

PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

Minutes

October 4, 2019

Call to Order and Roll Call

The Program Review and Investigations Committee met on Friday, October 4, 2019, at 8:00 AM in Room 131 of the Capitol Annex. Senator Danny Carroll, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Danny Carroll, Co-Chair; Representative Rob Rothenburger, Co-Chair; Senators Perry B. Clark, Stephen West, Whitney Westerfield, and Phillip Wheeler; Representatives Lynn Bechler, Chris Fugate, Adam Koenig, Ruth Ann Palumbo, and Walker Thomas.

Guests: Jay K. Box, President, Kentucky Community and Technical College System; Daniel P. Bork, Commissioner, Department of Revenue; and Brent King, Executive Director, Office of Field Operations, Department of Revenue.

LRC Staff: Greg Hager, Committee Staff Administrator; Greg Daly; Christopher T. Hall; Van Knowles; Jean Ann Myatt; Jeremy Skinner; William Spears; Shane Stevens; Joel Thomas; and Christy Young, Committee Assistant.

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Upon motion by Representative Thomas and second by Representative Koenig, minutes for the September 13, 2019 meeting were approved by voice vote without objection.

Staff Report: *Nonacademic Barriers Facing Kentucky Community And Technical College Students*

Mr. Stevens gave an overview of the Kentucky Community and Technical College System (KCTCS). Its students differ from Kentucky university students for specified characteristics that are related to nonacademic barriers. They are more likely to be first generation, be unprepared for college, have dependents, be low income, and be older. For all specified characteristics except age, the report and presentation show a range of values based on whether the percentage is calculated based on only the number of students for which information on the characteristic is known or as a percentage of all students. The five prominent nonacademic barriers facing KCTCS students are inability to navigate college, financial instability, competing time constraints, personal health issues, and student disengagement. For each barrier, he described how it may affect students.

Mr. Hall said that KCTCS does not have reliable information on the prevalence of nonacademic barriers. Recommendation 1 of the report is that the KCTCS System Office and colleges should develop methods to determine the prevalence of specific nonacademic barriers at each college and track the prevalence of such barriers over time.

Given the lack of reliable data, Program Review staff used community-level data as proxy measures for the prevalence of specified factors that can lead to nonacademic barriers: average student income by college and by region average income, housing as a high percentage of income, food insecurity, access to child care, and access to mental health and primary care providers.

Mr. Spears said Program Review staff asked KCTCS college presidents to provide information on programs addressing nonacademic barriers. Colleges provided information on 142 programs. Each college reported at least three programs; 11 colleges reported at least eight programs. Staff assigned programs to seven categories. Multiple barrier programs, which provide several types of services, are the most common program at nearly 25 percent. Financial instability and navigation are the most commonly targeted individual barriers. Targets vary by college. Half or more of the programs at Henderson, Southcentral, and Southeast target navigational issues. Half of Gateway's programs target financial instability. Half of Hazard's programs are multiple-barrier programs.

Programs were categorized into eight groups based on the type of service. He described the programs and their prevalence. Advising programs have an element of one-on-one interaction with students that provides career or academic support. Targeted services are for students with issues outside the classroom, for example, child care. Inclusivity and engagement programs have the similar goal of increasing interest and participation of students; inclusivity programs focus on specific subgroups. Streamlining programs aim to make progress easier for students. Financial aid, tutoring, and orientation are typical college services.

Program costs could not be determined precisely because of missing information and cost variations. Total costs were provided for 128 programs. Eleven programs, mostly partnerships with other entities, were reported as having no cost to the college.

KCTCS college staff were asked how they measure the success of each program. Mr. Spears indicated the percentage of programs using specified measures of success. Usage measures indicate the amount of service provided but not whether services resulted in any changes for the students. Usage was tracked by one-half of programs and is the sole source of measurement for 40 programs. It can be an appropriate measure when the college has difficulty tracking students. Retention, which tracks whether a student returns to the college in a later semester, can serve as a stronger measure of success. Retention was the second most common measure and was most common among multiple-barrier programs.

