

POSTSECONDARY EDUCATION WORKING GROUP PERFORMANCE FUNDING MODEL REVIEW



November 20, 2020 - 2:00 PM, EST
ZOOM teleconferencing for Working Group members
Livestream video for public: <https://youtu.be/GHwUr7Y35P8>

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MEMO OF RECORD
Council on Postsecondary Education

Type: Postsecondary Education Working Group on Performance Funding
Date: November 4, 2020
Time: 9:00 a.m. ET
Location: Virtual Meeting – Working group members by ZOOM, Public viewing hosted on CPE YouTube Page.

CALL TO ORDER

The Postsecondary Education Working Group met Wednesday, November 4, 2020, at 9:00 a.m., ET. Pursuant to Executive Order 2020-243 and a memorandum issued by the Finance and Administration Cabinet dated March 16, 2020, and in an effort to prevent the spread of Novel Coronavirus (COVID-19), the Committee met utilizing a video teleconference. Members of the public were invited to view the meeting virtually on the CPE YouTube page.

Chair Aaron Thompson presided.

ATTENDENCE

Working Group Members in attendance:

- CPE President Aaron Thompson, Chair of the Working Group
- State Budget Director John Hicks, representing Governor Beshear
- Senate President Pro Tem David Givens, representing Senate President Robert Stivers
- Representative James Tipton, representing Speaker of the House David Osbourne
- ECU President David McFaddin
- KSU President M. Christopher Brown, II
- KCTCS Interim President Paul Czarapata
- MoSU President Jay Morgan
- MuSU President Robert Jackson
- NKU President Ashish Vaidya
- UK President Eli Capilouto
- UL President Neeli Bendapudi
- WKU President Tim Caboni

Presenting CPE staff members in attendance:

- Dr. Bill Payne, Vice President for Finance and Administration
- Mr. Shaun McKiernan, Director of Budget and Finance

Heather Faesy, Senior Associate of Board Relations and Special Projects, who served as recorder of the memo of record.

REVISIT MUSU PROPOSAL

Dr. Payne reminded the group members of the components of the proposal brought forth by Murray State University at the last meeting. It was developed with input from other campus presidents and had the following components in mind: economic uncertainties caused by the pandemic, unknown status of additional federal stimulus, the potential for a significant mid-year budget cut, and rising pension costs.

MAJOR DECISION POINTS

The agenda listed out six major decision points for discussion: (1) Stop Loss Going Forward, (2) Modified Small School Adjustment, (3) Percent of Formula Share Approach, (4) Nonresident Student Weighting, (5) Premiums for Underserved Populations, and (6) Weighting Between Sectors.

Working group members reiterated a number of considerations that impact all of the decisions points:

- Continuing uncertainty with state revenues, federal funding and potential pandemic relief
- The impact of future changes to the pension contribution formulas and if those are unfunded.
- The group's ability to provide short-term suggestions to the legislature this December, and then resume the conversation in the summer of 2021, or when the uncertainties are more stabilized to discuss long-term adjustments to the performance funding model.

The following specific comments were made regarding the proposed decision points:

Stop Loss Going Forward

Work group members were asked if they support the use of stop-loss provisions going forward; if so, what level of stop loss should be recommended to the General Assembly for fiscal year 2021-22; and what level should be recommended for 2022-23 and beyond?

- MoSU – Suggested FY21-22 at a 0% stop-loss, and that until federal dollars are officially announced we need to plan for a budget under the current circumstances. The same extends to the pension issue as well. President Morgan would like the 0% stop-loss for FY21-22.
- UofL – For FY21-22 is amenable to some level of stop-loss.
- KCTCS - Would be in favor of some level of stop-loss.
- WKU – Add in a level of stop-loss in FY21-22 and into the future.
- EKU – Would prefer to make a one-year recommendation, then regroup next fall and consider long term adjustments once better information is available.
- Sen. Givens – Stated he would make a stop-loss recommendation for FY 21-22 and FY 22-23, but that the work group also has the ability to regroup without being called to do so by the legislature.
- Rep. Tipton – Hesitant to make any long-term decisions, but open to a decision regarding the level of stop-loss.
- Hicks – In agreement with Sen. Givens, and is supportive of making decisions knowing they can be revisited and amended.
- UK – Looking at the level of stop-loss by itself isn't effective because the package of modifications, in their entirety, is really what is important. It was stated that a 0% stop loss for FY 21-22 undermines the premise of the model and he would rather see a minimal level of stop-loss implemented.
- KSU – Supports a zero sum movement on the model that balances the interests of everyone outside of KSU as well.

