Council on Postsecondary Education
DRAFT Agenda Item
January 30, 2006

Performance Funding Component

The Council adopted a budget recommendation in November that included $3.5 million in 2007-08 in performance funding for the institutions to be distributed based on performance related to the goals of House Bill 1. Based on the comprehensive funding review, as approved by the Council, the performance funding component will be implemented beginning in the second year of the biennium.

Draft indicators and weighting

Description/ Weighting	*Indicator*
Benchmark Comparisons (50%)	(1) Production - degrees per FTE (2) Efficiency - Production/total public funds/FTE
Key Indicators: Goal Attainment (30%)	(3) Degree production - progress toward key indicator goal (4) Minority degree production - progress toward key indicator goal
Institution's Choice: Key Indicators Goal Attainment (20%)	(5) Selected by each institution from a list of institutional specific CPE approved key indicators

One of the principle objectives of this new component of the funding model is that it be relatively simple with only a few focused indicators. These particular indicators were selected based on numerous discussions with the institutions to reward performance for efficiently increasing the educational attainment rates of Kentuckians. All of the key indicators are important and will be monitored for performance each year; however, these five focused indicators have been selected for the performance funding component.

Degree production is defined as baccalaureate degrees for four-year institutions and associate degrees for two-year institutions. Half of the funds will be distributed based on performance relative to benchmark peer institutions and the remaining half based on performance relative to goals towards House Bill 1 key indicator progress.

The methodology for distribution of available funds is detailed in Attachment A. If funds are appropriated, performance funding will be awarded in FY 2007-08 based on performance in FY 2006-07.

Staff preparation by Sandra Woodley

*** DRAFT ***

ATTACHMENT A

Kentucky Council on Postsecondary Education
Performance Funding System 2006-08
Revised December 16, 2005

The Council adopted a budget recommendation in November that included $3.5 million in 2007-08 in performance funding for the institutions to be distributed based on performance related to the goals of House Bill 1. Based on the comprehensive funding review, as approved by the Council, the performance funding component will be implemented beginning in the second year of the biennium.

One of the principle objectives of this new component of the funding model is that it be relatively simple with only a few focused indicators. These particular indicators were selected based on numerous discussions with the institutions to reward performance for efficiently increasing the educational attainment rates of Kentuckians. All of the key indicators are important and will be monitored for performance each year; however, these five focused indicators plus one process indicator have been selected for the performance funding component.

Indicators and Weighting

Indicators	Weight
(1) Productivity: Degrees / 100 UG Student FTE	25%
(2) Efficiency: Production / (Total Public Funds / UG Student FTE)*1,000	25%
(3) Number Degrees	20%
(4) Number of Minority Degrees	10%
(5) Improving Institution Choice Key Indicator - Production	15%
(6) Improving Institution Choice Key Indicator - Process	5%
	100%

Degrees are defined as baccalaureate degrees for four-year institutions and associate degrees for two-year institutions. Half of the funds will be distributed based on performance relative to benchmark peer institutions (production and efficiency) and the remaining half based on performance relative to goals towards House Bill 1 key indicator progress. Council staff will work with the institutions to refine the methodology for awarding points and distributing funds for each indicator such that a performance index can be calculated to distribute funds in the second year of the biennium. If funds are appropriated, performance funding will be awarded in FY 2007-08 based on performance in FY 2005-06 and FY 2006-07.

One option for determining the exact performance funding dollars allocated could be to take an institution's pro-rata share of performance funding points compared to the total of all institutions. Please see the example below and Appendix A for how this might work.

Example of Performance Funds Allocation

Institution A Indicator (1) Points	X	25%	=	Weighted Points Indicator (1)
Institution A Indicator (2) Points	X	25%	=	Weighted Points Indicator (2)
Institution A Indicator (3) Points	X	20%	=	Weighted Points Indicator (3)
Institution A Indicator (4) Points	X	10%	=	Weighted Points Indicator (4)
Institution A Indicator (5) Points	X	15%	=	Weighted Points Indicator (5)
Institution A Indicator (6) Points	X	5%	=	Weighted Points Indicator (6)
Institution A			=	Total Weighted Points
Institution A Total Weighed Points / Total of All Institutions' Weighted Points			=	Percent of Performance Funds Allocated

Percent of Performance Funds x Total Funds Allocated = Institution A Share of Funds

BENCHMARK INDICATORS

(1) Productivity

Points: 10 points

Purpose: This indicator is designed to improve degree production per 100 undergraduate student FTE relative to the average of its benchmark institutions.

