

**Kentucky Chamber**

*Uniting Business. Advancing Kentucky.*

# Funding Postsecondary Education in Kentucky



JUNE 2016

## Introduction

*“An investment in knowledge pays the best interest.”*

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Benjamin Franklin’s words resonate today more clearly than ever, reflecting the well-established reality that higher levels of education increase income, improve health, lower involvement with the criminal justice system, and reduce reliance on public assistance and other social services.

Specifically in terms of annual earnings, a new employee in Kentucky with some college or an associate degree earns \$2,700 more per year on average than a Kentuckian with a high school or equivalent diploma; those with a bachelor’s degree or higher earn \$16,660 more.<sup>1</sup>

That level of education – beyond high school – has become a necessity in today’s economy as an estimated 62% of jobs in Kentucky will require some form of postsecondary education by 2020.<sup>2</sup> With only 32.5% of Kentuckians between the ages of 25 and 64 having an associate degree or higher (compared to 40.4% nationally), Kentucky has a lot of ground to make up.<sup>3</sup>

To understand the challenges facing Kentucky in funding postsecondary institutions it is important to have a clear understanding of the funding trends of the past decade. Toward that end, this issue brief will:

- Provide a brief description of Kentucky’s postsecondary education funding approach
- Document levels of state funding and sources of other funds for postsecondary institutions
- Identify trends in postsecondary education funding in Kentucky
- Compare Kentucky with other states

## Funding Approach

In 2000, the Kentucky Council on Postsecondary Education adopted a benchmark funding model for the budget request it submitted to the General Assembly on behalf of the state’s postsecondary institutions. The model calculated funding need per full-time student relative to a set of peer institutions. Benchmarks used in the model included such items as:

- Debt service and mandated programs (that have no student enrollment)
- Tuition and fees revenue standard deduction
- Enrollment
- Adjustments for maintenance, the operation of new facilities and similar items<sup>4</sup>

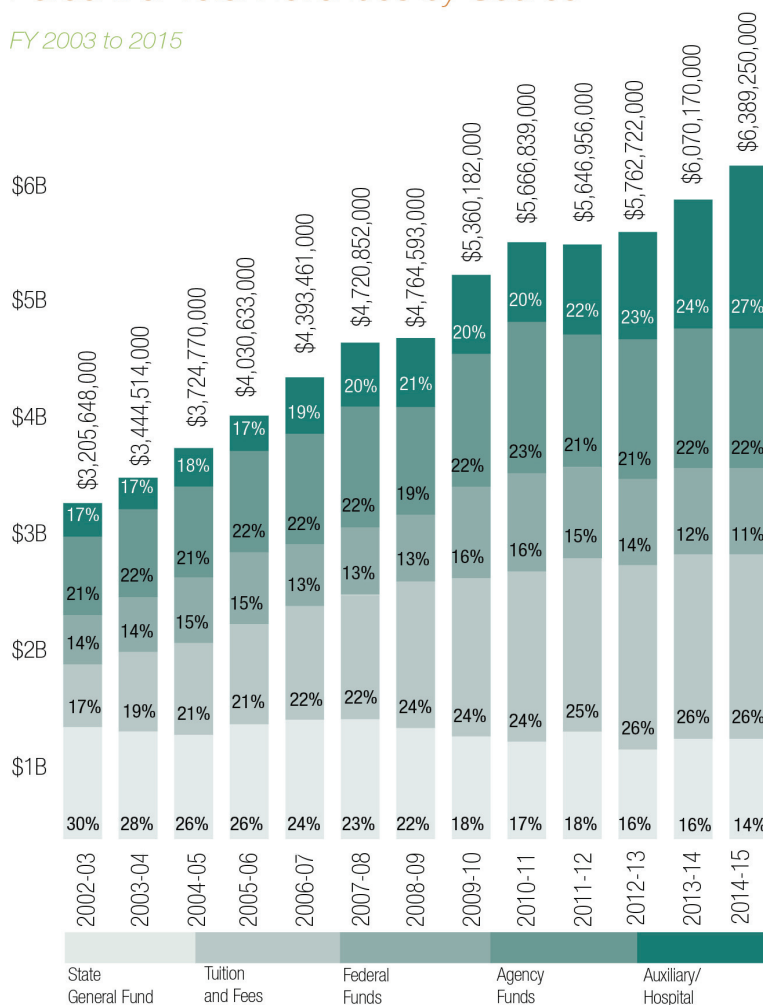
This model was abandoned around 2005 in favor of the current funding model, which distributes state funds based on retaining from one year to the next the percentage share each institution receives of state postsecondary appropriations. Whether the total General Fund postsecondary appropriation increases or decreases, the share directed to each institution remains static, on a percentage basis, without regard to changes in enrollment, performance or mission.<sup>5</sup>

## Funding Sources

Public postsecondary institutions in Kentucky receive funds from a number of sources, as tracked by the Kentucky Council on Postsecondary

## Kentucky Public Postsecondary Institutions Percent of Total Revenues by Source

FY 2003 to 2015



Source: Kentucky Council on Postsecondary Education

Education. These include:

- State General Fund appropriations
- Tuition and fees charged to students
- Revenue from hospital and auxiliary operations
- Agency funds (which include local appropriations, grants and contracts, private gifts, investment income, and sales of services)
- Federal funds (for research and other purposes)

The chart above shows the total annual revenue for postsecondary institutions and the percentage of funds derived from each of these sources from FY 2003 to FY 2015.

