



# Kentucky's Performance Funding Model for Postsecondary Education

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# Some Background and History

- In the 1990's and prior, Kentucky had a comprehensive funding model, largely based on enrollment
- In the early 2000's, Benchmark Funding models were used to generate budget requests
- For 2012-14, 2014-16, and 2016-18 biennia, CPE requested performance funds to distribute new dollars
- In 2016-18, additional "equity funds" were requested for two comprehensive institutions that had been growing but had not seen an increase in funds – largely because of lack of new funding. Legislature funded half of the request.

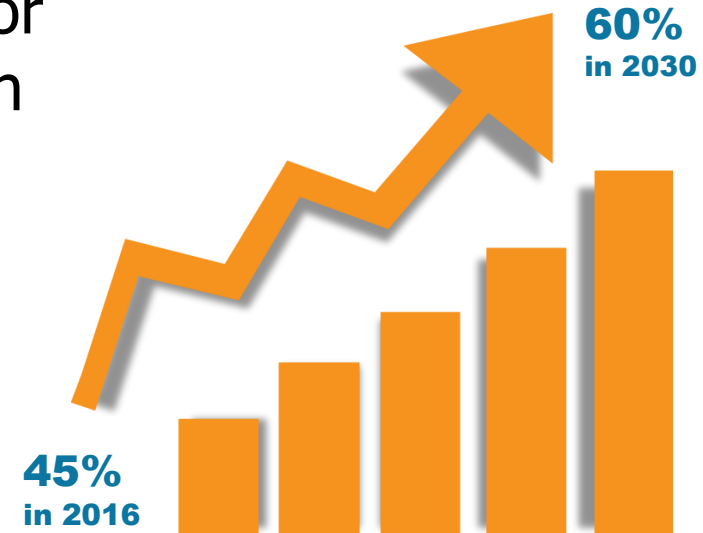
# Impetus for New Model

- Accelerate progress toward attainment of state goals for postsecondary education
- Address shortcomings of previous funding method
- Rectify funding disparities among institutions that had developed over time
- Respond to legislative mandate to convene working group and develop model (2016-18 budget bill, HB 303)

# Impetus for New Model

## *Kentucky's Big Goal*

- Increase educational attainment of working age adults to 60% by 2030
- Responds to workforce demands for highly trained, educated population
- Benefits of increased attainment:
  - higher income (lower poverty)
  - accelerated job growth
  - better life choices and health
  - engaged citizens



# Impetus for New Model

## *Specific Goals*

- **Increase retention and progression** of students toward timely completion
- Increase numbers of **degrees and credentials** earned by all students
- Produce more degrees and credentials in **fields that garner higher wages** upon completion (STEM+H fields, high demand fields, targeted industries)
- **Close achievement gaps** by growing degrees and credentials earned by minority, low income, and underprepared students

# Impetus for New Model

## *Shortcomings of Previous Method*

- For more than a decade, state appropriations were distributed **based on share of funding received in the prior year**
- This approach failed to recognize changes in:
  - Enrollment
  - Program mix
  - Student outcomes (progression, degree completion)
- **No financial incentives for achieving desired state goals for postsecondary education**

# Impetus for New Model

## *Respond to Legislative Mandate*

- The 2016-18 budget bill (HB 303) directed the Council to establish a working group composed of:
  - The Governor
  - President of Senate
  - Speaker of the House
  - **President of eight public universities and KCTCS**
  - Council president

(or their representative)
- Charged to develop a comprehensive model for allocating state funds that included enrollment, mission, and performance
- Transferred 5% of each institution's base (\$42.9 M, excluding KSU) to a newly created Performance Fund

# Development Process

## *Funding Model Timeline*

- The working group met five times between April and November 2016
- Created a report detailing a model endorsed by all campus presidents, submitted to Governor and Legislature.
- Formed basis for SB 153:
  - Passed the House and Senate with no changes
  - Signed into law by Governor on March 21, 2017 (KRS 164.092)



# Development Process

## *Consensus Achieved*

- Creating the model required compromise on part of every institution; ultimately consensus was achieved

Postsecondary Education Working Group  
December 1, 2016

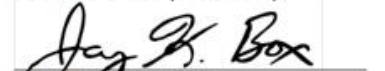
The Postsecondary Education Working Group established pursuant to HB 303 of the 2016 General Assembly, working in collaboration with Council on Postsecondary Education staff, reached consensus on comprehensive funding models for the allocation of state General Fund appropriations described in this report. The signatories to this report endorse the recommendations set forth and will support their full implementation.