Description: The degree productivity ratio is calculated by taking the number of bachelor's degrees or associate degrees (KCTCS) produced in a given year per 100 undergraduate student FTE. The ratio is then converted into a percent of the average production ratio of the benchmark institutions.

Scoring: Performance points are allocated by increasing the percent relative to the average of the benchmark institutions. For example, if Institution A reports a productivity ratio of 71% of the benchmark average in the baseline year and increases this percent to 77% of the benchmark average 2005-06, the institution would be allocated 5 performance funding points. There is also an alternate point system designed to reward institutions that are already producing above the 80% of the average of their benchmark institutions.

For institutions Below 80% of the Average of Their Benchmark Institutions

Goal	Increase 0 to 1.9%	Increase 2% to 2.9%	Increase 3% to 3.9%	Increase 4% to 5.9%	Increase 6% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

For institutions Above 80% of the Average of Their Benchmark Institutions

Goal	An adjusted point system has been set up to reward institutions that are already producing higher than their benchmark average	Above 80% of Benchmark Average	Increase 0% to 2.9%	Increase 3% or >
2005-06 Points		3	4	5
2006-07 Points		3	4	5

(2) Efficiency

Points: 10 points

Purpose: This indicator is designed to enhance the efficient production of degrees relative to funding and undergraduate student FTE compared to benchmark institutions.

Description: The efficiency ratio is calculated by taking an institution's production and dividing it by Total Public Funds by undergraduate student FTE. The ratio is then converted into a percent of the average efficiency ratio of the benchmark institutions. Performance points are allocated by increasing the percent relative to the average of the benchmark institutions. For example, if Institution A reports an efficiency ratio of 71% in the baseline year and increases this percent to 77% of the benchmark average 2005-06, the institution would be allocated 5 performance funding points. There is also an alternative point system designed to reward institutions that are already producing above 80% of the average of their benchmark institutions.

Scoring: For institutions Below 80% of Benchmark Institutions' Average

Goal	Increase 0 to 1.9%	Increase 2% to 2.9%	Increase 3% to 3.9%	Increase 4% to 5.9%	Increase 6% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

For institutions Above 80% of the Benchmark Institutions' Average

Goal	This adjusted point system rewards institutions that are already producing at higher than average levels	Above 80% of Benchmark Average	Increase 0% to 2.9%	Increase 3% or >
2005-06 Points		3	4	5
2006-07 Points		3	4	5

KEY INDICATORS

(3) Degrees

Points: 10 points (5 points each for 2005-06 and 2006-07)

Purpose: This indicator is designed to emphasize improvement in the numbers of bachelor and associate (KCTCS) degrees produced per year by institutions.

Description: At the state level, Kentucky needs an annual increase in bachelor's degree production of approximately 4.5% to significantly close our educational attainment gap over the next 15 years and get us closer to the national average in terms of working adults with a bachelor's degree or higher. Historically over the past 15 years, annual bachelor's degree production has increased by approximately 2.5% per year.

Scoring: Based upon annual percentage increase in degrees

Four-Year Institution Goals	Increase 0 to 2.4%	Increase 2.5% to 2.9%	Increase 3% to 3.4%	Increase 3.5% to 4.4%	Increase 4.5% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

KCTCS Goals	Increase 0 to 5.9%	Increase 6% to 6.9%	Increase 7% to 7.9%	Increase 8% to 9.9%	Increase 10% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

(4) Minority Degrees

Points: 10 points (5 points each for 2005-06 and 2006-07)

Purpose: This indicator is designed to emphasize improvement in the numbers of minority degrees produced per year.

Description: Kentucky is interested in increasing the number and proportion of bachelor's and associate degree holders awarded to minorities. This indicator assesses the annual percentage increase in minority bachelor's or associate's degrees. The minority population in the Commonwealth is approximately 10%. Although minorities make-up about 11% of the undergraduate population at four-year institutions, only 7% of bachelor's degrees are awarded to minorities.

Scoring: Based upon annual percentage increase in minority bachelor's or associate's degrees

Goals	Increase 0 to 4%	Increase 5% to 9%	Increase 10% to 19%	Increase 20% to 24%	Increase 25% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

(5) INSTITUTION CHOICE KEY INDICATORS - PERFORMANCE

All institutions were given the option to "choose" a particular key indicator from the list of institutional key indicators under questions 3, 4, and 5 of the public agenda.