Modified Small School Adjustment

Work group members were asked if they support increasing the small school adjustment and reducing the fiscal cliffs at KSU, MoSU, and MuSU; and if they support the idea of allowing KCTCS to modify its equity adjustment based on a Community Need Index to address fiscal cliffs at six colleges?

- NKU – has concerns about any modification that would be locked in for the long-term as performance is what should drive funding.
- UK – Making the proposed change would wipe the slate clean and serve as a reset instead of allowing the model to serve its purpose of distributing state funds on the basis of performance.
- KCTCS – Stated the community needs index is necessary for KCTCS institutions, which has a similar goal as the modification to the small school adjustment proposed for the four-year universities.
- WKU – Stated the coupling of all these decisions is necessary – that one decision shouldn't be made without consideration of decisions on other topics. He may support the modified small school approach, but he won't support the 2%

stop-loss at the same time. He's also concerned with any adjustments' impacts on the equity of funding per FTE among institutions.

Percent of Formula Share Approach

Work group members were asked if they support the idea of using a percent of formula share approach in years when new state funding does not equal or exceed campus stop-loss contributions.

- Sen. Givens – This shows an effort to incrementally step towards funding parity.
- WKU – Reallocating resources within a system is what strategic systems do. It makes sense as an institution that is performing and has a funding per FTE problem that they will need to shift dollars within the system. He thinks reallocation is a good thing sometimes as long as it isn't creating great harm.
- If there no new money, or if the new money does not equal or exceed the stop-loss contributions, the funds in the Performance Fund would be distributed based on formula share, otherwise the current method would be used to distribute funds.

Nonresident Student Weighting

Work group members were asked if they support increasing the weighting for nonresident students in the earned credit hour metric; if they support decreasing the weighting for nonresident students; and how many members support keeping the weighting the same?

- NKU – Regional universities are limited as to where they can draw nonresidents. Their future long-term prosperity as a state is dependent on the ability to draw diverse talent from across the nation. We have an aging population and we do need to draw in talent from outside. Their ability to charge higher nonresident tuition is limited. Taking everything else into consideration, he'd like to reevaluate nonresident weightings.
- CPE – For the 60x30 goal, we have to increase college going rates, get student success metrics up, increase adult learners, and increase nonresident enrollment and then keep them here after they graduate. We should think about this as a big driver of what we want to accomplish statewide using this model.
- UL – Not in favor of increasing the nonresident student weighting.

Premiums for Underserved Populations

Work group were asked if they support increasing the weighting for bachelor's degrees awarded to URM students and if so which metric should have its weight reduced to accommodate that increase; and should the weighting for bachelor's

degrees awarded to low income students be increased and if so, which metric should have its weight reduced to accommodate that increase?

- CPE – Stated this proposal requires an adjustment in the model metrics and isn't coupled with the other decisions previously discussed. Asked for deep consideration on the issue as well as consideration of the addition of an adult learner metric.
- This additional weighting could come from the square footage component of the model, shifting operational support funding to support student success.
- UK – stated that such a change would be a major rewrite of the legislation

The group did not have time to discuss the final proposed decision point of weighting between sectors and will revisit it at a later time.

NEXT STEPS

The working group agreed to add an additional meeting later in November to continue the discussions, and asked Ms. Faesy to schedule it accordingly.

ADJOURNMENT

The working group adjourned at 11:30 a.m., ET.