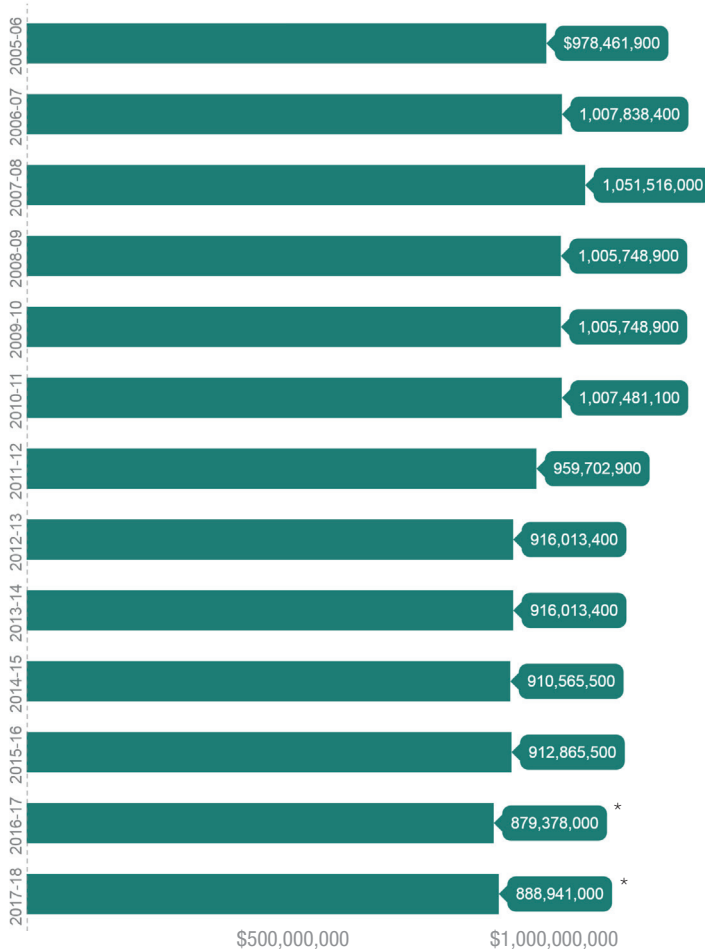
As the chart reflects, state General Fund appropriations have decreased significantly as a percent of total revenue. In FY 2003, state funds accounted for 30% of total revenue while tuition and fees made up 17%. Twelve years later, these percentages had almost reversed, with state funds accounting for 14% of total revenue and tuition and fees growing to 26% of total revenue. Agency funds and federal funds as a percent of total revenue have remained fairly stable over the period, while the percentage coming from hospital and other auxiliary operations has grown from 17% to 27%. The data reflects how Kentucky public colleges and universities have made up for declining state appropriations with increases in tuition and fees.

## Decline in State Appropriations

As noted earlier, direct state appropriations to Kentucky postsecondary institutions have dropped significantly over the past 12 years. As the chart below shows, net General Fund appropriations for all institutions totaled \$978 million in FY 2006, peaked in FY 2008 at \$1.05 billion, and will decline to \$886.9 million in FY 2018.

For purposes of comparison, as the chart to the right illustrates, total state General Fund spending increased 33.7% from FY 2006 to FY 2018 while state funding for postsecondary institutions declined by 9.3%.

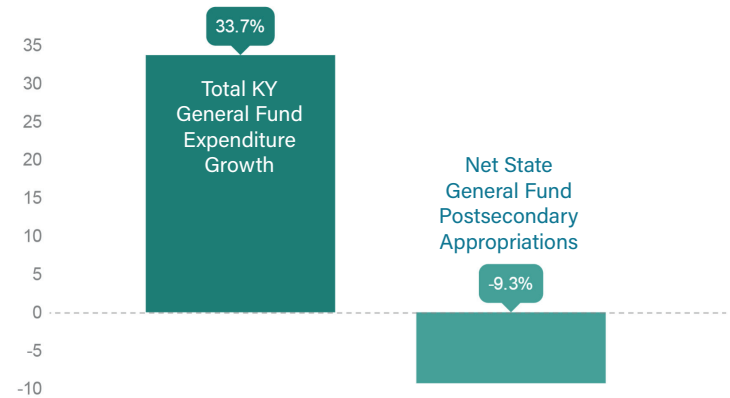
## Total Net General Fund Appropriations for All Institutions FY 2006 to 2018



\*Enacted  
Source: Kentucky Council on Postsecondary Education and 16 HB 303 as Enacted and Vetoed in Part (Net General Fund Appropriations do not include debt service and U of L hospital contract. Figures shown may differ from enacted budgets due to Budget Reduction Orders and pending litigation on reductions in FY 16 appropriations.)

Source: Kentucky Council on Postsecondary Education (Net General Fund Appropriations do not include debt service and U of L hospital contract. Figures shown may differ from enacted budgets due to Budget Reduction Orders.)

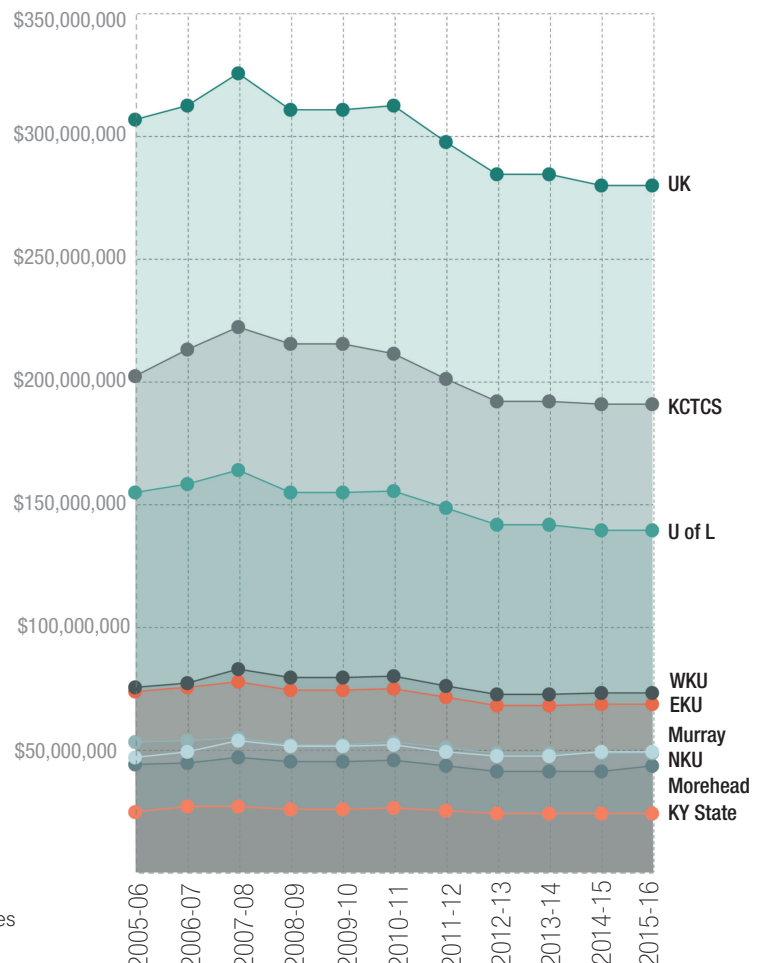
## Change in Total Net General Fund Appropriations for Postsecondary Institutions Compared to Change in Total General Fund Expenditures FY 2006 to 2018



