PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

May 9, 2019

Call to Order and Roll Call

The Program Review and Investigations Committee met on Thursday, May 9, 2019, at 10:00 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; Senators Reginald Thomas, Whitney Westerfield, and Phillip Wheeler; Representatives Lynn Bechler, Chris Fugate, Al Gentry, Adam Koenig, Ruth Ann Palumbo, Steve Riley, Rob Rothenburger, and Walker Thomas.

Guests: Dr. Aaron Thompson, President, Council on Postsecondary Education; Paul McPherson, Acting Commissioner of the Department for Facilities and Support Services, and Scott Aubrey, Director of the Division of Real Properties, Finance and Administration Cabinet.

LRC Staff:
Greg Hager, Committee Staff Administrator; Jon Roenker, Chief Economist; Whitney Davis; Chris Hall; Van Knowles; Jean Ann Myatt; Sarah Ortkiese; Jeremy Skinner; William Spears; Shane Stevens; Susannah Stitzer; Joel Thomas; Scott Tremoulis; and Kate Talley, Committee Assistant.

Election of House Co-chair

Senator Carroll asked for nominations for House co-chair. Representative Koenig nominated Representative Rothenburger. Representative Bechler seconded the motion. Representative Rothenburger was elected by acclamation upon a motion by Representative Thomas and a second by Representative Koenig.

Minutes for November 8, 2018

Upon motion by Senator Westerfield and second by Representative Fugate, the minutes for the November 8, 2018 meeting were approved by voice vote without objection.

Senator Carroll welcomed Senator Wheeler and Representative Gentry as new members of the committee.

Staff Report: *Tuition, Fees, And Other Costs At Kentucky Public Universities*

Mr. Tremoulis said the report, first presented at the committee's November 2018 meeting, covers the Council on Postsecondary Education's (CPE) role in setting tuition and mandatory fees, costs for students, average net price, financial aid, and undergraduate borrowing. The report makes comparisons with public universities in seven surrounding states and 15 other member states of the Southern Regional Education Board. Costs are adjusted for inflation in 2015 dollars.

From academic year (AY) 2003 to AY 2009, the annual average growth rate for tuition and fees was 11.8 percent. The rate decreased to 4.6 percent for the AY 2010 to AY 2018 period. After AY 2009, CPE established tuition and fee ceilings with the goal of limiting annual increases to 3.5 percent to 5.5 percent.

Total cost of attendance is the sum of tuition, fees, books, supplies, room and board, and other expenses. Net price is total cost of attendance minus the average of all sources of aid. From AY 2007 to AY 2015, the largest increase in total cost was for Murray State (34 percent); the largest increase in net price was for Morehead State (40.3 percent). The highest net price as a percentage of total cost in AY 2007 was for the University of Kentucky (66.5). In AY 2015, the highest percentage was for the University of Louisville (63.3).

From AY 2007 to AY 2015, the average total cost for public universities in Kentucky increased 23 percent; average net price increased 14 percent. The average total cost for public universities in the surrounding states increased 15 percent; average net price increased 11 percent. The average total cost for public universities in the Southern states increased 23 percent; average net price increased 16 percent. Kentucky had the lowest average total cost and net price among surrounding and Southern states in AY 2007 and AY 2015.

From AY 2000 to AY 2015, the percentage of Kentucky students receiving state aid and the average amount of state aid remained flat; the amount of institutional aid increased. In AY 2015, 68 percent of Kentucky university students received state aid; the average amount was approximately $2,300. Kentucky institutions awarded aid to 59 percent of students; the average amount was $6,900.

Median college graduate loan debt was relatively flat from fiscal year (FY) 2001 to FY 2008. Median loan debt then increased 54 percent, from $15,500 in FY 2008 to $24,000 in FY 2015. From FY 2012 to FY 2015, the percentage of students who defaulted within 3 years decreased for institutions in Kentucky and in surrounding states. Kentucky institutions' 3-year default rate was higher than the rate for institutions in surrounding states.

In response to a question from Senator Carroll as to why data in the report stopped at 2015, Mr. Tremoulus said that data for later years were preliminary at the time of the report.

In response to a question from Representative Bechler on how the increase in tuition compared to increases in the cost of living, Mr. Hager said that numbers in the report were adjusted for inflation. The reported increases were beyond inflation.