  
Robert L. King, President  
KY Council on Postsecondary Education

  
Robert O. Davies, President  
Murray State University


  
Michael T. Benson, President  
Eastern Kentucky University


  
Geoffrey S. Mearns, President  
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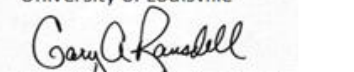
  
Jay K. Box, President  
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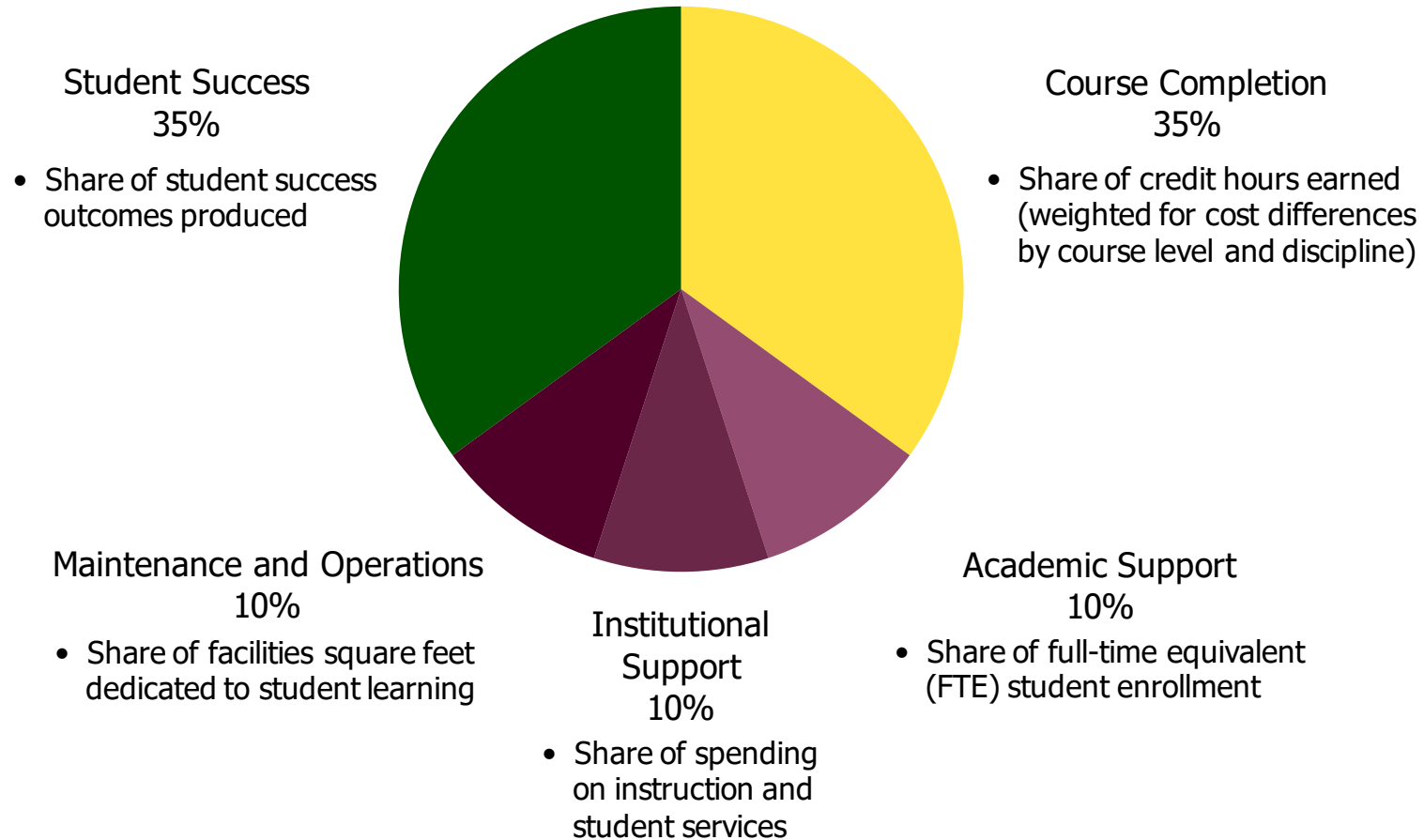
  
