

LEGISLATIVE OVERSIGHT & INVESTIGATIONS COMMITTEE

Minutes of the 3rd Meeting of the 2021 Interim

August 12, 2021

Call to Order and Roll Call

The 3rd meeting of the Legislative Oversight and Investigations Committee was held on Thursday, August 12, 2021, at 1:00 PM, in Room 131 of the Capitol Annex. Representative Jason Nemes, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Danny Carroll, Co-Chair; Representative Jason Nemes, Co-Chair; Senators Jason Howell, Morgan McGarvey, Michael J. Nemes, Wil Schroder, Brandon J. Storm, Reginald Thomas, and Max Wise; Representatives Lynn Bechler, John Blanton, Ken Fleming, Angie Hatton, Joni L. Jenkins, Steve Riley, and Scott Sharp.

Guests: Dr. Aaron Thompson, President, Council on Postsecondary Education (CPE); Dr. Bill Payne, Vice President, Finance and Administration, CPE; Dr. Paul Czarapata, President, Kentucky Community and Technical College System (KCTCS); Lewis Diaz, Chair, Eastern Kentucky University (EKU) Board of Regents; Greg Rush, Vice President, Finance and Administration, Kentucky State University (KSU); Candace Raglin, Director, Human Resources, KSU.

LRC Staff: Gerald W. Hoppmann, Committee Staff Administrator; Committee Analysts William Spears, Joel Thomas, Greg Daly, Chris Hall, Jeremy Skinner, Shane Stevens, Van Knowles, Jacob Blevins; and Ashley Taylor, Committee Assistant.

Minutes for July 16th, 2021

Upon motion by Representative Fleming and second by Senator Nemes, the minutes for the July 16th, 2021, meeting were approved without objection.

Staff Report: *Postsecondary Education Administrator Compensation*

Legislative Oversight staff members William Spears and Joel Thomas presented an analysis of postsecondary education administrator compensation. The staff presentation reviewed the results of the analysis of compensation over time and compared it to a standardized national median average.

The memorandum and presentation slides are available on the Legislative Oversight and Investigations Committee webpage.

Representative Nemes stated there do not appear to be significant problems identified by staff. In response to a question from Representative Nemes, Mr. Spears stated that the comparison group was a sample of universities from across the nation, across different types of schools, and consisted of about 1,000 universities.

Mr. Spears explained that Morehead State University was not in the same comparison group as the University of Kentucky (UK) or the University of Louisville (UofL). Morehead falls under the master's group whereas the other two universities fall in the doctoral group. In response to a question from Representative Nemes, Mr. Spears stated that these comparisons were from across the country and not just in big cities, so the comparison will be different in different areas. He explained that median salaries were used, which control for high and low salaries.

In response to a question from Representative Nemes, Mr. Spears stated committee staff received raw numbers regarding changes in indirect compensation. He explained that staff did not speak with the institutions directly but did receive feedback through the Council on Postsecondary Education.

In response to a question from Senator Carroll, Mr. Spears stated that he is generally okay with the data provided, but there is somewhat of a concern regarding the use of actual salary amounts. He explained that it can be confusing in situations where people leave or do not stay at an institution for an entire year. Additionally, some categories being combined in the data set made it difficult to separate specific data. Senator Carroll agreed with Representative Nemes, saying he expected to see more concerns with the results of the study but did not see any alarming trends.

Dr. Thompson, President for CPE, thanked the committee for the budget increase last year and explained that it has been useful in increasing student success. He added that higher education is the most direct correlation to an educated work force and economic development.

Dr. Thompson said the state institutions have had the lowest tuition increases in almost 30 years. In 2021, the residential undergraduate tuition rates only increased by 0.7 percent, and for this coming year the overall increase will be at 1.1 percent, which is significantly below inflation. Dr. Thompson reported that state institutions have been closing achievement gaps and that the credentials are up. Since 2014, minority credentials are up 40 percent; science, technology, engineering, and math (STEM) was up 30 percent; and short-term certificates were up 9.5 percent in 2020 and up 110 percent since 2005.

Dr. Thompson acknowledged that the staff did a good job on the report. He stated there is value in analyzing compensation levels across campus administrators, as this helps to show the value of the institutions and provides information that helps Kentucky institutions remain competitive with institutions in other states. He made a point that CPE has no direct authority in the hiring process or setting salaries but that it does work closely with the institutions.

Dr. Thompson commented on a number of positive elements of the staff study such as using nationally recognized sources, using appropriate methods such as time series analysis and peer group comparisons, and using median salary data as a method of peer group comparison. He expressed the importance of table 2 of the presentation, because it helps to explain the changes in compensation from 2015 to 2019, as well as highlights that comparing data across institutions is a complex process.