Statement of Recommendations
Performance Funding Working Group
November 20, 2020

Due to unanticipated expenses and unrealized revenue resulting from the onset and continuing impact of the COVID-19 pandemic, uncertainties regarding new federal stimulus funding, the state budget, and rising pension costs, the presidents of the postsecondary institutions recommend the following for consideration by members of the 2020 Performance Funding Work Group and the 2021 General Assembly:

- 1) Continue to run the performance funding model for fiscal year 2021-22 per KRS 164.092, with any agreed upon modifications identified by the Performance Funding Work Group and adopted by the General Assembly;
 - 2) Adopt a 0% stop loss in 2021-22, so that no institution incurs a loss of General Fund as a result of running the model;
- or—
- 2) Adopt a 1% stop loss in 2021-22, that limits the potential redistribution of funds among institutions as a result of running the model, in the event that no new funding for performance is authorized by the General Assembly;
 - 3) Implement a 2% stop loss beginning in 2022-23, continuing in subsequent years, that limits the potential redistribution of funds among institutions as a result of running the model;
 - 4) Use a phased-in approach to eliminate the fiscal cliffs at KSU, MoSU, and MuSU over two years by increasing the small school adjustment at those institutions by an amount equal to: (a) half of each institution's respective current year hold harmless allocation in 2021-22; and (b) 100% of each institution's current year hold harmless allocation in 2022-23 and beyond;
 - 5) Beginning in 2022-23, and in subsequent years, use a "percent of formula share" approach to distribute any appropriations to the Postsecondary Education Performance Fund in years in which additional state support does not equal or exceed system total stop loss contributions in the fund; and
 - 6) Reconvene the working group in the summer of 2021 to consider additional possible changes to university and KCTCS funding models.



Postsecondary Education Working Group Performance Funding Model Review

Dr. Aaron Thompson, President
Kentucky Council on Postsecondary Education
November 20, 2020



Meeting Agenda

- I. Statement of Recommendations
- II. Major Decision Points
 - A. Stop Loss Going Forward
 - B. Modified Small School Adjustment
 - C. Percent of Formula Share Approach
 - D. Nonresident Student Weighting
 - E. Premiums for Underserved Populations
 - F. Weighting Between Sectors
- III. Next Steps

Statement of Recommendations

Main Components

- Adopt a 0% stop loss in 2021-22, so that no institution incurs a loss of General Fund as a result of running the model
-- or --
- Adopt a 1% stop loss in 2021-22 that limits potential redistribution of funds among institutions as a result of running the model, in the event that no new funding is authorized by the General Assembly
- Implement a 2% stop loss in 2022-23, continuing in subsequent years, that limits potential redistribution of funds among institutions as a result of running the model

Statement of Recommendations (Cont'd)

- Use a phased-in approach to eliminate fiscal cliffs at KSU, MoSU, and MuSU by increasing the small school adjustment at those institutions by an amount equal to:
 - half of each institution's current year hold harmless in 2021-22; and
 - 100% of each institution's current year hold harmless in 2022-23
- Beginning in 2022-23, use a "percent of formula share" approach to distribute performance funds in years in which additional state support does not equal or exceed total stop loss contributions
- Reconvene the work group in summer 2021 to consider additional possible changes to the models

Major Decision Points



- Stop Loss Going Forward
- Modified Small School Adjustment
- Percent of Formula Share Approach
- Nonresident Student Weighting
- Premiums for Underserved Populations
- Weighting Between Sectors

Major Decision Points

Stop Loss Going Forward

Background Information

- A “stop-loss provision” means a provision included in the funding formulas to limit reduction of an institution’s funding amount to a predetermined percentage (KRS 164.092)
- The funding models were phased in over three years and included:
 - a hold harmless provision in 2018-19 (or a 0% stop loss)
 - a 1% stop loss in 2019-20
 - and a 2% stop loss in 2020-21
- Except by enactment of the General Assembly, hold harmless and stop-loss provisions will not be included in 2021-22 and thereafter

Major Decision Points

Stop Loss Going Forward (Cont'd)