Wayne D. Andrews, President  
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Gary A. Ransdell, President  
Western Kentucky University

# Components and Metrics

## *Major Components/Allocation Percentages*

### Kentucky's Performance Funding Model Distribution of Allocable Resources



# Components and Metrics

## *Allocable Resources / Total General Fund*

Fiscal Year 2019-20 – Universities	Amount (M)
Beginning General Fund	\$658.2
Performance Fund	30.1
Mandated Programs (& some debt service)	-104.2
Small School Adjustment	<u>- 56.1</u>
<b>Run through the Model</b>	<b>\$528.0</b>
Total of Hold Harmless Amounts	\$9.8

# Components and Metrics

## *Student Success Metrics*

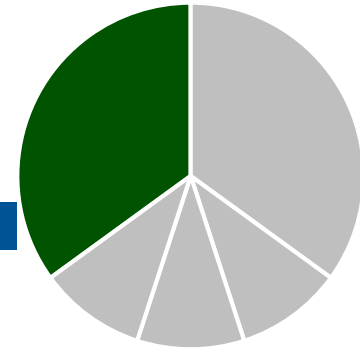
### Universities

- Bachelor's degrees earned
- Degrees per 100 FTE students
- Bachelor's degrees earned in:
  - STEM+H Fields
- Bachelor's degrees earned by:
  - URM Students and Low Income Students
- Progression (@ 30, 60, 90 Credit Hours)

KCTCS - similar, but tailored to Community Colleges.  
Includes degrees/certificates earned by underprepared students.

# Components and Metrics

## *Student Success Funding Pools*



Kentucky Performance Funding Model  
 Success Metrics, Allocation Percentages, and Funding Pools  
 Fiscal 2018-19 (Dollars in Millions)

<u>Student Success Metric</u>	<u>Allocation Percentages</u>	<u>Student Success Pool</u>
Progression @ 30 Hours	3%	\$15.6
Progression @ 60 Hours	5%	26.0
Progression @ 90 Hours	7%	36.4
Bachelor's Degrees	9%	46.8
STEM+H Degrees	5%	26.0
URM Bachelor's Degrees	3%	15.6
Low Income Bachelor's Degrees	3%	15.6
Total Student Success Allocable Resources	35%	\$181.9