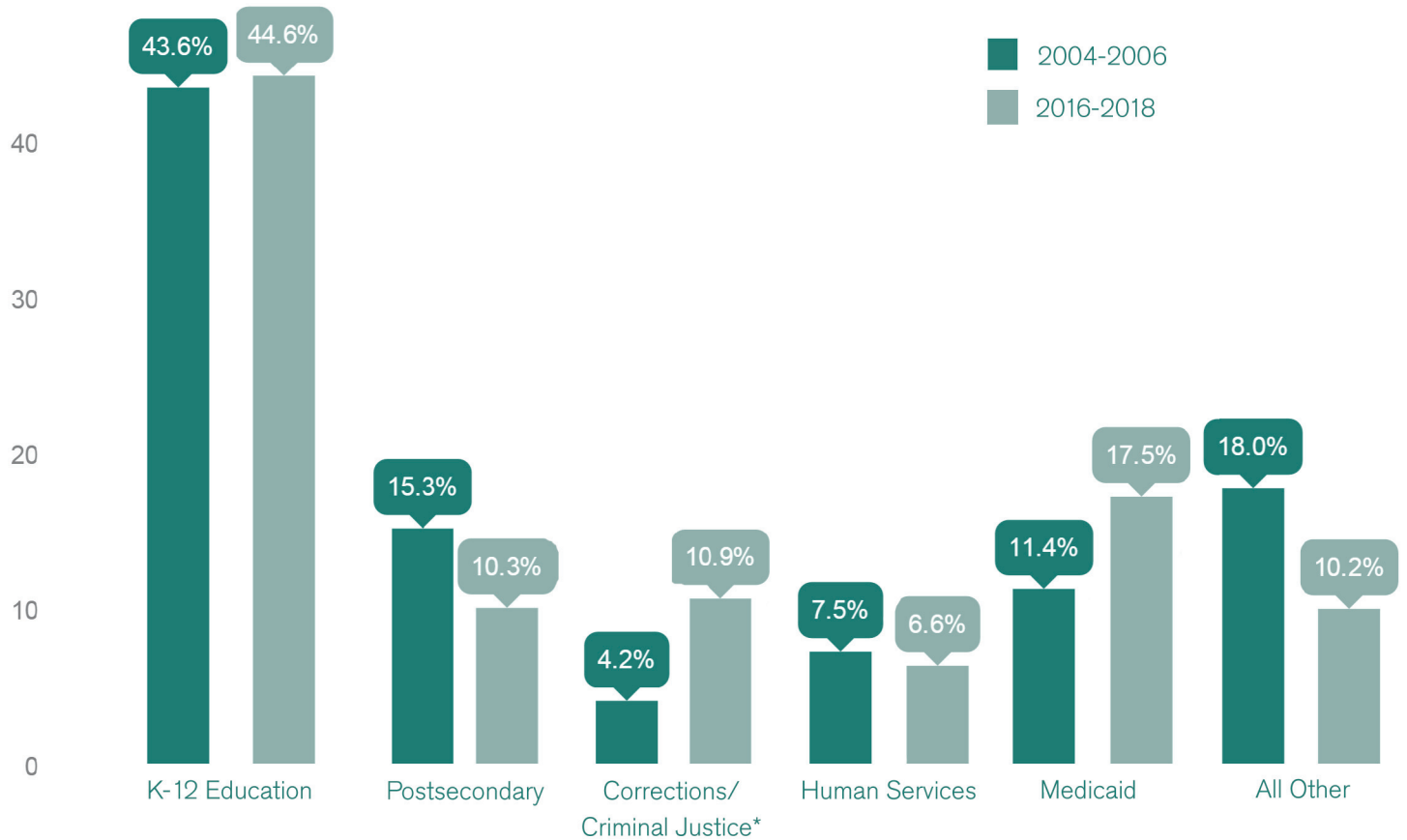
Source: Kentucky Council on Postsecondary Education; 2014-2016 Budget in Brief and 16 HB 303 as Enacted and Vetoed in Part

State appropriations to each of the commonwealth's four-year universities and the Kentucky Community and Technical College System (two-year schools) through FY 2016 reflect this trend.

## Net General Fund Appropriations FY 2006 to 2016



## Distribution of Kentucky General Fund Appropriations 2004-2006 Biennium Compared to 2016-2018 Biennium

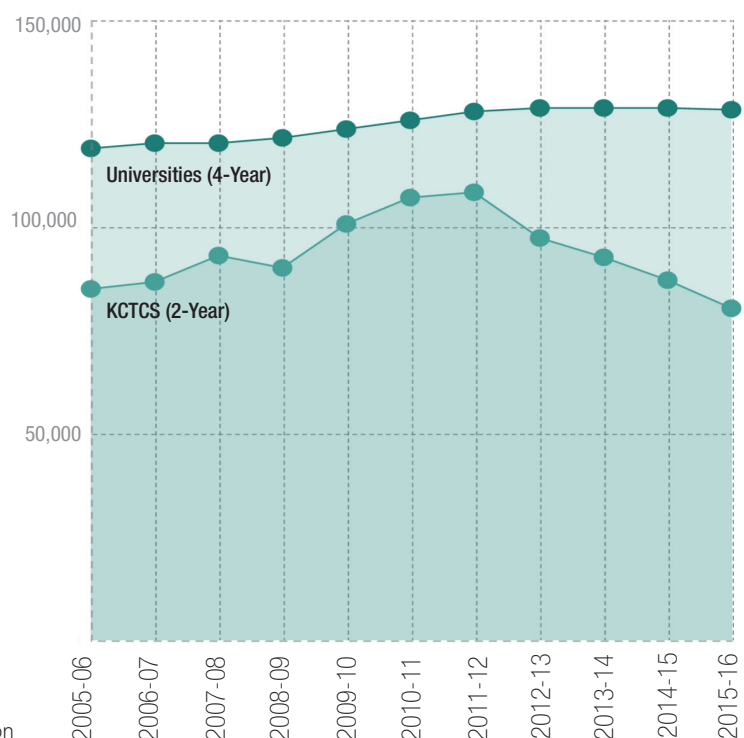


\*Corrections category was changed after the 2004-2006 biennium to include Prosecutors and the Justice & Public Safety Cabinet  
Source: Budget in Brief, Governor's Budget Office

Spending on postsecondary education as a percentage of all state General Fund appropriations, an indication of spending priorities, has also declined significantly in recent years. In the 2004-2006 biennial state budget, postsecondary education received 15.3% of all General Fund appropriations. In the recently enacted 2016-2018 biennial budget, postsecondary's share dropped to 10.3%.

