



University of Kentucky Priorities for the 2004 General Assembly

Dear Friends,

I am pleased to share with you the University of Kentucky's goals for the upcoming Regular Session. Two items affecting public postsecondary education are presented for your consideration—revenue bond authority and capital construction, leases, and equipment limits. The University of Kentucky's five institutional priorities, as recommended by the Council on Postsecondary Education, are also presented in this document.

Best regards,

A handwritten signature in cursive script, reading 'Lee T. Todd, Jr.'.

Lee T. Todd, Jr.
President

"Only through investment in postsecondary education with a strong commitment to economic betterment can the Commonwealth and her people reach their full potential."

- 2020 Vision: An Agenda for Kentucky's System of Postsecondary Education

Public Postsecondary Education Issues

Revenue Bond Authority

We ask that the universities' governing boards have the authority to issue negotiable revenue bonds. Currently, public universities and colleges compete with state agencies for debt authorization under the Commonwealth's limited bond capacity.

The CPE requested over \$800 million of bond authority for public institutions in 2004-06. According to preliminary reports, the state will only have about \$650 million of new debt capacity for the upcoming biennium. The University of Kentucky has a great need for capital projects related to enrollment growth, research facilities, and the UK Hospital. The General Assembly would continue to authorize the capital projects while the UK Board of Trustees would have authority to issue bonds.

The bonds would be solely and exclusively obligations of the institutions and, as such, would not create an obligation or debt for the Commonwealth. Delegating this authority to the governing boards should not impact the Commonwealth's bond rating. Moody's Investors Service, a credit rating agency, does not include university debt in determining its rating of the Commonwealth's bonds. Many states have delegated bonding authority to their public universities and colleges. Twenty states were recently surveyed and 18 of those surveyed, including Ohio, Mississippi, North Carolina, Maryland, and West Virginia, provide flexibility to their colleges and universities.

Capital Construction, Leases, and Equipment Limits

The colleges and universities request an increase in the statutory dollar limits for capital construction projects, leases, and equipment purchases that are subject to authorization by the General Assembly. The current limits for building or utility installation projects (\$400,000), lease of real property (\$200,000), and lease or purchase of movable equipment (\$100,000) were last revised in 1994. The limit on force account work (\$100,000) for universities that manage their capital projects under the provisions of KRS 164A was established in 1982.

University of Kentucky Priorities

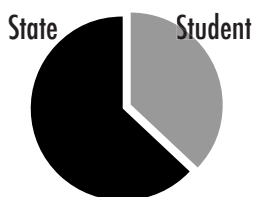
CPE's budget recommendation continues to embrace reform. The request for the University is modest given the achievements to date and the Commonwealth's goal for the University to become one of the top 20 public research institutions in the nation. UK's top five operating and capital priorities are presented below.

1. Operating Funds to Support Growth

CPE recommended \$321.9 million of state General Funds for FY 2005 and \$332.2 million for FY 2006 for UK. These amounts reflect an increase of \$13.4 million for FY 2005 and an additional \$10.3 million for FY 2006. The new funds would pay the maintenance and operating costs for six new facilities coming on-line, increases in debt service, and provide a 2.87 percent annual increase in operating funds for the University and a 10 percent annual increase for LCC.

The cost of public postsecondary education is a shared responsibility between the state and the student. As state appropriations have decreased while enrollments have increased, the burden of the cost of education has shifted to the student. The requested funds are necessary to minimize future tuition rate increases.

Who pays for public postsecondary education?



2. RCTF Funds to Support Programs of National Prominence

HB 1 identified aggressive research agendas for the University of Kentucky and the University of Louisville and created the Research Challenge Trust Fund to support nationally recognized research programs at both institutions. Sponsored research awards generated by the 11 RCTF programs at UK have grown from \$38.6 million in 1997 to \$76.9 million in 2003, a 98.9 percent increase—a significant return on the state's initial \$4 million investment. CPE has requested another \$6 million for Programs of National Prominence at UK (\$4 million) and the University of Louisville (\$2 million).

3. Construction of a Biological Sciences/Pharmaceutical Complex

CPE has recommended partial state funding for the construction of a \$119.9 million Biological Sciences/Pharmaceutical Complex at UK. The nationwide shortage of pharmacists is particularly acute in Kentucky. Workforce estimates indicate the need to increase pharmacy enrollments by at least 80 percent. The UK College of Pharmacy, ranked third in the nation, enrolls 100 new students annually, the maximum capacity for the current facility. The Complex would allow the Pharmaceutical Sciences graduate and postdoctoral training programs to

"Through RCTF UK is preparing new health care professionals to become leading scholars in the evaluation of drug therapies."

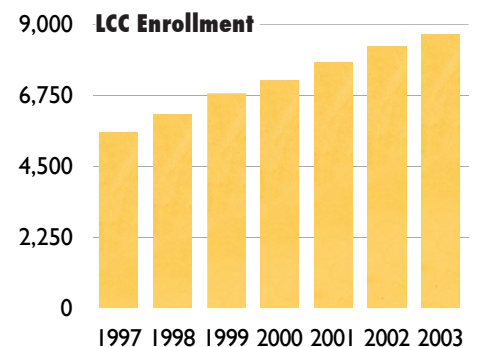
double their enrollments. Biology is UK's largest undergraduate major and a critical research and education partner for all major life sciences.

UK has experienced significant loss of high quality faculty and has a number of vacant research faculty positions because of the lack of adequate research space. Approximately 64 percent of the

Complex will be used for research and 36 percent used for instruction. CPE recommended that UK fund 40 percent of the total cost of the facility. We assert that the institution should fund only 40 percent of the cost of the research space, or 25 percent of the total project cost. The research space will allow the University to increase its research productivity and, in turn, its indirect cost revenues. However, the instructional space will not generate any indirect cost revenues from which to support debt service.

4. Construction of LCC Classroom/Class Lab Building

An enrollment of over 8,600 students in fall 2003 has overwhelmed the Lexington Community College's current facilities. CPE has recommended the construction of a \$28.9 million Classroom/Class Lab Building for LCC. According to CPE's space needs data, LCC has a current space deficit of 143 percent, or 184,600 assignable



square feet.

5. Construction of a Patient Bed Tower

UK's main hospital building opened for service in 1962. In 2000, the University initiated a study of the hospital's facilities and determined that a phased replacement of the facility is required to address the building's deficiencies. A few of the issues identified include the lack of handicapped patient bathrooms, unavailability of isolation rooms and lack of privacy for patients. The first phase is the construction of a \$216.8 million patient bed tower, for which agency bond authority is requested, that would replace 300 existing beds.

FOR 2004-06, THE DIFFERENCE BETWEEN ACTUAL
state funding and the funding objective for public
colleges and universities is \$315 million.

The funding gap increased \$69 million in the past two
years primarily because of higher enrollments and
declining state appropriations.

UK'S RESEARCH GRANTS AND CONTRACTS FROM
out-of-state sources added \$433.3 million to
Kentucky's economy in 2002-03. Externally
supported research accounted for 5,825 jobs at UK
and 7,633 jobs in the Commonwealth.

THE UNIVERSITY'S SIX-YEAR GRADUATION RATE HAS
increased substantially from 48.1 percent in 1997 to
60.8 percent in 2003, based on preliminary analyses.
To further increase the number of students who
graduate, UK has developed a pilot project—a Four-
Year Graduation Contract. This contract will ensure
that a student can graduate in four years if they meet
certain conditions.

OUR COUNTRY WILL NEED 400,000 PHARMACISTS
by 2020, more than double the number currently in
practice. – National Public Radio, October 2003

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