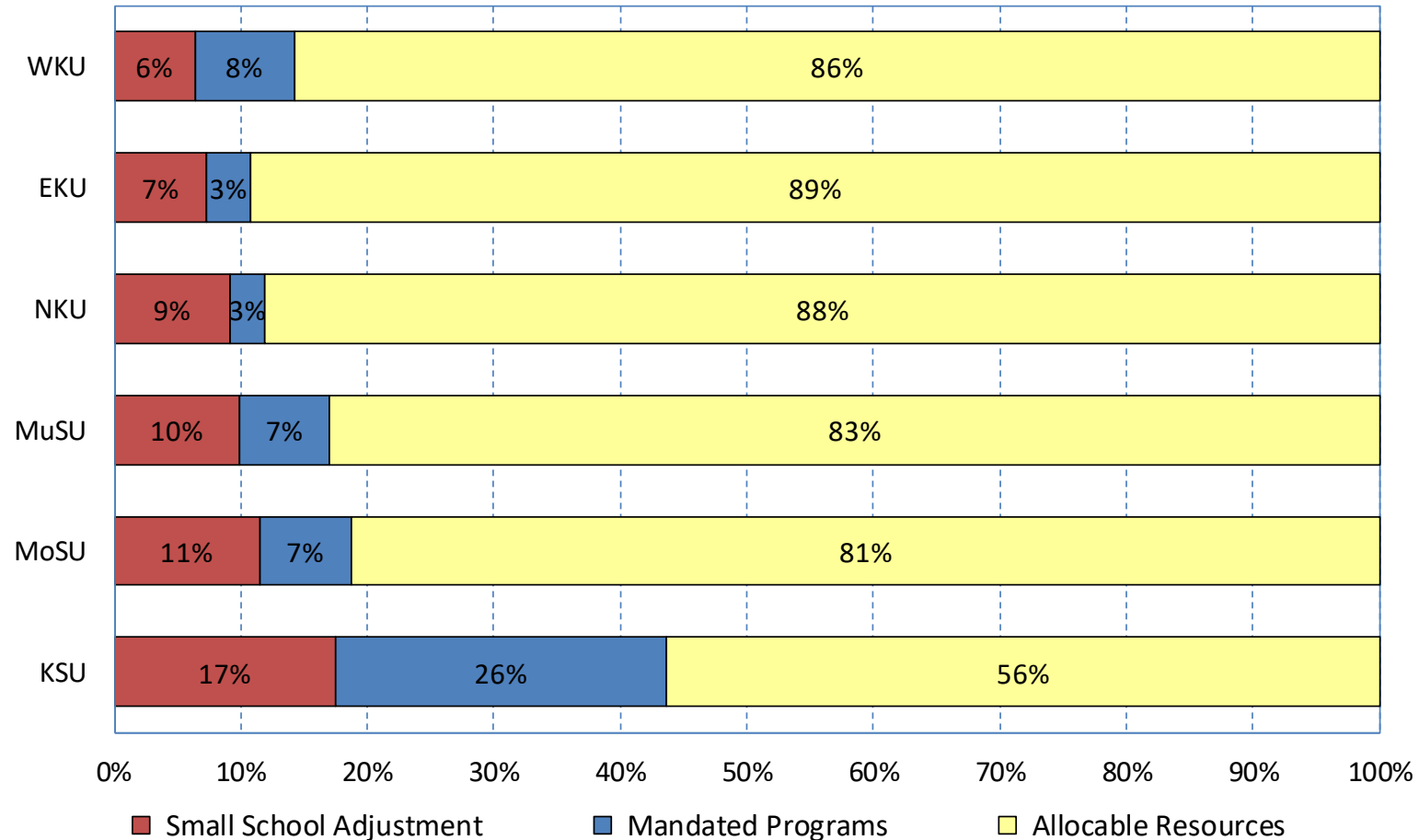
# Key Features

- Backs out research and public service appropriations that are not instruction related (mandated programs)
- Deducts \$4.5 M from formula at each comprehensive university as a small school adjustment
- Weights student credit hours earned to account for cost differences by degree level and discipline
- Applies 50% weighting for credit hours earned by out-of-state students (100% for in-state students)

# Key Features

## *Funding Model Deductions*

Kentucky Comprehensive University  
Funding Model Deductions as a Percent of General Fund Appropriations  
Fiscal Year 2018-19



# Key Features (Cont'd)

- Uses degrees per 100 FTE index to encourage efficient degree production
- **Provides premiums for degrees earned by low income and minority students (and degrees in STEM+H fields)**
- Uses hold harmless and stop loss provisions to provide gradual **phase in** (max 3% loss, over 3 years)
- Reduces disparities by providing **like funding for like activities** (i.e., achieving equilibrium)



# Key Features

## *Premiums for Underserved Populations*

Kentucky Performance Funding Model  
 Premiums for Low Income and Minority Student Degree Production  
 Fiscal Year 2018-19

<u>Component Category</u>	<u>Allocation Percent</u>	<u>Size of Pool</u>	<u>Weighted Degrees</u>	<u>State Funding per Degree</u>	<u>Funding Multiple</u>
<b>A</b> → Bachelor's Degrees	9.0%	\$46,784,400	22,975	\$2,036	1.0
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Bachelor's Degrees				\$2,036	
<b>B</b> → Low Income Bachelor's	3.0%	\$15,594,800	11,606	1,344	
Low Income Total				\$3,380	1.7
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Bachelor's Degrees				\$2,036	
<b>C</b> → Minority Bachelor's	3.0%	\$15,594,800	2,410	6,471	
Minority Total				\$8,507	4.2