Choice: **Student Engagement in Undergraduate Experience** (NKU and WKU)

Points: 10 points

Purpose: This indicator is designed to focus on improving student engagement in the undergraduate experience.

Description: Student engagement in the undergraduate experience is assessed by the National Survey of Student Engagement (NSSE) at four-year institutions and the Community College Survey of Student Engagement (CCSSE) at KCTCS. These instruments measure the extent to which students engage in educational practices that have been empirically linked to high levels of learning and development in college.

The specific measures used are the benchmarks of effective educational practice that include: level of academic challenge, active and collaborative learning, student-faculty interaction, enriching educational experiences, and supportive campus environment for the four-institutions. CCSSE has a similar set of benchmark indicators for two-year institutions. For the four-year institutions, five scores are reported for both first-year and senior students for a total of 10 indicators of engagement.

Scoring: Based upon the score of each benchmark for both first-year students and seniors.

Goals	Equal to Institution's NSSE 2005 Benchmark Score or National Average	Greater Than Institution's NSSE 2005 Benchmark Score or National Average
NSSE 2007	.5	1
Note: The standard error will be taken into consideration when calculating score differences in order to make sure performance is being rewarded and not statistical error.		

Choice: **Transfers from KCTCS to Four-year Institutions** (EKU, KSU, and Morehead)

Points: 10 points

Purpose: This indicator is designed to increase the number of transfers on an annual basis

Description: Annual headcount of first-time transfers from KCTCS to all four-year institutions, public and independent. The number of transfers from KCTCS to four-year institutions will play a critical role in making progress toward increasing educational attainment in the state. At the state level, we need an annual 10% increase in transfers in from KCTCS to the public four-year institutions to make progress on our 2020 educational attainment projections.

Scoring: Based upon the overall increase in the number of transfers from previous year

Goals	Greater of Increase 0 to 2.9% on previous year Or 4 transfers	Greater of Increase 3% to 4.9% on previous year or 8 transfers	Greater of Increase 5% to 6.9% on previous year or 12 transfers	Greater of Increase 7% to 9.9% on previous year or 16 transfers	Greater of Increase 10% or more on previous year or 20 transfers
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

Choice: **Undergraduate Enrollment** (Murray and KCTCS)

Points: 10 points

Purpose: This indicator is designed to increase undergraduate enrollment on an annual basis

Description: Total Fall semester headcount undergraduate enrollment, includes full and part-time, degree and non-degree. At the state level, we need an annual increase in undergraduate enrollment of approximately 3.5% at the four-year public institutions to start making significant progress in our educational attainment goals over the next 15 years. Since 1998, undergraduate enrollment at the public four-year institutions has increased on average by 1.4% per year

Scoring: Based upon the percent increase in undergraduate enrollment from previous year

Goals	Increase 0 to 1.4%	Increase 1.5% to 1.9%	Increase 2.0% to 2.4%	Increase 2.5% to 3.4%	Increase 3.5% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

Choice: **Extramural Research & Development** (U of L)

Points: 10 points (5 points each for 2005-06 and 2006-07)

Purpose: This indicator is designed to increase the rate at which institution capture additional extramural research and development funding.

Description: Extramural research and development funding is taken from the annual National Science Foundation Survey of Research and Development Expenditures.

Scoring: Points are awarded based upon the percentage change in funding from the previous year

Goals	Increase 0 to 3%	Increase 4% to 7%	Increase 8% to 10%	Increase 11% to 14%	Increase 15% or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

Choice: **Six-year Graduation Rate** (UK)

Points: 10 points (5 points each for 2005-06 and 2006-07)

Purpose: This indicator is designed to emphasize improvement in six-year graduation rates on an annual basis.

Description: The percentage of bachelor's degree-seeking students who graduate within six years. Numerator: Number of graduates at institution. Denominator: Fall semester first-time, full-time, baccalaureate degree-seeking freshmen six years previous. The overall goal is to increase institution and state level graduation rates above benchmark institutions and the national average.

Scoring: The absolute annual change in six-year graduation rate is assessed. In order to reward institutional performance above the average of the benchmark institutions or the national average, an alternative scoring system is also included that rewards institutions for higher levels of overall performance by providing points for smaller annual increases in graduation rates.