In response to a question from Senator Carroll about how Kentucky's tuition compares to other Southern states, Mr. Tremoulous said that the upward trend is similar. The average net price for Kentucky universities is lower than the average of most Southern states.

In response to questions from Senator Wheeler about causes of the large increase in student loan debt after 2008, Ms. Davis said that the report did not cover causal factors related to the increase. One article related the increase in debt to households' decreasing ability to afford higher education following the recession. Mr. Tremoulis replied to Senator Wheeler's question about cost drivers of tuition by saying IPEDS data included cost components but the report did not cover why specific costs increased.

In response to Representative Gentry's question about whether there a relationship between declining state appropriations to universities and increased costs for students, Mr. Tremoulis said that there is a trend but that staff cannot say whether there is a causal relationship. Ms. Davis noted that as state support has declined, institutional aid and student debt have increased

Senator Thomas noted that slide 6 shows that median student debt was flat until 2008 and has jumped since. He asked whether this was related to Kentucky being the only state that has cut higher education funding over the past 11 years. Ms. Davis said that debt has also been increasing in surrounding and Southern states. In response to his follow-up questions, she said that she did not know whether debt for Kentucky students would have been mitigated if appropriations had not decreased or whether the trend would be reversed if appropriations were to increase in the future.

Senator Carroll said that all can agree that the General Assembly would prefer to put more money into postsecondary education but there is a crisis with the state pension system. The goal is to address this in order to make investments in needed areas such as postsecondary education.

Representative Koenig said that decreased appropriations is not the only factor in the increase in costs to students. One way to save universities money is to reduce pension costs, which the vetoed pension bill would have done. The workers compensation bill will lower universities' costs for this by 10 percent this year and probably more in the future.

Representative Rothenburger asked why debt is increasing as the number of students taking dual credit courses in high school has been going up, as more employers are offering free tuition for coming to work for them, and universities are offering more virtual courses.

Dr. Thompson said that the significant growth in dual credit programs occurred in the past 2 or 3 years and would not be reflected in the data used for the report. Student debt is especially high for students who do not graduate and for graduates who have a credential that does not pay enough to cover the cost of their debt. CPE and the universities are working to improve financial literacy related to career choice and debt.

Representative Rothenburger said that he is concerned about the supply of healthcare professionals. In response to his questions about debt relief for those in healthcare going into rural or impoverished areas, Dr. Thompson said that there are federal programs for healthcare and other fields. Some programs have state matching funding. The state could do more to take advantage of these programs. Kentucky is not doing a good enough job in K-12 in getting people into teaching, including STEM areas. Good advising is the key. Unfortunately, the staff cuts being made by universities in response to decreased revenue have included some personnel who do such advising.

In response to a question from Representative Riley about the data on student loan debt, Ms. Davis said that loan data are for first-time, full-time undergraduates and debt data are for all undergraduates. Data from the individual universities were averaged. Dr. Thompson said that national average data are for all loans, including graduate and professional programs. Representative Riley commented that students are aware of these programs but are reluctant to move from cities to rural areas after completing college. A big issue with student loan debt is that students pursue areas of study for which it is difficult to find jobs or the jobs do not pay enough for students to pay their debt. Dr. Thompson said there are good lower paying jobs, but there is a need to be proactive in informing students about the financial resources needed to repay student debt.

In response to a question from Senator Carroll, Dr. Thompson said that universities have become more proactive about monitoring students' debt and will become even more so.

Senator Wheeler said that it is a great challenge is to keep graduates in impoverished areas long term once they have met the requirements for getting debt relief. He suggested that people in these programs be encouraged to assimilate to the community to entice them to remain there after their debt is paid off. Dr. Thompson agreed.

Senator Carroll asked whether there is a comprehensive plan to help reduce the cost of college. Dr. Thompson said that there are four ways to think about the future: getting a higher percentage of Kentucky residents to go to college; getting more adults to return to school or skill up; improving the success rate, including students finishing their programs faster; and getting more out-of-state students who stay in Kentucky after graduation. CPE is working with the university presidents.

Senator Thomas stated that earlier Dr. Thompson had said that there are three reasons for the large increase in student debt but only students not finishing was mentioned. Dr. Thompson said the other two reasons are that some students are overborrowing for the degrees they get and financial literacy is insufficient.

Senator Thomas said that Kentucky is the only state that has continued to cut higher education since 2008, cheating universities of more than $1.1 billion. He asked whether Dr. Thompson would advocate returning higher education funding to 2008 levels in the 2020-2022 budget. Dr. Thompson said he would. He said that he understands that there are other problems to be addressed, but higher education can help alleviate them.