Total Allocable Resources: \$519,827,100



# Key Features

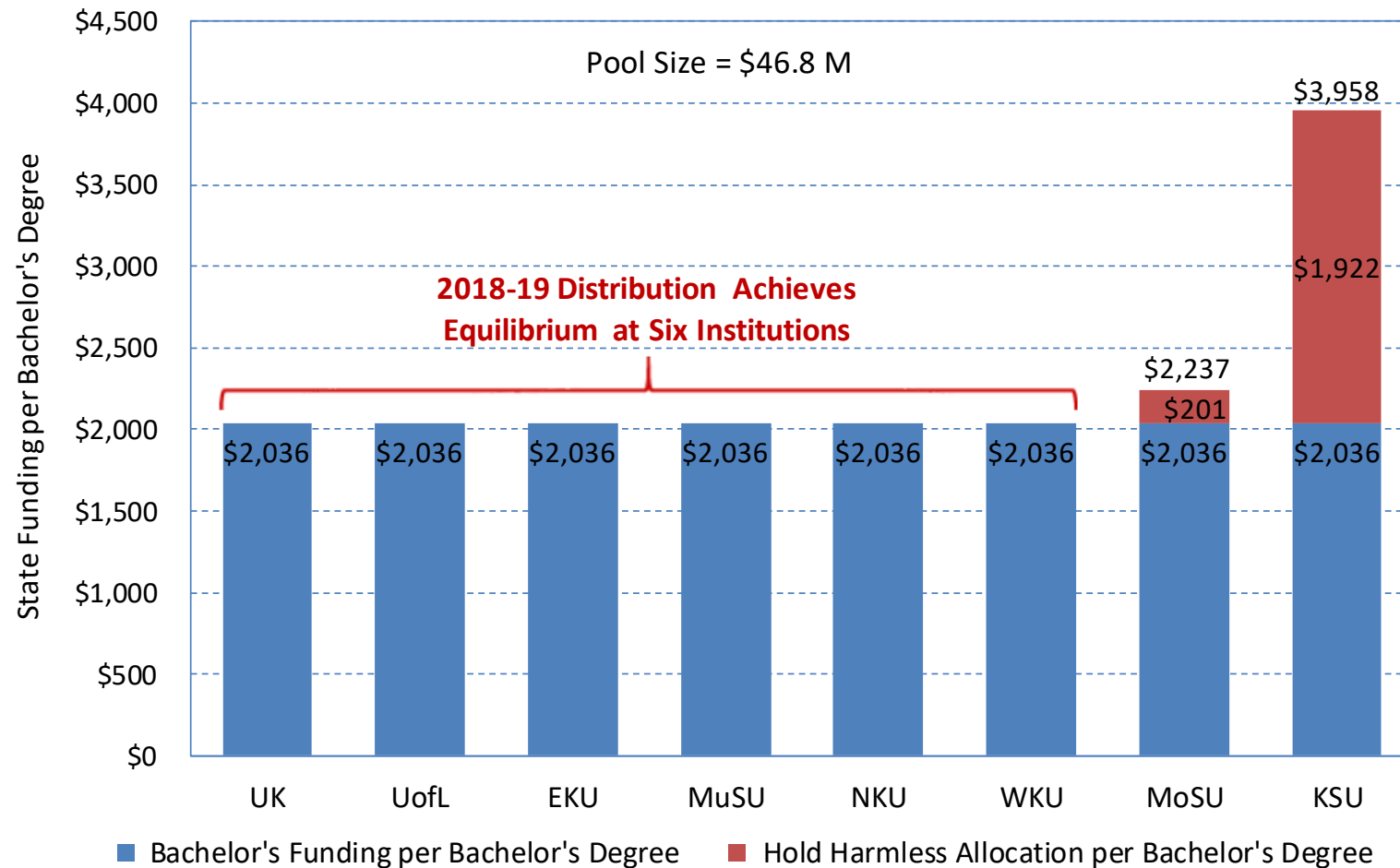
## *Gradual Phase In*

- **Fiscal 2017-18** → Distribute \$42.9 M Performance Fund (KSU Excluded from Model)
  - **Fiscal 2018-19** → Hold Harmless
  - **Fiscal 2019-20** → 1% Stop Loss
  - **Fiscal 2020-21** → 2% Stop Loss (Reconvene Working Group)
- Maximum Possible  
Redistribution  
3% Over 3 Years

# Key Features

## *Like Funding for Like Activities*

Kentucky Performance Funding Model  
Bachelor's Degree Component Funding per Weighted Bachelor's Degree  
Fiscal Year 2018-19



# Current Status

- State funding is no longer being distributed based on historical share
- Funding based on outcomes is providing incentives for student progression and timely completion
- Institutions are reacting to the model strategically
- Most funding disparities that developed over time have been rectified (equilibrium at 6 of 8 universities)
- Performance Funding will be part of 2020-22 postsecondary education budget recommendation – Workgroup will reconvene in FY 2020-21.