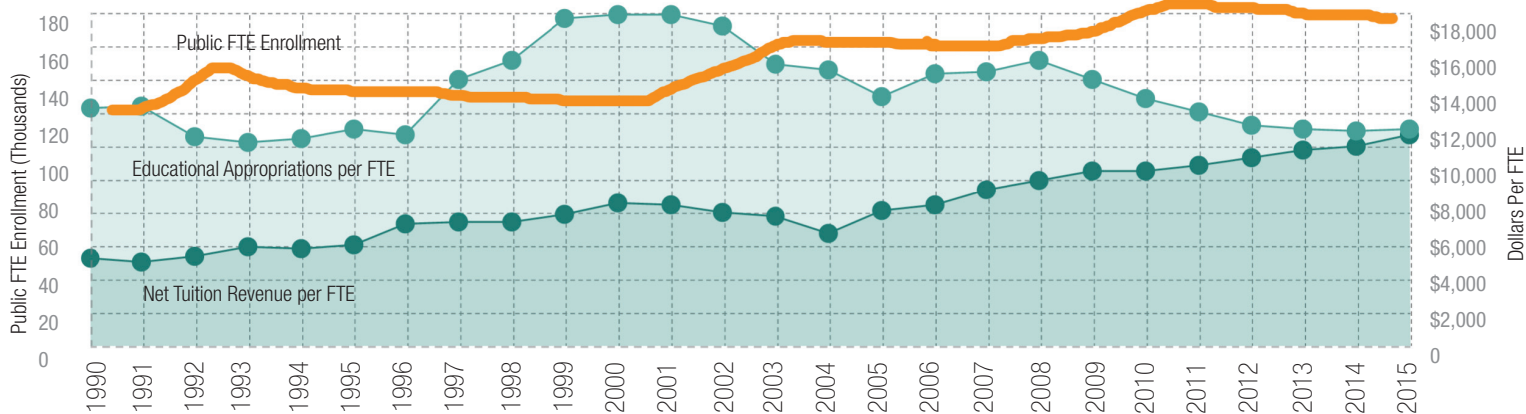
It is important to note that, until recently, postsecondary enrollment generally increased as state funding declined. The chart to the right shows enrollment from 2005 to 2015, as tracked by the Kentucky Council on Postsecondary Education, peaking in 2011. Enrollment has fallen since then in KCTCS schools and has been flat in universities.

## Enrollment in Kentucky Public Postsecondary Institutions - Fall 2005 to Fall 2015



Source: Kentucky Council on Postsecondary Education

## Public FTE Enrollment and educational appropriations per FTE, FY 1990-2015



SOURCE: State Higher Education Executive Officers

The chart above, compiled by the State Higher Education Executive Officers, further illustrates the trend of rising enrollment and reduced state appropriations in recent years.

## Change in Other Revenue Sources

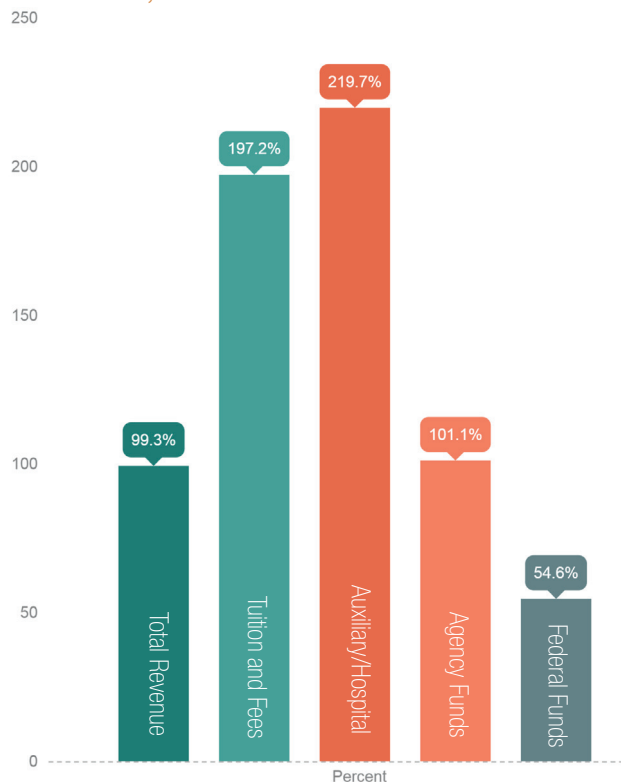
The chart below details the growth in other revenue sources between 2003 and 2015. Overall, total revenue received by postsecondary institutions in Kentucky increased by 99.3% from FY 2003 to FY 2015. Hospital and auxiliary revenue represents the biggest increase, growing more than 219% for the period, followed by tuition and fees at 197.2%, revenue from

agency funds at 101.1% and federal funding at 54.6%.

## Tuition Increases

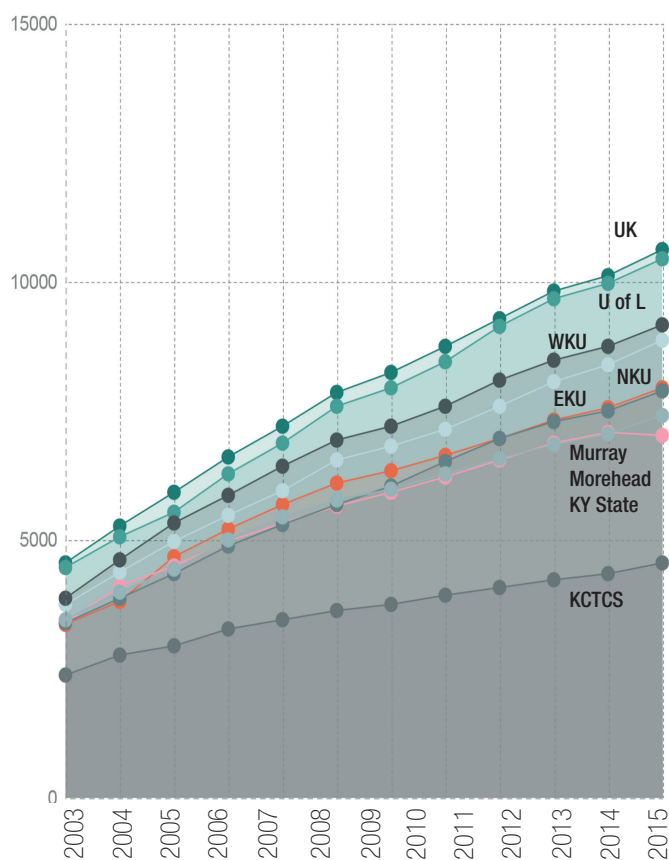
As noted earlier, public postsecondary institutions in Kentucky now rely more heavily on tuition and fees as a source of revenue. The chart below shows the tuition and fee increases for each of Kentucky's four-year universities and KCTCS. For example, annual tuition and fees at the University of Kentucky rose from \$4,546 per year in FY 2004 to \$10,616 in FY 2015. Similarly, tuition and fees at KCTCS schools increased from \$2,370 in FY 2004 to \$4,530 by FY 2015.