Attainment measures whether a student obtained a certificate, diploma, degree, or job. This is a stronger measure because it shows whether a program has improved a student's future but does not necessarily indicate the program caused the attainment. Attainment was used by about 30 percent of programs overall but was commonly used in multiple-barrier programs. Comparisons between program participants and other groups of students were used for five programs. This can be a strong measure because it helps determine whether programs changed outcomes for participants. All programs made comparisons to the entire student population or to previous years. A stronger method would be to compare participants with similar nonparticipants.

KCTCS colleges were asked to estimate the number of students served by their programs in fall 2017 and spring 2018. Overall, programs served a median 2.4 percent of students. The schools were asked to provide staffing estimates for their nonacademic programs. Most programs had five or fewer full-time-equivalent employees.

Community college nonacademic programs were reviewed in the seven surrounding states. Some schools in other states offered programs that were different but focused on similar issues. A Missouri college offered child care grants. An Ohio college offered student health insurance. Two West Virginia colleges participated in a program to provide free counseling services through text messages.

Mr. Hall said that the ultimate goal of any program is to increase the likelihood that students return the next semester and eventually attain a credential or transfer to a 4-year university. Retention alone is not an accurate measure of a program's effectiveness. Because all nonacademic programs are designed to address a particular problem, measuring a program's success should be geared toward determining whether it decreases the prevalence of that problem. Recommendation 2 of the report is that the KCTCS System Office, and colleges should develop more accurate measures of nonacademic program success that focus on determining whether a program decreases the prevalence of the problem it was designed to address.

Many factors can contribute to a student's willingness or ability to return to school the next semester. Better understanding the relationship between a program's effectiveness and retention would demonstrate the utility of individual programs and allow KCTCS to better manage its programs and resources. Recommendation 3 is that the KCTCS System Office should study the relationship between programs that decrease nonacademic barriers, student success, and retention. Results should be shared with the colleges so that they can improve existing programs and more effectively implement future programs.

Responding to the report, Dr. Box said that it confirms that KCTCS students are different from university students, including what is needed to achieve success. The report is clear that KCTCS cannot continue to spend money and time on initiatives without determining their impact. KCTCS has not done a good job of tracking nonacademic

problems and programs, so the recommendations in the report are a wake-up call. KCTCS will need help in doing this and will ask universities to do research. He has shared the report with KCTCS college presidents. The October meeting of the president's leadership team will discuss how to address the recommendations.

Representative Thomas said that nearly \$1 million is allocated for matching KCTCS college foundation funding. In response to his questions, Dr. Box said that three or four schools have this type of agreement, it is not system wide.

In response to Senator Carroll's question about trends in enrollment, Dr. Box said there was a dramatic drop-off in enrollment beginning in 2012. Enrollment steadied in 2017 and is up 2 percent this year. KCTCS is one of the few systems in the US with growth. The biggest struggle in enrollment is with working adults.

Senator Carroll asked if there has been an increase in partnerships with industry, including more customized programs. Dr. Box said that KCTCS has always tried to do this. In the past several years, manufacturing has been an area of focus. Now, there is an emphasis on health care, particularly the expansion of nursing programs.

In response to a question from Senator Carroll, Dr. Box said that much research is being done on the effect of free college programs. The initial data from Tennessee is that enrollment increases in the first year but not in the following years. It is still an open question as to how free college affects retention and getting a meaningful credential. KCTCS is tracking Work Ready Kentucky success and can provide information on this.

Senator Wheeler asked why it is not mandatory for participants in programs to complete surveys on nonacademic programs. Dr. Box said that this could be done and used with other data. The names of program participants are sometimes unknown; he cited food pantries as an example.

Representative Fugate noted his appreciation of the two KCTCS schools in his district, Hazard and Southeast, for what they contribute to the area. Dr. Box commended Hazard for its Tuesday Night Live program, which provides meals for parents and children and child care during classes.

In response to questions from Representative Koenig, Dr. Box said that the annual investment of state appropriations and tuition per student is about \$5,500 per year, which is about the same level as in 2004. Expenses to provide the education are much higher than that. The cost to students is approximately \$4,400 per year. About 70 percent of students qualify for federal financial aid; 55 percent get full financial aid.