Background Information (Cont'd)

- Unless action is taken by the General Assembly, three universities and six KCTCS institutions will face fiscal cliffs in 2021-22
- Based on a recent survey, most university and KCTCS presidents favor maintaining a 2% stop loss going forward (CPE, 2020)
- After being asked to develop plans for a sizable state budget cut, several presidents now prefer a 0% stop loss in 2021-22
- At the October 7 work group meeting, at least two members indicated they do not support a 0% stop loss in 2021-22

Major Decision Points

Stop Loss Going Forward (Cont'd)

Estimated Budgetary Impact of Allowing Stop-Loss and Hold-Harmless Provisions to Sunset
Fiscal Year 2021-22

| <i>Sector</i> | <i>Institution</i> | Fiscal 2020-21 Formula Base ¹ | Hold Harmless Allocation ² | Estimated Budget Impact |
|-------------------|---|---|--|----------------------------|
| <i>University</i> | Kentucky State University | 18,235,500 | (6,885,400) | -38% |
| | Morehead State University | 34,931,500 | (2,826,900) | -8% |
| | Murray State University | 40,553,800 | (675,800) | -2% |
| <i>KCTCS</i> | Ashland Community and Technical College | 8,599,200 | (836,100) | -10% |
| | Big Sandy Community and Technical College | 9,735,900 | (1,823,900) | -19% |
| | Hazard Community and Technical College | 11,049,500 | (3,519,100) | -32% |
| | Henderson Community College | 4,231,400 | (369,300) | -9% |
| | Madisonville Community College | 7,898,500 | (633,700) | -8% |
| | Southeast Community and Technical College | 9,248,600 | (2,166,800) | -23% |