## Percent Change in Other Revenue Sources, FY 2003 to FY 2015



Source: Kentucky Council on Postsecondary Education, Kentucky Public Institutions Revenue by Source

## Full-Time Tuition and Fees FY 2004 to FY 2015





## How Kentucky Compares Nationally

Tuition increases in Kentucky over the past decade exceeded the national average for two-year and four-year public institutions, as tracked by The College Board in its annual survey of colleges. The chart on the right shows that tuition increases for each of the four-year public institutions in Kentucky from FY 2005 to FY 2015 ranged from a low of 72% to a high of 109%, compared to a national average of 69% for the period. The national average increase for two-year public institutions was 53%, while the increase for KCTCS schools was 64% for the period.

Along the same lines, data published by the Kentucky Council on Postsecondary Education (compiled by the Washington Higher Education Coordinating board) that compared the 50 states on public university tuition found Kentucky was near the national average for the academic year 2012-2013 for all levels of institutions.

## Resident Undergraduate Tuition and Required Fees

	KY	U.S. Average
Flagship Universities	\$9,816	\$9,647
Comprehensive Universities	\$7,544	\$7,786
Community Colleges	\$3,591	\$4,200

Source: Washington Higher Education Coordinating Board

## Expenses are Increasing

The chart to the right, provided by the Kentucky Council on Postsecondary Education, shows that even though tuition and other revenue increased over the past decade, the combination of rising costs and state budget cuts left Kentucky's postsecondary institutions with a cumulative shortfall of more than \$1 billion from 2008 to 2015.

## Other National Indicators

The State Higher Education Executive Officers Association (SHEEO), of which Kentucky is a member, produces an annual report on higher education finance that compares states on a number of indicators to help measure postsecondary education funding efforts. As outlined previously, state support now accounts for 14% of total postsecondary education revenue, down from 30% ten years ago.

While almost all states have cut postsecondary funding in recent years, Kentucky has cut significantly more than the national average. The top chart on page 6 depicts the percent change in appropriation per student since the recession (2008) for all 50 states. As noted earlier, this measure takes into account increasing student enrollment. The national average was a 15.3% reduction in appropriation per student, compared to a 24.0% reduction per student in Kentucky from 2008 to 2015. Not only was Ken-

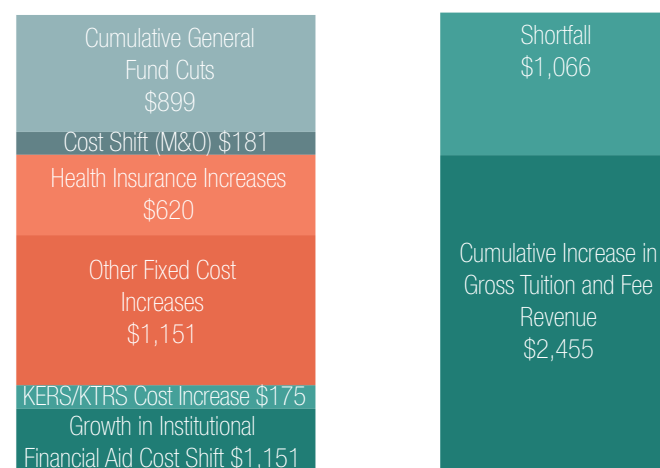
## Percent Increase in Tuition and Fees Fall 2005 to Fall 2015



Source: Kentucky Council on Postsecondary Education, Kentucky Public Colleges and Universities—Full-Time Undergraduate Resident Tuition and Fees, and The College Board, Annual Survey of Colleges, 2015