Representative Bechler said that he objected to the term cheating. He asked whether thought is being given to reducing the number of students or programs in fields with student debt problems. Dr. Thompson said some programs, including popular ones, have been eliminated. CPE's review will consider more.

Representative Bechler made a motion to adopt the staff report; Representative Riley seconded. The report *Tuition, Fees, And Other Costs At Kentucky Public Universities* was adopted by roll call vote.

Senator Carroll thanked Dr. Thompson for Kentucky universities' participation in the federally funded SHEP program [Supported Higher Education Project], through which his special-needs daughter is attending Murray State University. He said that part of his mission will be to further this program in the state.

Staff Report: *Surplus Real Property In Kentucky*

Ms. Myatt stated that the Finance and Administration Cabinet's Division of Real Properties (DRP) manages the inventory of state-owned properties. Real property is any land and improvements. Information on properties is stored in the Archibus asset management system. As of June 2017, Kentucky had 7,929 real property assets. Thirty-three properties were listed as vacant in Archibus. Program Review staff identified 601 properties that did not specify a building use description code or were designated as unknown in Archibus. DRP does not require agencies to enter a use code for reporting. The report's first recommendation is that the cabinet should ensure that agencies provide building use code descriptions in all real property reporting forms.

Of 34 properties resulting in a sale since 1998, nine property transactions had problematic information, including properties with no sale value, no appraisal, or that seemed to qualify for transfer instead of sale. The report's second recommendation is that the cabinet should ensure that all property disposition files are complete and that Archibus is up-to-date and reflects paper files associated with a disposition.

The cabinet is empowered, with secretary approval, to allow transfers, exchanges, and sales of real property. Transfers, generally without cost, are allowed to other governmental entities for public use. DRP handles the disposition of surplus property, but there is no centralized process to identify surplus property. Agencies inform DRP, submitting a written request, with supporting documentation, to dispose of the property. Some states have adopted a centralized process to manage real property assets. The report's third recommendation is that the division should consider designing and implementing a survey that helps agencies identify underused or unnecessary space. The division should then consider advising agencies on space planning and identifying potential surplus properties.

Once a property is approved for sale, it may be sold via sealed bid or auction. If other agencies have expressed interest in acquiring property, the division provides notification to the agencies before initiating a public sale. Since 2009, surplus real properties have increasingly sold for below appraised values. The state's Model Procurement Code seems to indicate that state real property should not sell for below its appraised value.

Mr. Thomas showed a graph of the differences between appraisal values and sales. Senator Carroll asked about the property that sold for approximately $400,000 below appraisal in 2002. Mr. Thomas replied that it was a parking lot in Pikeville that was sold to a church by the Kentucky Community and Technical College System. Continuing the presentation, Mr. Thomas said that since 2009, of the 14 properties that sold for less than $500,000, 11 were below appraisal, including five that sold for less than half of appraised value. Four of five properties selling for over $500,000 from 2010 to 2017 sold for less than their appraisals. Over the 1998 to May 2017 period, the total value of sales was $11.5 million, $2.1 million less than total appraisals. From February 2012 to May 2017, 13 properties, mostly state office buildings, sold for a total of approximately $10.7 million.

DRP relies on individual agencies to provide an inventory of real property, including any property considered surplus. The division does not have a means of identifying surplus real property and does not use space standards to address issues such as occupancy and whether property could be consolidated or used more efficiently. Some states have moved to a more centralized model of real property asset management, which includes a single agency prescribing standards for space utilization. A growing number of employees are not provided permanent office space because of alternative workspace arrangements such as telecommuting or virtual office. Square footage requirements for employees have been decreasing. Mr. Thomas described initiatives for real property management in Georgia and Tennessee.

Kentucky also uses leasing as part of its real property asset management. As of November 2017, Kentucky had 1,481 active leases. Kentucky was lessee of 1,030 leases, for which the state paid $50 million, and lessor of 451 leases, for which the state received

$14 million. Most leases are fixed fee. Leasebacks and built-to-suit leases allow land to be transferred to another entity to construct a project and lease the building back to the state until the state attains ownership once the lease amortizes. As of January 2, 2018, DRP listed two properties with leaseback arrangements and one timber harvest sale. The state of Washington has a similar leaseback capital construction model to Kentucky. Mr. Thomas described how Georgia and Missouri have decreased the number of properties they lease.