For institutions below the average of benchmark institutions or national average:

Four-Year Institution Goals	Increase 0 to .24	Increase .25 to .49	Increase .50 to .99	Increase 1.0 to 1.49	Increase 1.5 or >
2005-06 Points	1	2	3	4	5
2006-07 Points	1	2	3	4	5

For institutions above the average of benchmark institutions or national average:

Four-Year Institution Goals	This adjusted scoring structure rewards institutions that are already graduating students at higher than either the average of the benchmark institutions or the national average	Above National Average	Increase 0 to .74	Increase .75 or >
2005-06 Points		3	4	5
2006-07 Points		3	4	5

(6) INSTITUTION CHOICE KEY INDICATORS - PROCESS

Points: 10 points (5 points each for 2005-06 and 2006-07)

Purpose: This indicator is designed to encourage meaningful processes for improving the institution choice key indicator. These processes are equally valid for other key indicators as well. However, in order to keep institutional outcomes at the center of the performance funding system, only 5% of the funding component is allocated and it is focused on the institution choice indicator.

Description: This process indicator is based upon an institutional self-assessment and is designed to encourage meaningful processes for improving the institution choice key indicator. A brief written report (no more than 5 pages) with relevant supporting materials will help substantiate the extent to which these processes were incorporated. It is up to each institution to determine the specifics.

Scoring: A brief list of practices related to enhancing the visibility of performance indicators and increasing their impact on performance will be used as an outline for the brief written report to be submitted to the Council. The reports will be made available to all institutions in an effort to share effective improvement strategies among institutions.

Assess the Extent to Which Institution:	2005-06 Points	2006-07 Points
1. Demonstrates senior administrative leadership related to key indicator	Assessment Report Submitted on Time and in Full = 5 pts	Assessment Report Submitted on Time and in Full = 5 pts
2. Demonstrates involvement of Academic Deans and Department Chairs in the improvement process		
3. Demonstrates involvement of faculty members and staff who work directly with students on a daily basis		
4. Shares results with governing board		
5. Shares results with students		
6. Uses data, analysis, and results to stimulate improve policies and performance on key indicator		
7. Institution directs appropriate financial resources to stimulate improved performance		
8. Develops a strategy and reporting mechanism to assess key indicator at multiple sub-levels (i.e. School, Department, etc.)		
9. Uses both quantitative and qualitative data sources to inform improvement efforts on key indicator		
10. Provides evidence that both production and quality are being considered in the improvement process		

Appendix A

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The table below is for illustrative purposes only and is based upon historical data. These data are still being reviewed and there are several cases where points are not fully allocated or are allocated based upon incomplete data or estimates. Of course this will not be the case when points are officially distributed.

Performance Funding System
Draft Using Sample Historical Data - December 16, 2005