## Budget Challenges for Postsecondary Institutions Cumulative Impact 2008-15

Dollars in Millions

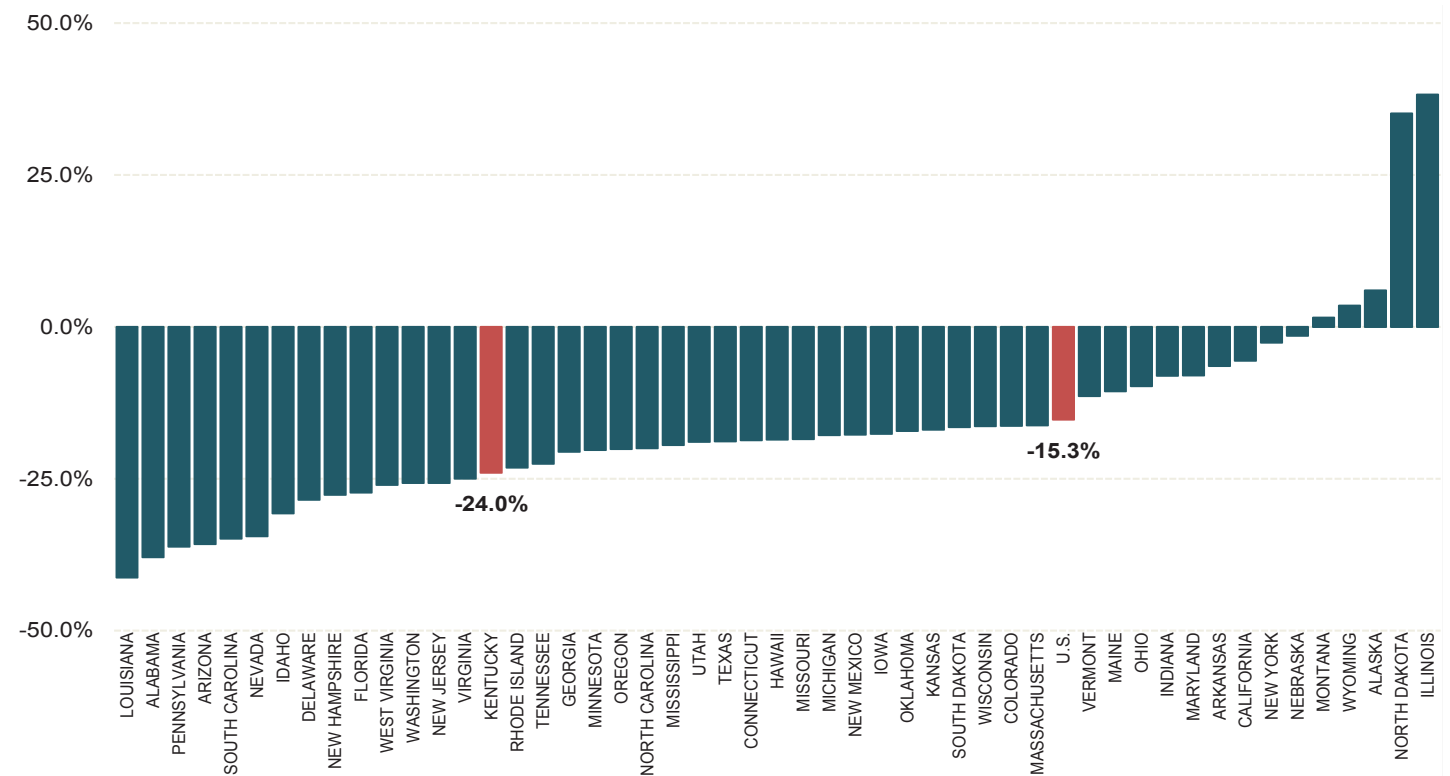


Note: Some numbers are estimates due to changes in data collection over the time period.

Source: Kentucky Council on Postsecondary Education; Kentucky Postsecondary Education Data System (KPEDS).

tucky's reduction rate higher than the U.S. average, it exceeded the rate of reduction in the surrounding states of Ohio, Tennessee, Indiana, Missouri and Illinois (which actually increased funding per student by 50.2%).

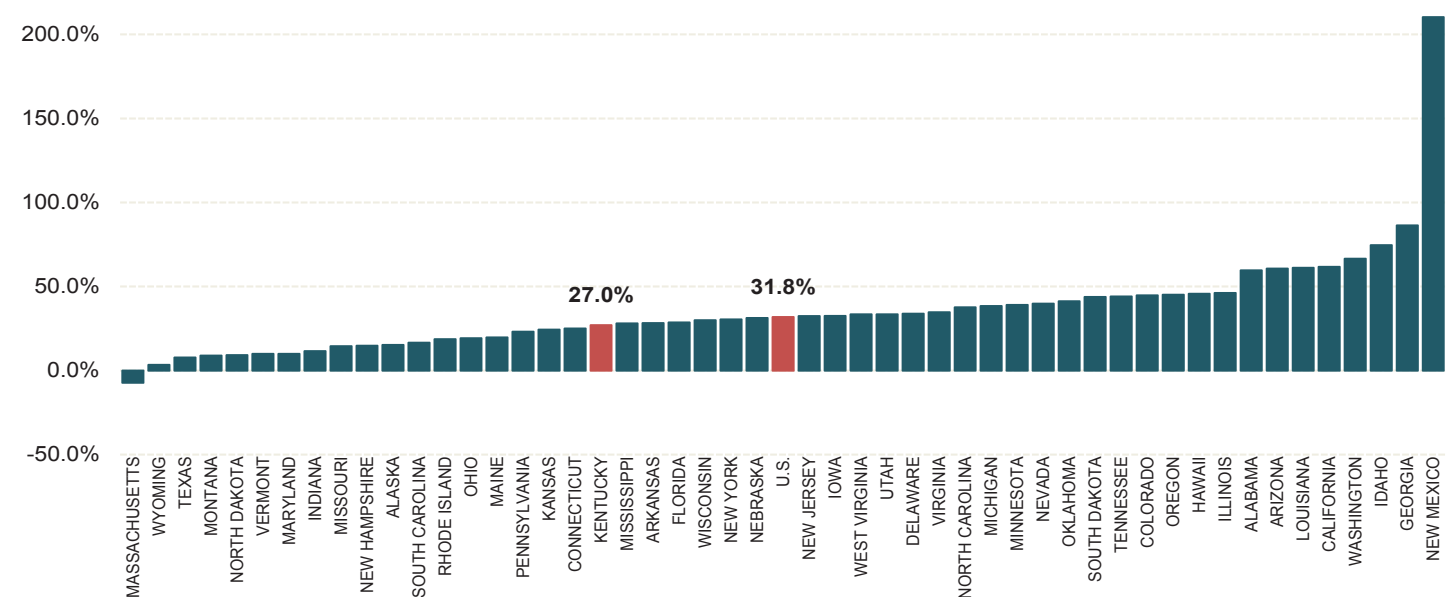
*Educational appropriations per FTE (constant dollars):  
Percent change since recession (2008-2015)*



Source: State Higher Education Officers

Note: Constant 2015 dollars adjusted by SHEEP Higher Education Cost Adjustment, Educational Appropriations include AARA funds

*Net tuition revenue per FTE (constant dollars):  
Percent change since recession (2008-2015)*



