$166,729,000**
2019-20	\$166,034,00	\$1,695,000	-	\$166,729,000**

** Governor enacted a 1 percent mid-year reduction from KCTCS's initial enacted state appropriation for 2017-18.*

*** In 2018-19, the Governor's proposed budget is reflective of the following: the initial enacted 2017-18 budget of \$181,605,000 less the Adult Agriculture budget of \$1,410,600 and the Kentucky Coal Academy budget of \$2,350,100. This equates to \$177,844,300 as an adjusted base from which the 6.25 percent state appropriation reduction is applied. Using the revised base of \$177,844,300 a 6.25 percent reduction equates to \$11,115,300. This brings the recommended 2018-19 state appropriation to \$166,729,000.*

In 2019-20 the executive budget also requires 1 percent of the total college state appropriation allocable resources (\$1,695,000 as calculated from the 2017-18 Performance Funding Model) to be reallocated in 2019-2020 to the Postsecondary Education Performance Fund. Distribution from the Postsecondary Education Performance Fund to KCTCS requires performance funding metric achievement. The 2019-20 recommended executive budget for KCTCS is \$165,034,000 reflective of the \$1,695,000 transferred to the Postsecondary Education Performance Fund.

In addition to state appropriations, the other primary source of funds to support the KCTCS operating budget is tuition revenue. In spring 2018, CPE will establish a tuition rate increase ceiling for each of the universities and KCTCS for the 2018-19 academic year. Last year, CPE approved an increase of \$6 per credit hour, a 3.8 percent increase.

In 2018-19, 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 \$1.275 million in new tuition revenue.

President Box noted that as a means to preserve depreciating assets for the universities and KCTCS, the CPE is also considering allowing institutions to assess a new dedicated student charge for asset preservation and renovation projects. For KCTCS, the proposed charge is up to \$5 per credit hour. If adopted and implemented, the charge could begin in fall 2018. The revenue generated through the charge would be restricted for maintenance and improvement costs for assets maintained on KCTCS campuses, or to pay debt service on agency bonds, if the bonds were issued to finance such projects.

Fixed costs in property insurance and certain employee benefits are expected to increase in 2018-19, 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 marginally offset in 2018-19. However, new facilities per the BuildSmart and Work Ready Skills Bond Initiatives are expected to come online in 2018-19 resulting in increased utility costs.

The KCTCS Board of Regents is responsible for determining salary schedules for KCTCS faculty and staff. In 2017-18, KCTCS implemented Phase I of the Compensation and Classification Study completed by the Hanna Resources Group. Phase I of the Study included funding all positions to the new band minimum, provided for hard to fill adjustments, and provided for a 3 percent salary increase for all regular full-time employees receiving a meets or above merit rating.

Feedback requested to determine employee wage and salary increases for fiscal year 2018-19 due to the anticipated decline in state appropriation and the economic reality of increased tuition. Additionally, each year since 1998-99, the Board of Regents has funded the cost of faculty promotions in rank.

Chair Desmarais called for discussion.

During the discussion, President Box and Vice President Followell addressed questions related to cost of salary increases, management of endowment funds, and tuition increases. President Box stated that at this time he is not recommending implementation of Phase II of the Compensation and Classification Study, as it is not financially feasible. The committee confirmed

DRAFT

they would support a \$6 to \$7 increase in tuition because KCTCS tuition is still significantly less than the other public postsecondary institutions and the majority of students receive federal financial aid. The committee also asked the staff to prepare the analysis of a 1 to 2 percent cost of living increase, but noted that implementing such an increase may not be realistic in a year when colleges and the System Office will be reducing budgets.

Chair Desmarais moved to the next agenda item.

UPDATE: OTHER POSTEMPLOYMENT BENEFIT (OPEB) TRUST

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 OPEB Trust was established in March of 2013 and First Financial Bank of Cincinnati has acted as the trustee since that date. Because of market changes and reaching the five-year milestone, a revisiting of trustee services was warranted. In order to perform due diligence for the services and pricing, KCTCS issued a request for proposal (RFP) for trustee services in December 2017. Four vendors responded with qualified proposals.

A KCTCS OPEB Trust Administrative Committee reviewed the proposals and conducted interviews with the Respondents. Chair Desmarais attended the interviews, but did not vote on the selection of the trustee.