	Base Year	Year 1	Base Yr to Yr 1	Year 1 Points	Year 2	Change from Yr 1 to Yr 2	Year 2 Points	Total Points	Weight	Weighted Points	Funding Allocation
EKU											
Productivity Ratio	71%	79%	8%	5	68%	-11%	0	5	25%	1.3	
Efficiency Ratio	74%	79%	5%	4	79%	0%	0	4	25%	1.0	
Degrees	1,664	1,678	1%	1	1,787	6%	5	6	20%	1.2	
Minority Degrees	93	84	-10%	0	97	15%	3	3	10%	0.3	
Choice Production - Transfers 2001-02 to 2002-0:	408	392	-16	0	472	80	5	5	15%	0.8	
Choice Process				5			5	10	5%	0.5	
Total								33		5.0	$353,714
KSU											
Productivity Ratio	70%	73%	3%	3	73%	0%	1	4	25%	1.0	
Efficiency Ratio	44%	42%	-2%	0	43%	1%	1	1	25%	0.3	
Degrees	210	214	2%	1	229	7%	5	6	20%	1.2	
Minority Degrees	151	149	-1%	0	162	9%	2	2	10%	0.2	
Choice Production - Transfers 2001-02 to 2002-0:	19	17	-2	0	21	4	1	1	15%	0.2	
Choice Process				5			5	10	5%	0.5	
Total								24		3.3	$233,451
Morehead											
Productivity Ratio	76%	68%	-8%	0	74%	6%	5	5	25%	1.3	
Efficiency Ratio	79%	76%	-3%	0	82%	6%	5	5	25%	1.3	
Degrees	887	991	12%	5	1,038	5%	5	10	20%	2.0	
Minority Degrees	39	35	-10%	0	40	14%	3	3	10%	0.3	
Choice Production - Transfers 2001-02 to 2002-0:	265	272	7	1	221	-51	0	1	15%	0.2	
Choice Process				5			5	10	5%	0.5	
Total								34		5.5	$385,548
Murray											
Productivity Ratio	95%	93%	-2%	3	101%	8%	5	8	25%	2.0	
Efficiency Ratio	88%	86%	-2%	3	94%	8%	5	8	25%	2.0	
Degrees	1,290	1,440	12%	5	1,372	-5%	0	5	20%	1.0	
Minority Degrees	77	109	42%	5	74	-32%	0	5	10%	0.5	
Choice Production - UG Enrollment 2002-04	8,088	8,371	3%	4	8,625	3%	4	8	15%	1.2	
Choice Process				5			5	10	5%	0.5	
Total								44		7.2	$509,348
NKU											
Productivity Ratio	76%	76%	0%	1	76%	0%	1	2	25%	0.5	
Efficiency Ratio	95%	97%	2%	4	96%	-1%	3	7	25%	1.8	
Degrees	1,374	1,421	3%	3	1,529	8%	5	8	20%	1.6	
Minority Degrees	67	76	13%	3	78	3%	1	4	10%	0.4	
Choice Production - Student Engagement (est.)							4.5	4.5	15%	0.7	
Choice Process				5			5	10	5%	0.5	
Total								35.5		5.4	$383,780
UK											
Productivity Ratio	96%	85%	-11%	3	83%	-2%	3	6	25%	1.5	
Efficiency Ratio	91%	84%	-7%	3	82%	-2%	3	6	25%	1.5	
Degrees	3,338	3,373	1%	1	3,285	-3%	0	1	20%	0.2	
Minority Degrees	244	221	-9%	0	257	16%	3	3	10%	0.3	
Choice Production - Graduation Rate 2002-04	61.1%	59.6%	-1.5%	0	60%	0.8%	3	3	15%	0.5	
Choice Process				5			5	10	5%	0.5	
Total								29		4.5	$314,805
U of L											
Productivity Ratio	87%	75%	-12%	0	75%	0%	1	1	25%	0.3	
Efficiency Ratio	90%	83%	-7%	3	81%	-2%	3	6	25%	1.5	
Degrees	1,825	1,890	4%	4	2,148	14%	5	9	20%	1.8	
Minority Degrees	283	334	18%	3	341	2%	1	4	10%	0.4	
Choice Production - Ext. R&D Funding 2000-02	30615	34314	12%	4	57992	69%	5	9	15%	1.4	
Choice Process				5			5	10	5%	0.5	
Total								39		5.8	$410,308
WKU											
Productivity Ratio	71%	66%	-5%	0	69%	3%	3	3	25%	0.8	
Efficiency Ratio	92%	86%	-6%	3	90%	4%	5	8	25%	2.0	
Degrees	1,878	2,116	13%	5	2,166	2%	1	6	20%	1.2	
Minority Degrees	137	173	26%	5	180	4%	1	6	10%	0.6	
Choice Production - Student Engagement (est.)							7	7	15%	1.1	
Choice Process				5			5	10	5%	0.5	
Total								40		6.1	$431,531
KCTCS											
Productivity Ratio	79%	79%	0%	1	85%	6%	5	6	25%	1.5	
Efficiency Ratio	95%	95%	0%	3	106%	11%	5	8	25%	2.0	
Degrees	4,830	5,420	12%	5	5,723	6%	2	7	20%	1.4	
Minority Degrees	388	429	11%	3	424	-1%	0	3	10%	0.3	
Choice Production - Undergraduate Enrollment*	80,695	81,990	2%	3	84,197	3%	4	7	15%	1.1	
Choice Process				5			5	10	5%	0.5	
Total								41		6.8	$477,514

49.5

Notes:
Productivity Ratio data are comparing 2002-03 and 2003-04
Efficiency ratio data are comparing 2002-03 and 2003-04
Degrees data are from 2003-05
Minority degrees data are from 2003-05
Choice production data are most recent data depending on indicator chosen - NSSE data are estimates at this time due to lack of standard error data from previous year.
Choice process - All institutions wee given full 10 points in this example
Producutivyt and effeciency data for KCTCS in base year and year 1 are the same because we are still capturing the earlier year data.