Dr. Thompson shared the limitations that CPE found in the study. He explained that the study found large increases and decreases in compensation, but it did not include an analysis of the root causes. He also noted that the study analyzed actual amounts paid instead of annualized salaries, which could result in skewed data due to high turnover and frequent changes in job titles. He expressed concern regarding comparison data and noted that it is important to consider all the details when comparing universities. Dr. Thompson felt this was an excellent study and the staff did a very good job with the data that was available to them.

Dr. Czarapata said he has served as the President for Kentucky Community and Technical College Systems for four months. He compared KCTCS to a franchise headquarters stating that it runs centralized systems for member institutions, which creates efficiencies and economies of scale, such as centralized payroll, networking, information technology, accounting, legal, benefits, and learning management systems. He noted that these tasks and responsibilities require specialists, which is why, in some cases, their salaries appear higher. Dr. Czarapata pointed to table 6 of the staff presentation noting that KCTCS had made dramatic changes to salaries within the system office and he plans to make sure things run as efficiently as possible.

Mr. Diaz, Chair of the ECU Board of Regents, thanked Legislative Oversight staff and the committee for the study. Mr. Diaz explained that the study would help ECU's board to evaluate its budget and compensation, as well as help the institution remain competitive in hiring for administrative positions. Mr. Diaz noted that in 2020, ECU went through a turnover in presidency and negotiated a new contract with the current president. In this process, the board compared salaries of similar regional colleges both in Kentucky and outside of Kentucky and used that to set compensation. Mr. Diaz stated that ECU applied the principals of performance-based funding within the president's contract, which tied the president's compensation to the success of the university.

Representative Blanton stated that the study is a comparative analysis of administrators and asked if there is something similar for professors working at the universities and colleges. Dr. Thompson explained that they do have comparative analysis for educators and they base it on rank and tenure. Representative Blanton asked if the committee could receive a copy of this data, and Dr. Thompson replied that the information would be provided.

Representative Blanton noted that the staff study found that some institutions have made compensation and expenditure decreases over time while others have experienced increases. He noted that he thought the institutions were possibly top heavy, meaning more interested in compensating administrators than teachers.

In response to a question from Representative Blanton, Dr. Thompson responded that indirect compensation benefits such as country club dues come out of general funds. Dr. Thompson asked Mr. Diaz to discuss the country club dues related to EKU.

Mr. Diaz first responded to an earlier assertion from Representative Blanton that institutions were pricing out middle class students. To this point, Mr. Diaz noted that EKU had held tuition at zero percent over the last year. He noted EKU's BookSmart program that provides all students their textbooks as part of tuition. In regard to paying country club dues as a form of indirect compensation, Mr. Diaz pointed out that the country club in question was the Arlington Golf Course, which is owned by EKU, so the use of its dues as a form of compensation was not technically an expenditure. He also noted that the university president uses the country club to engage with other leaders and alumni to raise funds. Mr. Diaz stated that the cost of bad leadership far exceeds the compensation paid to a great leader. Dr. Thompson also responded to Representative Blanton's assertion that institutions were pricing out middle class students, saying that since 2012, student debt has been going down for Kentucky students.

Representative Nemes noted that, on slide 7 of the staff presentation, EKU had the most amount of money going to students and least going to administrative staff.

In response to a question from Representative Nemes, Mr. Spears responded that country club dues were only an aspect of a compensation package at EKU and that the amount of compensation the dues accounted for range from \$900 to \$3,000. Mr. Spears also noted that the compensation was typically offered to athletic administrators, academic affairs officers, university presidents, and chief executive officers.

Senator Nemes noted that he was pleased to see that Dr. Thompson had instituted a policy of letting students know what they can expect to earn with various degrees. He also commented that he was glad to see the overall decreasing cost of student tuition.

In response to a question from Senator Nemes, Dr. Czarapata responded that KCTCS was doing a lot with apprenticeships and had added another 12 companies, but there had been no discussion of an official transfer of programs to KCTCS. Dr. Czarapata noted that some companies do not like the overhead of managing apprenticeships, so KCTCS is working to take over some of that responsibility.

Representative Nemes commented that the committee appreciated the transparency they had shown and that the responses were helpful. He explained that he had looked at UofL compensation and found the explanations of compensation reasonable. He again commended all universities for their transparency.

Representative Nemes pointed to slide 7 of the staff presentation and noted that Northern Kentucky University had opted out of the state pension system and, as a result, had seen expenditures drop. He noted that KSU's spending on personnel costs had risen. Representative Nemes inquired as to why things at KSU had not improved, noting that the legislature wants KSU to get back on its feet and asked what the legislature could do to help.