President Box noted that the new contract documents are in the final stages execution. It is expected that when the new contract when finalized, saving will be approximately \$140,000 per year, a 70 percent savings as compared to the current contract.

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

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 second quarter of fiscal year 2017-18, which ended December 31, 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 2017-18 budget approved by the KCTCS Board of Regents on June 9, 2017.

Total revenues of \$516,674 million reflect 61 percent of the budgeted revenue and appropriated funds. Current fund expenditures and budget reserve through the fiscal year total \$378,039 million, 44 percent of the expenditures budgeted for the year.

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 by the state's pension liability, KCTCS's Statement of Net Position remains fiscally sound at \$609 million as of December 31, 2017.

Chair Desmarais called for discussion.

During the discussion, questions regarding the sale of KCTCS property could generate revenue were asked. The committee was told that KCTCS is exploring this option.

Chair Desmarais 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 \$3.5 million (11.4 percent) of a total \$31.4 million in impactable discretionary spend with diverse suppliers. Dollars spent with diverse suppliers was more in FY 2018 (11.4 percent) as compared to 2017 (6.4 percent).

President Box noted that there was a decline in minority owned business spend. In analyzing the decline, it was discovered that a number of the purchases in the prior year were for products and services that were of a non-repetitive nature (one-time purchases).

On September 20, 2017, KCTCS hosted the fifth annual KCTCS Supplier Diversity Fair at the Frankfort Convention Center. Other events that occurred were the Minority Business Expo, Commerce Lexington Business Link, Procurement Technical Assistance Center Reverse Trade Show, Tri-State Minority Development Council, and the National Association of Women Business Owners.

In October 2017, staff began attending monthly roundtable meetings with the purpose of sharing diversity best practices with representatives from Fayette County Public Schools, Lexington-Fayette Urban Co. Government, UK, Valvoline, and others. The November roundtable was hosted at the System Office.

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

DRAFT

UPDATE: TECHNOLOGY SOLUTIONS REPORT

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

Vice President Czarapata reviewed the KCTCS Cybersecurity programs and methods that are implemented to protect KCTCS data. In 2017, emails received totaled 186,000,000 for KCTCS. The KCTCS Technology Solutions department blocked over 1 billion spam, phishing, and malware attempts.

Vice President Czarapata gave a presentation on KCTCS Cybersecurity at the Finance, Technology and Human Resources Committee. It is available at:

<https://publicsearch.kctcs.edu/board/Pages/201803.aspx>

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. Mike Murray, KCTCS General Counsel to introduce Mr. Brian Higgs, Office of Audit Services (OAS), 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. Due to budgetary constraints and phased retirement, current internal staffing is 1.5 auditors. To compensate for reduced staff and maintain a normal audit workload, the audit scope and techniques have been modified.

There were 6 audits completed thus far for FY 2017-18 and it has been concluded that KCTCS is operating within expected norms and risk levels. The audit plan for the remainder of the year is focused on colleges with presidential and financial leadership changes, special management reviews, and fieldwork assistance for the external auditors.

Two audits were performed due to college leadership changes. The audit performed at Elizabethtown Community, Technical College had five reportable findings and the audit at Southeast Kentucky Community, and Technical College showed one reportable finding. Four additional audits will occur in spring 2018.

Three special reviews were conducted including Student Financial Aid, Jefferson Community and Technical College Purchasing Contracts, which showed three reportable findings, and Automotive Manufacturing, and Technical Education (AMTEC).

In addition to the audits, the Office of Audit Services has been working with Crowe Horwath to perform tests of students receiving financial aid, grant and contract expenditures, and numerical data contained in A-133 report. These tests, conducted in spring 2018 and summer 2018 help to reduce out-of-pocket costs for KCTCS.

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.

OAS has begun to participate in reviews of KCTCS Policies and Procedures; OAS does not recommend new policies or procedures but rather provides comments as to the applicability of suggested revisions.

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 June 14, 2018, at Gateway Community and Technical College, Florence, Kentucky.

ADJOURNMENT

Dr. Henson moved and Ms. Kinney 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 3:35 p.m. (ET).

06/14/18

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

Lisa V. Desmarais
Committee Chair