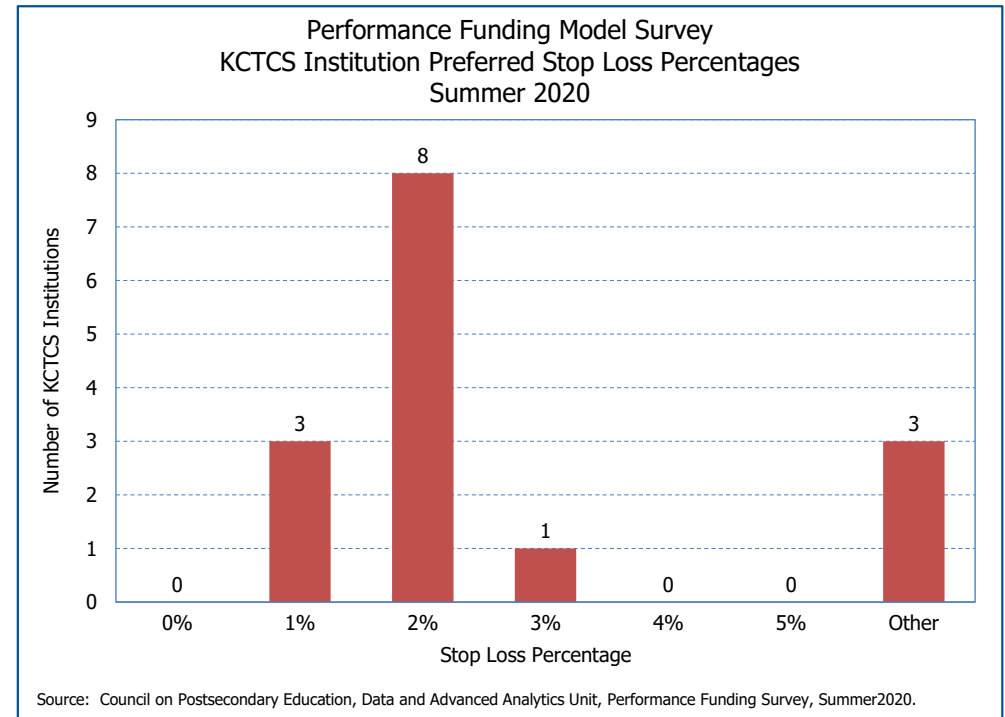
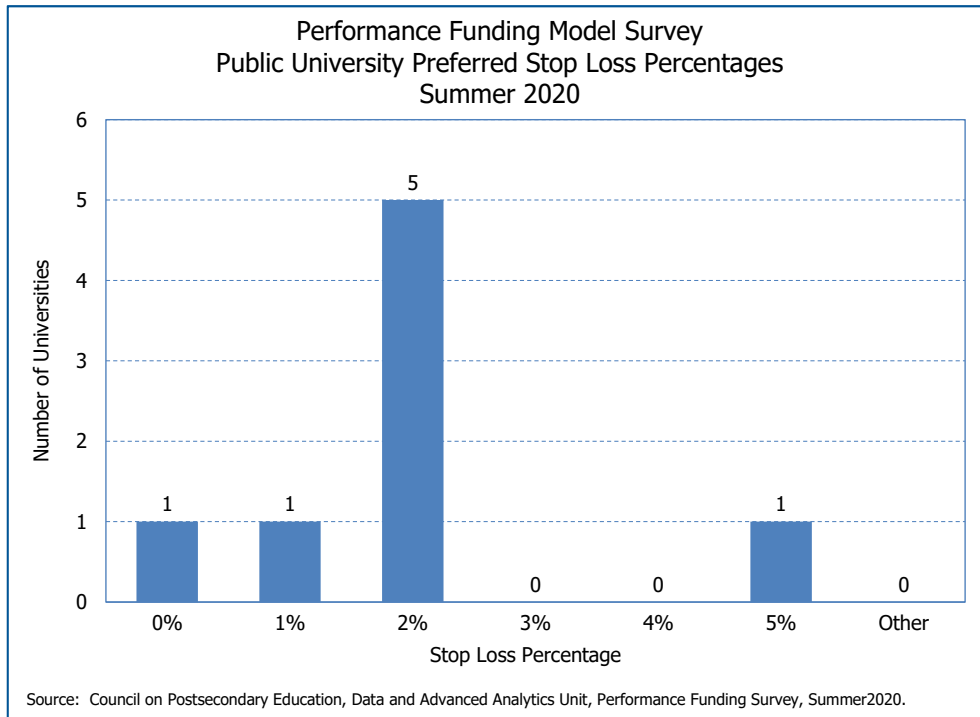
¹ The formula base, also referred to as the adjusted net General Fund, is calculated by subtracting debt service and mandated program funding from each institution's total direct appropriation.

² Estimated reduction in each institution's formula base that could occur if stop loss and hold harmless provisions sunset. These numbers represent the calculated hold harmless allocations in fiscal 2020-21.

Major Decision Points

Stop Loss Going Forward (Cont'd)

What is the appropriate level of stop loss (i.e., amount of regular general fund appropriation susceptible to redistribution)?



Major Decision Points

Stop Loss Going Forward (Cont'd)

Hypothetical Stop-Loss Contribution Amounts at Various Percentages
Fiscal Year 2021-22

| Institution | Hypothetical Stop-Loss Contributions ¹ | | | | |
|------------------------------|---|--------------|--------------|--------------|--------------|
| | @ 1% | @ 2% | @ 3% | @ 4% | @ 5% |
| University of Kentucky | \$1,846,600 | \$3,693,200 | \$5,539,900 | \$7,386,500 | \$9,233,100 |
| University of Louisville | 1,262,100 | 2,524,200 | 3,786,300 | 5,048,500 | 6,310,600 |
| Eastern Kentucky University | 608,400 | 1,216,800 | 1,825,300 | 2,433,700 | 3,042,100 |
| Kentucky State University | 182,400 | 364,700 | 547,100 | 729,400 | 911,800 |
| Morehead State University | 349,300 | 698,600 | 1,047,900 | 1,397,300 | 1,746,600 |
| Murray State University | 405,500 | 811,100 | 1,216,600 | 1,622,200 | 2,027,700 |
| Northern Kentucky University | 509,200 | 1,018,500 | 1,527,700 | 2,036,900 | 2,546,200 |
| Western Kentucky University | 676,200 | 1,352,400 | 2,028,600 | 2,704,800 | 3,381,000 |
| Subtotal | \$5,839,700 | \$11,679,500 | \$17,519,400 | \$23,359,300 | \$29,199,100 |
| KCTCS | 1,657,600 | 3,315,200 | 4,972,800 | 6,630,500 | 8,288,100 |
| Total | \$7,497,300 | \$14,994,700 | \$22,492,200 | \$29,989,800 | \$37,487,200 |