Representative Nemes stated he was proud of Kentucky State University and all state universities and colleges and noted that KSU has a historically unique mission. Dr. Thompson stated that the Governor had asked CPE to look at the budget at KSU and work toward getting the institution's debts paid. Dr. Thompson noted that he was committed to KSU and agreed on its importance as Kentucky's only state historically black university. Dr. Thompson noted that they were currently reviewing KSU's financial situation and would be coming back to discuss it with the legislature once the review was complete.

In response to a question from Representative Nemes, Dr. Thompson noted that they need to develop a strategy for KSU to develop centers of excellence at the institution. Dr. Thompson asserted that KSU can be a central part of training teachers, STEM-H programs, and helping with the state government workforce. Dr. Thompson stated that KSU is the institution at the state capital and questioned if we could create more connections between KSU and state government. Dr. Thompson then turned the discussion over to Mr. Rush of KSU to discuss financial information.

In response to a question from Representative Nemes, Mr. Rush pointed to slide 7 of the staff presentation and noted that it referred to the total of all payroll compared to expenditures. Mr. Rush commented that part of KSU's mission is to be a small university with a nurturing environment. As a result, KSU tends to have more staff due to a higher faculty-to-student ratio and having more support services for students. Mr. Rush explained that KSU is currently going through a review of financials and would have more information and recommendations for the committee in the next few weeks. Mr. Rush noted that KSU is likely to continue to have higher staff expenditures than other institutions due to its mission.

Representative Nemes responded that the committee will be looking closely at KSU moving forward and working to help improve it after the seemingly intractable problems that have existed for the institution over time.

Senator Thomas expressed that he is proud that the legislature increased appropriations this year for state educational institutions for the first time since 2008. He noted that this resulted in no tuition increases for the first time in a long time. He expressed his desire that Dr. Thompson would return to the legislature again to ask for another increase in appropriation in the next state budget. Senator Thomas also noted that Dr. Thompson had done a great job as president of KSU during his tenure. Senator Thomas also agreed with other committee members in noting that he saw nothing in the staff study of compensation that was out of line or caused alarm.

Senator Thomas commented that Kentucky's universities now compete with the most prestigious universities in the nation and, therefore, compensation at these institutions must be in the same ballpark as those universities, which costs money. Senator Thomas noted Mr. Diaz's comment that the cost of bad leadership exceeds the cost of good leaders, noting that ECU presidents have gone on to lead major universities.

With respect to the discussion of ECU's country club dues, Senator Thomas noted that all of the top 250 universities give their leaders access to country clubs and contended that this was the cost of doing business.

Senator Carroll noted that the original inspiration for the staff compensation study and was instigated by then-Senator Dan Seum. Senator Carroll recalled that the main issue was not that salaries were necessarily too high but instead that the compensation structure was top heavy in nature and resulted in compensation for administrators being higher than that for educators. Senator Carroll reported that he believed that Senator Seum took issue with the total amount spent on administration being exorbitant.

In response to Senator Carroll, Dr. Thompson commented that the increase in administrative costs had come in the form of student and academic support roles and that it was important to remember that administrators do many different things. Dr. Thompson said that he believed Senator Seum was concerned about high-level administrative positions, but there had been very little change in the compensation for those roles. Dr. Thompson asserted that the majority of administrative compensation increases had come from those in student support roles.

In response to a question from Representative Nemes, Mr. Spears responded that with current data, staff did not feel confident in commenting on Dr. Thompson's assertion regarding the nature of compensation increases for positions in student support services.

Mr. Spears noted that the data staff analyzed for the report dealt only with higher-level administrators and not administrators in student support positions.

Representative Nemes recalled that Senator Seum had originally been talking about UofL which, according to the staff report, has seen compensation reductions over time.

Senator Thomas noted that he wanted to comment on the situation at KSU. He shared that he had a rich family legacy with KSU and that the legislature and the state needed KSU to thrive. Senator Thomas pointed out that KSU had a 150-year legacy in Kentucky and that, although it has had recent financial problems, he believed they could be addressed and that KSU could thrive.

In response to Senator Thomas' assertion, Dr. Thompson stated that they have been working to build KSU's Kentucky student base. He also stated that they owe it to KSU to help it thrive.

Dr. Thompson asserted that the state needed to raise faculty salaries across the board and reiterated that a major component of the solution to Kentucky's economy and the COVID-19 outbreak is the state education system. He noted that he currently feels very good about the status of the institutions and appreciated the committee and staff for the excellent study and expressed admiration for the methodology of the study.

The meeting was adjourned at 2:25 p.m.