Senator Carroll mentioned the West Kentucky Community and Technical College Scholar House, which provides on-site housing and child care. He asked which other

schools have these services. Dr. Box said that Bluegrass has an agreement with the University of Kentucky for some students to stay in dorms. Southcentral has an agreement with Western Kentucky University. He was unaware of other KCTCS schools with housing opportunities. Child care varies by school; most try to have arrangements with local providers.

Senator Carroll said that West Kentucky Community and Technical College has housing, child care on site, and 2 years free. This seems like significant progress. He asked whether the return on investment is improving and what is available online. Dr. Box said that the level of success is the highest ever. Kentucky is second in the US in credentials awarded per capita and retention is up. It is unclear to what this can be attributed. There has been more emphasis on advising early, including dual credit in high schools. KCTCS schools are investing money in personnel in career navigators and coaches. However, as a result of budget cuts, student support staff have been reduced. Dr. Box said that KCTCS is the largest provider of online education in Kentucky. There are about 18,000 online-only students, primarily older students who are working. There are hybrid programs that combine on-campus and online learning.

Senator Carroll commended West Kentucky Community and Technical College for its contribution to the region. He asked the line should be drawn on free college. Students should have some personal investment in their education. Dr. Box said that does not favor a state program for free community college because it diminishes the value of education. In the current system, opportunities for financial and other types of assistance are available through the appropriate channels.

In response to a question from Senator Carroll, Dr. Box said that it would be a good idea to have early childhood education providers partner with community colleges to create spaces for their students.

In response to questions from Senator Westerfield about funding, Dr. Box said that in the 2018-2020 budget, KCTCS received \$8.9 million in performance funding, but there was a 6.25 percent cut across all 16 colleges. Performance funding went to nine colleges. Performance funding goes directly to colleges, not the system office.

In response to questions from Senator Westerfield about compensation of employees, Dr. Box said that salaries for entry-level staff are competitive. A compensation and classification study completed 2 years ago compared KCTCS to other institutions. A 3 phase plan went to the Board of Regents. In Phase 1, minimum entry-level salaries were implemented. The increase in these salaries created compression among other salaries. Phase 2, which is to be recommended to the board for 2020-2021, would increase salaries for those who were compressed. Salaries are set system wide according to band levels: 15 for staff and 5 for faculty. There has been no across-the-board raise in 3 to 4 years. All faculty and staff received a \$1,000 supplemental, nonrecurring payment this year. The

money came from money left over in each college's annual budget. Leftover money stays with the college to serve as a rainy day fund. Two institutions did not have sufficient funds for all their \$1,000 payments. The necessary funding was made through the system office reserve. This totaled \$30,000 to \$40,000, which the schools have to pay back.

In response to questions from Senator Westerfield, Dr. Box said that the Contract Review Committee recommended a supplement and deferred compensation for Dr. Box to the Board of Regents at its September meeting. At the request of Dr. Box, the board stopped its deliberations, so there was no change to his compensation or contract. He said that he has told the board that he is satisfied with his \$375,000 compensation package. Dr. Box said that if the board had approved an increase, he would have used it toward an endowment for students. His contract is a rolling 3-year contract that ends in 2021.

Senator Carroll asked whether Work Ready Scholarship funds are accounted for in the discussion of funding cuts. Dr. Box said this is invested in students and was included in his discussion of state funding and tuition revenue per student.

In response to a question from Senator West, Dr. Box said that the amount of the across-the-board decreased in appropriations was 6.25 percent of approximately \$250 million [\$15,625,000].

Senator Clark made a motion to adopt the staff report; Representative Palumbo seconded. The report *Nonacademic Barriers Facing Kentucky Community And Technical College Students* was adopted by roll call vote.