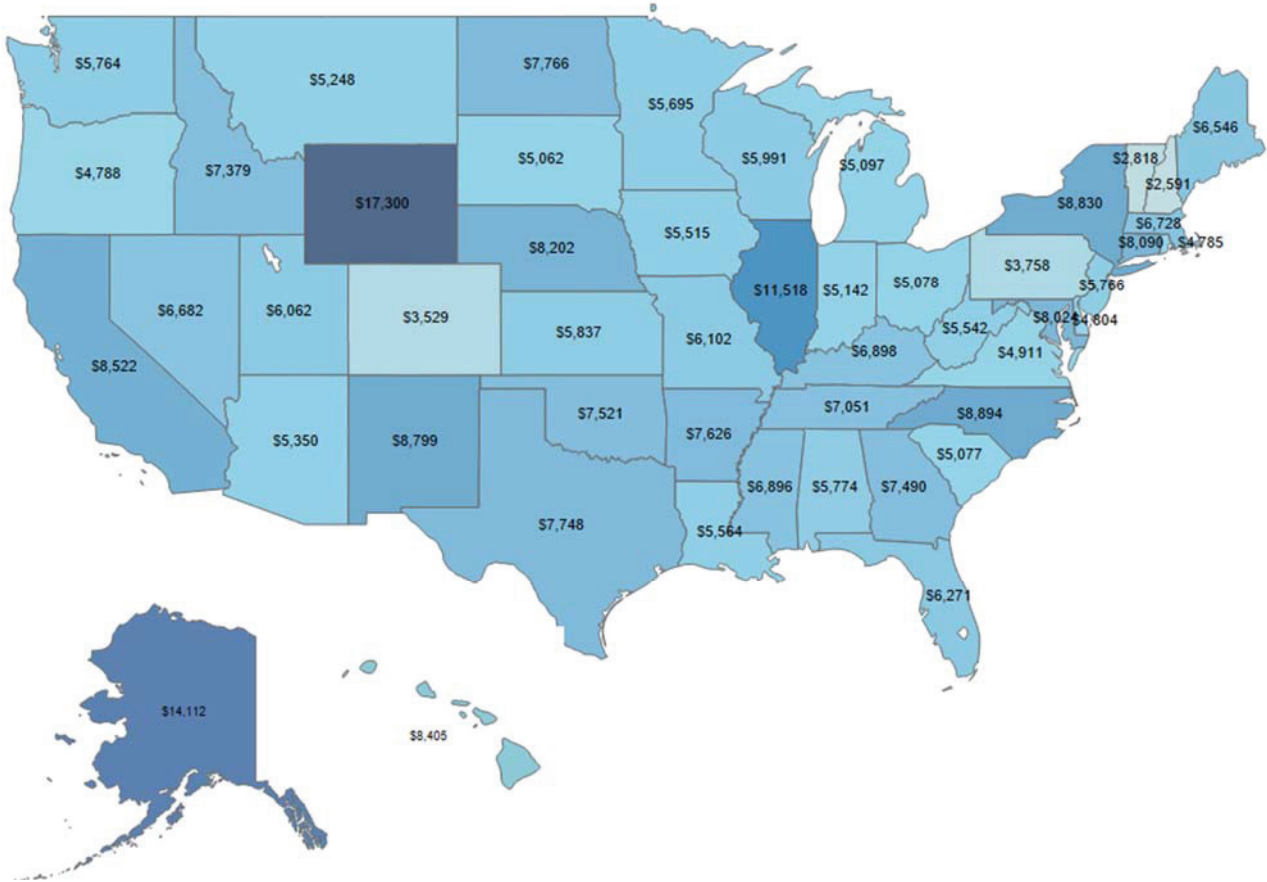
Source: State Higher Education Officers

During the same period, tuition revenue per student in Kentucky increased by 27% (as illustrated above).

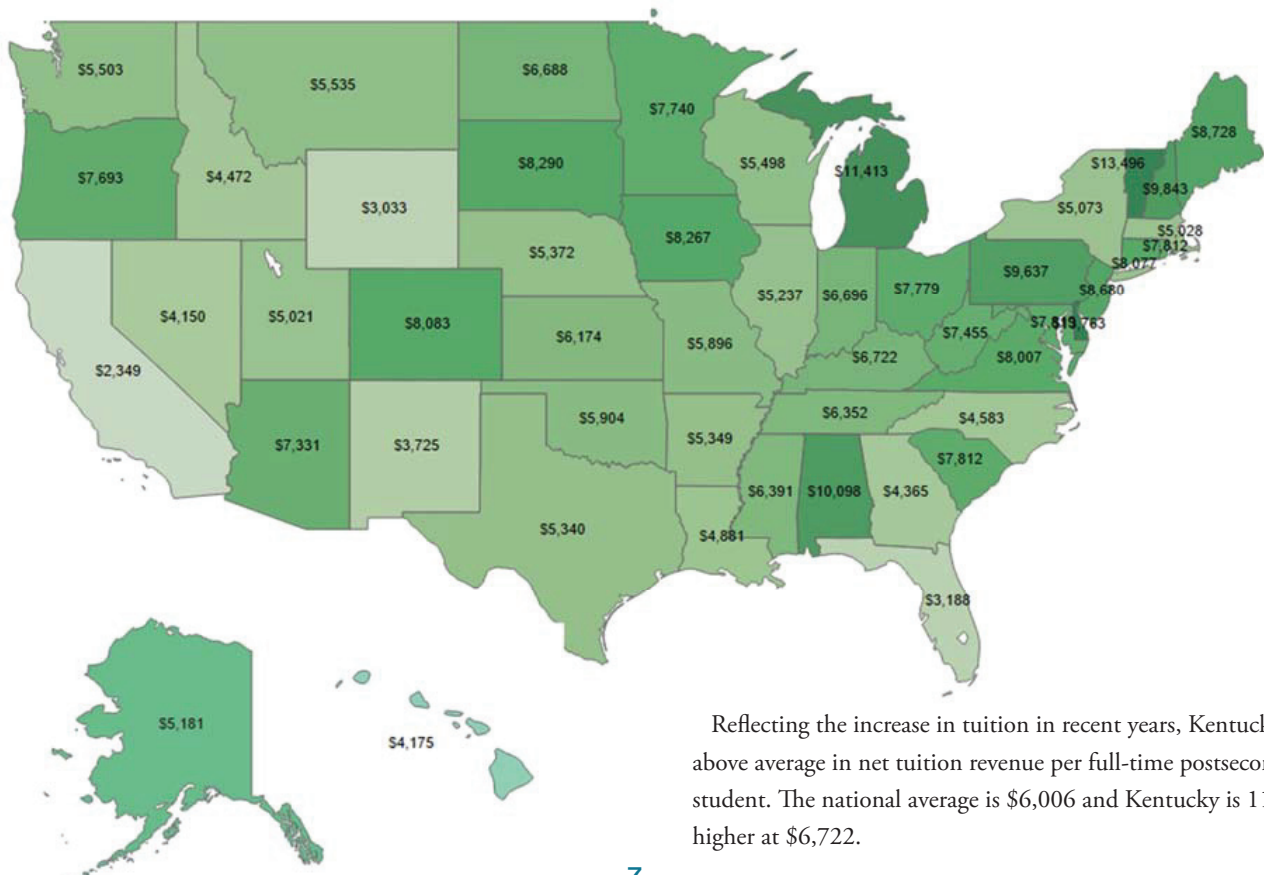
While Kentucky has reduced funding per postsecondary student more than most other states since 2008, **the Commonwealth was just below**

**the national average in the amount of state appropriation per full-time student in FY 2015.** As the map on the following page shows, in FY 2015, the national average was \$6,966 per student, and Kentucky was \$6,898 per student.

