

University Community:

As we close on another successful school year, I want to take this opportunity to thank everyone for their hard work. We appreciate the spirit of teamwork that has been visible on campus as we navigated some of the complex challenges that were tossed towards us.

Now that we have concluded the spring semester and everyone is getting caught up, I wanted to take this opportunity to provide our campus community with a few updates from the legislative session in Frankfort and our budgeting process. Some of these may have already been provided to our campus constituency groups.

Spring Legislative Session:

In April, the Kentucky General Assembly concluded their final session, and in late April the final legislative bills were filed. As you have probably followed in the media, the session in Frankfort had some bumpy roads around budgets and pensions. While there is no way to provide you one email with all the changes that were enacted, the following outlines a few that impact higher education in the Commonwealth.

House Bill 132: Requires Kentucky high school students to pass a financial literacy course before graduating. This is not explicitly related to higher education, but is a positive as our students manage their finances going forward.

House Bill 592: Eliminated the faculty and staff tuition waiver benefit for postsecondary education employees attending an institution that is not their employer. Employees of MSU may still use their course waivers per our policy at our University. During the next few months, the university presidents have pledged to discuss how we might handle this in the future, and more information will be provided as any agreement is reached.

Senate Bill 130: Assists with the efficiency of campuses in combining some of the reporting aspects of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act.

Senate Bill 151: Changes proposed by the pension reform legislation includes placing future faculty and professional staff in a hybrid “cash balance” retirement plan rather than a traditional benefits plan and limits the impact of accrued sick leave on retirement benefit calculations. (Do note that MSU will continue to offer new hires who are coming into faculty or professional staff positions our Optional Retirement Plan (ORP), just as we always have and at the same contributing rates as we always have been. Likewise, the ORP plan is a portable plan and belongs to the participant.)

State Budget Reductions:

During the state budget preparation the General Assembly reduced the amount of state appropriated funds that universities and colleges across the Commonwealth will receive. Our percentage equates to a reduction of general fund state support of \$2,590,200 each year for the next two years, as well as the elimination of our Kentucky Folk Art Center funding of \$200,000, for a total reduction of

\$2,790,200 (6.7%). The General Assembly did preserve the funds in our budget for the continuation of the Craft Academy.

Pensions:

The General Assembly also passed a number of bills that alter and amend the various state pension systems and the amounts that MSU must pay each year (House Bill 265 and 487). Due to the complexities of all the state pension changes, it will take us a little longer to fully determine the total monetary impact and any changes required to University processes to meet any of the statutory requirements. One positive item, and as spelled out in state statute, we do have a short reprieve before state pension rates are set to increase substantively in the coming years.

On a similar note, the pension bill that passed the legislature, and was signed by the Governor, looks like it will be under discussion at the state level from a legal litigation standpoint. So, the pension issue in Kentucky remains partially fluid for some time to come.

With the uncertainty surrounding the outcome of pension bill litigation, MSU is going to formally pause on making any decisions related to discontinuing the purchase of sick leave service credit for retirement purposes. This pause will allow us to monitor any changes that the litigation might possibly bring. For the coming fiscal year, we will continue to purchase sick leave service credit for retirement purposes of our employees.

Those employees who are in our Optional Retirement Plan (ORP) will see no change, as the changes are limited to the state pension plans.

Kentucky's Move to Performance Funding:

An item that works against MSU – performance funding – also had monies appropriated to it. As a result of the deeper move by the state into performance funding (and away from base funding), our budget was reduced by an additional \$385,600 for 2019-2020, over and above the 6.7% reduction noted above. Beginning in 2018, the General Assembly will be placing \$31 million into a performance funding pool for all public universities in the state to compete to obtain. Unfortunately, due to our size and current funding level, MSU is not eligible for any of these new funds within the biennium – much to our dissatisfaction. At this point, we will need to work to transition our campus more towards competing within the new funding model.

Going forward, we will need to continue focusing heavily on recruiting, retaining, and graduating students, as well as making the necessary push to operate within a new funding formula. We will continue to push for making some positive changes in the state funding formula that we think offer a more fair playing field for smaller universities such as ours.

General MSU Budget Development & Impacts:

Since last fall we have been working to increase enrollment, as well as to systematically and methodically be proactive in reducing our operating costs. We have been successful in reducing our administrative costs and administrative positions; merged and restructured several positions; transferred employees to other units to assist with specific needs; and also allowed employees to voluntarily reduce their working months. Our phased faculty retirement program, of which ten faculty

took advantage of, allowed us to also lessen the stress to our budget. All areas of the institution have been thoughtfully reviewed to find savings, reallocations, reductions, and efficiencies where possible, with a particular focus on reducing administrative costs.

During the past few months every effort has been made to protect the integrity of our mission and the employees of the institution. Unfortunately, we have also had to have an involuntary reduction of 16 employees/positions. This reduction of positions was only utilized after all other reasonable cost avoidance methods had been used. All individuals on the MSU main campus who were directly impacted by the involuntary reduction have been notified. As an assistance measure to the adversely affected individuals, MSU will offer transition tuition waivers through our University for those employees who wish to be retrained, or complete a degree over the next three years. With respect to the privacy of these individuals and the service they have given MSU, we will refrain from discussing the specifics of these personnel issues.

While this has been a difficult year for higher education, MSU has worked to minimize our loss of jobs through the collective efforts of our faculty and staff who have been conservative with expenditures and found creative solutions. This work has allowed us to escape the catastrophic number of layoffs you may have seen among other universities in the state.

At this time, and barring no unforeseen issues with fall enrollment or otherwise, we have crafted a budget that should offer a stable 2018-2019 academic/fiscal year.

Our Future:

Over the course of the next few years we must continue to view our University through the lens of performance funding, as well as the whole campus uniting around assisting with recruitment and retention efforts.

Our pledge is, even in a tight fiscal environment, to try to safeguard our highest priorities – recruitment and retention, student success, affordability, and the overall living and learning aspects of our University. We will also begin to work towards accomplishing several aspects of our Strategic Plan.

I want to thank all of our employees for your hard work this year, as many of you pitched in and did a variety of things to make your units and our University run smoothly. We will have to continue to work in a united fashion to solve many of the issues that the changing world of higher education brings. Additionally, we need to also celebrate our successes along the way.

Let's continue to focus on why we are here – the students and their success.

Many thanks for what each of you do each day.

Jay Morgan
President