Department of Revenue Audit Process

Mr. Bork said the tax system is voluntary and the department's compliance and audit processes are built around this. The department has compliance programs for many tax types. This presentation focuses on the individual income tax, sales and use tax, and tangible property tax. He described desk and field audits. Desk audits focuses on obvious errors in tax statements, for example, when amounts on different tax documents do not match. The department and the US Internal Revenue Service (IRS) share information. The department mostly uses its own auditors. The exception is audits on companies doing business in multiple states. In this case, the department uses audits done by the Multistate Tax Commission. Field auditors are in 10 service centers in the state.

Mr. King said that field audits are done primarily on sales and use tax, tangible property tax, corporate income tax, and individual income tax. He described the field audit and taxpayer protest processes. Audits are primarily on retailers, contractors, and manufacturers. The audit process is initiated by the audit selection and review team in Frankfort, which uses systematic criteria to narrow the returns that may be selected for audit. One of the referral sources for audits is the Finance and Administration Cabinet tip line. In addition to getting the tax assessment through an audit, a goal is to educate the

taxpayer. Most centers have 4 to 6 auditors; the largest centers have 8 to 14 auditors. Audits may be conducted electronically or on site. After the audit has been completed and reviewed, the work papers are sent to the taxpayer.

Mr. King described trends in the number of field auditors, audits, and assessments. The number of auditors decreased from 115 in 2012 to 69 in 2018. The number of audits also declined since its peak but has increased slightly in recent years, even with fewer staff. The IRS audit rate is about 1 percent. Kentucky's best audit coverage for a tax type does not approach 1 percent. Assessments are down since 2012.

In response to a question from Senator Carroll, Mr. Bork said that the decline in auditors and compliance staff affects the amount of tax revenue. Each auditor on average brings in \$500,000 to \$1 million in tax revenue. The decline in the number of auditors is partly because of the across-the-board funding cut but also because of uncompetitive salaries. A new auditor's salary is \$39,000, which is less than in the private sector. Once hired, it is difficult to keep them. Mr. King added that is hard to hire auditors in the first place.

In response to Senator Carroll's question as to whether contracting out for auditing has been considered, Mr. Bork said that there are statutory issues. It is an option, but he does not favor it.

In response to a question from Senator Carroll, Mr. Bork and Mr. King said that there is no overlap between their work and work done by the State Auditor. Senator Carroll asked how difficult it would be for the Department of Revenue to absorb the duties of the State Auditor. Mr. Bork said that this is not very feasible because the rules to be followed are different. The department would have to recreate what the State Auditor already does, which would not be efficient. Mr. King said that the State Auditor serves the important role as watchdog for spending by agencies. The department's focus is generating revenue that is due to the state. Senator Carroll said that Auditor Harmon does a great job.

Representative Bechler asked about red flags from tax returns. Mr. King gave the example of documentation of sales tax and use tax that do not match. Another red flag is when a taxpayer claims assets for an industry in which the taxpayer is not a participant.

In response to Representative Bechler's question, Mr. King said that there is not extensive coverage of farming income. The focus is more on hobby farming.

Representative Bechler noted that the presentation says that the result of a field audit is that the taxpayer pays, protests, or the bill is sent to collections. He asked if a result is ever that the taxpayer overpaid. Mr. King said that this is correct and that a taxpayer getting a refund should be listed as a possible outcome.

Senator Carroll said that one his constituents who was being audited complained that the letter he received had the statement that he owed a specified amount in red. He asked about the standard letter or form that is sent. Mr. King said that for field audits, there is much back and forth communication with the taxpayer and extensive work papers accompany the letter. Regarding desk audits, Mr. Bork said that people may get frustrated if they call the department and do not get an immediate response to questions. It is hard to change the current formats for letters that are based on mainframe systems. When a new system is implemented, letters can be revised to be more user friendly.

Senator Carroll said that a business in his area was doing quarterly filings, which was changed to monthly. He asked if this is a new requirement. Mr. Bork said that whether filing is monthly, quarterly, or annual is reviewed each year based on the amount of sales by the business.

Senator Carroll asked that data be provided to him on the relationship between staffing and revenue collections before the General Assembly considers the budget.

Senator Carroll announced that the next committee meeting is November 22.

The meeting was adjourned at 9:54 AM.