State Appropriation per Full-Time Postsecondary Student, FY 2015  
(U.S. Average: \$6,966)



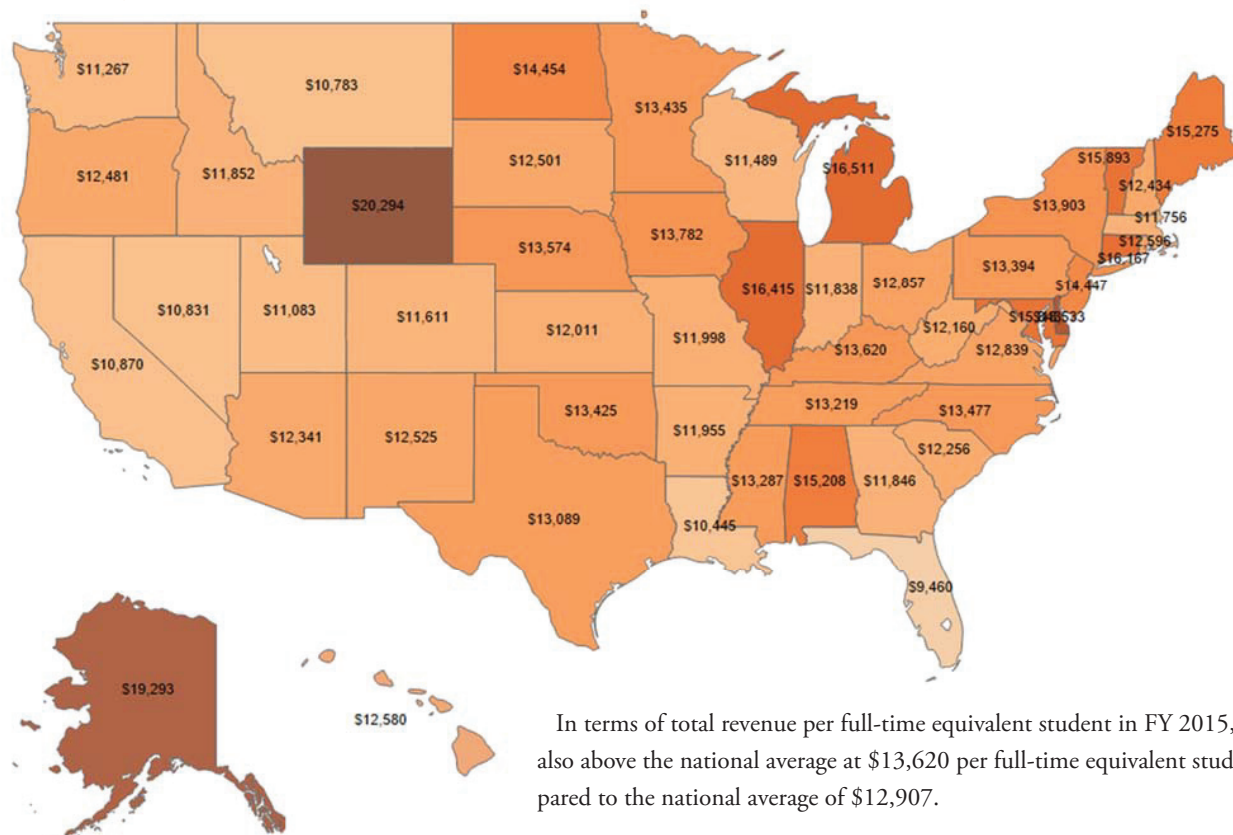
Net Tuition Revenue per Full-Time Postsecondary Student, FY 2015  
(U.S. Average: \$6,006)



Reflecting the increase in tuition in recent years, Kentucky is above average in net tuition revenue per full-time postsecondary student. The national average is \$6,006 and Kentucky is 11.9% higher at \$6,722.



## Total Educational Revenue per Postsecondary FTE Enrollment, FY 2015 (U.S. Average: \$12,907)



In terms of total revenue per full-time equivalent student in FY 2015, Kentucky is also above the national average at \$13,620 per full-time equivalent student compared to the national average of \$12,907.

Source: State Higher Education Executive Officers

### Student Debt

The trend toward heavier reliance on tuition by Kentucky colleges and universities has had an impact on student debt. The most recent annual report of the Project on Student Debt indicates Kentucky has a relatively high percentage of college graduates with debt. For the class of 2014, 64% of Kentucky graduates had an average debt of \$25,939. Kentucky ranks 18th among the states in the percent of graduates with debt and 32nd in the average debt per student.<sup>6</sup> From 2004 to 2014, the percent change in average student debt was 82% in Kentucky, compared to a national average of 56%.<sup>7</sup>

### Summary & Conclusion

Over the past decade, a number of trends emerged in Kentucky's funding of postsecondary education:

- Net state General Fund appropriations to postsecondary institutions dropped by 9.3% from FY 2006 to FY 2018 while total state spending will increase 33.7% for the same period.
- State appropriations made up 30% of state college and university revenues in 2003 and dropped to 14% of revenues by 2015.
- Tuition made up 17% of revenues in 2003 and increased to 26% by 2015.

- From FY 2005 to FY 2015 tuition increases for Kentucky four-year institutions ranged from a low of 72% to a high of 109%; the national average increase was 69% for the period.
- The national average tuition increase for two-year institutions was 53%, while the increase for KCTCS schools was 64% for the period.
- Kentucky's tuition for both four-year and two-year institutions is near the national average.
- Since the 2008 recession, Kentucky has cut state funding per full-time postsecondary student by 24% as of FY 2015, compared to a national reduction of 15.3%.
- Despite these funding cuts, at \$6,898 per student Kentucky was just below the national average of \$6,966 per student in state funding per full-time postsecondary student in 2015.
- Kentucky is higher than the national average in both tuition revenue per full-time equivalent postsecondary student and total revenue per student.
- In 2014, 64% of college graduates in Kentucky carried an average debt of \$25,393, and average student debt increased by 82% from 2004 to 2014.

### Sources

<sup>1</sup> College Still Pays, Kentucky Council on Postsecondary Education, January 2013

<sup>2</sup> Recovery: Job Growth and Education Requirements Through 2020, Georgetown University Center on Education and the Workforce, 2013

<sup>3</sup> U.S. Census Bureau, American Community Survey

<sup>4</sup> Council on Postsecondary Education, History of Funding Formulae

<sup>5</sup> Communication with Robert King, President, Kentucky Council on Postsecondary Education

<sup>6</sup> Student Debt and the Class of 2014, October 2015

<sup>7</sup> Ibid



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