Responding to Senator Carroll's question about the process for selling a surplus property, Mr. Aubrey said that state agencies send information on a surplus property to DRP, which checks to see if other state agencies have a use for the property. If they do not, the division checks with local governments. During this process, an appraisal is done. If no state agency or local government wants the property, it is put up for public bid. If no initial bid is acceptable, the property is rebid, possibly multiple times. Eventually, the property may be sold for less than appraisal to cut the state's losses such as the cost of utilities and maintenance.

In response to a question from Senator Carroll, Mr. Aubrey stated that in approximately 90 percent of cases, the proceeds of the sale of surplus property go to the general fund. More of the proceeds may be retained by agencies in the future. Budget language in recent years has allowed some proceeds to go to the agencies that had the surplus properties.

In response to a question from Senator Carroll, Mr. Aubrey said that there is no systematic review of surplus properties. The division has only 18 staff and depends on agencies to identify surplus properties.

Representative Thomas asked for a description of the University of Kentucky (UK) public-private project. Mr. Aubrey said that UK has opted out, so the university will be handling the project. It is a 30 year lease at the end of which the property reverts to UK, which is similar to what was done with the Mero Street project in Frankfort.

In response to a question from Representative Koenig, Mr. Aubrey said that DRP is complying with the statute that properties not be sold for less than appraisal. For most sales, the sale price and appraisal are similar. For properties resulting in sales that are significantly less than appraisal, the property is rebid multiple times. At the some point, the decision is made that the market has spoken; the sale price is the fair market value.

Representative Koenig said that as a realtor he understands the need to cut losses, but it seems like the agency is not living up to letter of the law. As a state, we should do that or consider changing the statute. He asked whether how appraisers are chosen should be changed given the large differences between appraisal and sale price in some cases. Mr. Aubrey said that appraisers are selected from the list of appraisers approved by the

Transportation Cabinet. Appraisals are reviewed, but DRP generally relies on the expertise of the certified appraisers.

Senator Carroll said that he was surprised that sales do not go through a legislative committee for review. The lack of oversight is a concern.

Senator Wheeler said a centralized database would save money for the state In response to his questions, Mr. Aubrey said that, by statute, DRP communicates with cities and counties to see if they have appropriate facilities for the state to lease if a suitable state property is unavailable.

Senator Carroll gave the example of office space that was leased for a higher price than other options by the Administrative Office of the Courts, as cited in a report by the state auditor. Senator Westerfield said that the property was owned by the son of a former Supreme Court justice. Mr. Aubrey said that he was not familiar with this transaction, but state agencies are generally expected to rent for the lowest price available. Exceptions are made if there is reasonable justification, such as a more convenient location.

In response to questions from Representative Rothenburger, Mr. Aubrey said that the number of state assets is close to 7,929, the number in the staff report and presentation. The number does not include Transportation Cabinet right of ways. The only Administrative Office of the Courts property included is its Frankfort headquarters. DRP is working to ensure that every property is counted. The Finance and Administration Cabinet's Division of State Risk and Insurance Services does an audit every 4 years, which allows DRP to identify any properties missed in prior years. In response to Representative Rothenburger's question as to whether there are more properties that could potentially be sold, Mr. Aubrey said yes.

Representative Rothenburger asked whether sealed bids is the primary way of disposing of a property and whether DRP lists on websites such as govdeals.com. Mr. Aubrey stated that sealed bids are the primary method and that only personal property is listed online. DRP uses eProcurement, the Finance and Administration Cabinet, and local newspapers. Representative Rothenburger said that it is costly to do sealed bids and that online listings should be considered. Consolidation of properties should be considered, such as placing commonwealth attorneys, pre-trial, probation, and parole in the judicial centers instead of in separate spaces. Kentucky should look at other states and centralization.

Senator Carroll said that there is a need for more discussion on this topic. It does not seem like the handling of surplus properties is organized adequately.

Representative Koenig made a motion to adopt the staff report; Senator Wheeler seconded. The report *Surplus Real Property In Kentucky* was adopted by roll call vote.

Senator Carroll announced that the committee will meet during the weeks in which interim joint committees meet on Fridays at 8 AM: June 7, July 12, August 23, September 13, October 11, and November 22.

The meeting was adjourned at 11:53 AM.