¹ Assumes performance funds distributed in fiscal year 2020-21 become recurring to the base of the respective institutions that earned those funds, flat funding in fiscal year 2021-22, and no change in debt service or mandated program funding.

Major Decision Points

Stop Loss Going Forward (Cont'd)

Discussion Questions

- Do work group members support the use of stop-loss provisions going forward?
- If so, what level of stop loss should be recommended to the General Assembly for fiscal year 2021-22?
- What level should be recommended for 2022-23 and beyond?

Major Decision Points

Modified Small School Adjustment

Background Information

- At the October 7 meeting, a proposal was submitted on behalf of several university presidents asking the work group to consider modifying the small school adjustment for fiscal year 2021-22
- Specifically, it was proposed that:
 - Beginning in 2021-22, hold harmless amounts calculated in the current year (i.e., 2020-21) would be retained by institutions that had a hold harmless allocation in that year and treated in a manner similar to the small school adjustment (i.e., excluded from allocable resources in the model)
- In other words, the small school adjustments would be increased, and the fiscal cliffs would be reduced, at KSU, MoSU, and MuSU

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Major Decision Points

Modified Small School Adjustment (Cont'd)

Background Information (Cont'd)

- At the September 2 meeting, KCTCS submitted a proposal to the work group recommending a change in the equity adjustment in their model for fiscal year 2021-22 and beyond
- Specifically, it was proposed that KCTCS be allowed to:
 - Revise the equity adjustment to reflect a Community Need Index (based on local unemployment, labor force participation, and poverty rates) versus using an equal share allocation
- The rationale was to increase equity and provide colleges an equal opportunity to improve relative to their performance

Major Decision Points

Modified Small School Adjustment (Cont'd)

Impact of Adopting Modified Small School Adjustment
Comparison of Performance Distributions and Hold Harmless Allocations

→ Fiscal Year 2020-21

| Institution | Actual 2020-21 Calculations | | Hypothetical ¹ Modified Small School Adjustment | | (C - A) |
|------------------------------|----------------------------------|-----------------------------------|---|-----------------------------------|----------------------------------|
| | A Performance Distribution | B Hold Harmless Allocations | C Performance Distribution | D Hold Harmless Allocations | E Distribution Differences |
| University of Kentucky | \$6,621,600 | \$0 | \$6,621,300 | \$0 | (\$300) |
| University of Louisville | 2,938,900 | 0 | 2,938,800 | 0 | (100) |
| Eastern Kentucky University | 394,200 | 0 | 394,300 | 0 | 100 |
| Kentucky State University | 0 | (6,885,400) | 100 | 0 | 100 |
| Morehead State University | 0 | (2,826,900) | 0 | 0 | 0 |
| Murray State University | 0 | (675,800) | 0 | 0 | 0 |
| Northern Kentucky University | 967,000 | 0 | 967,200 | 0 | 200 |
| Western Kentucky University | 757,900 | 0 | 757,900 | 0 | 0 |
| Total | \$11,679,600 | (\$10,388,100) | \$11,679,600 | \$0 | \$0 |

¹ Several universities are proposing a change in the public university funding model that would add calculated hold harmless amounts in fiscal year 2020-21 to the respective small school adjustments at KSU, MoSU, and MuSU, which would eliminate the fiscal cliff at those institutions.

Major Decision Points

Modified Small School Adjustment (Cont'd)

Impact of Adopting Modified Small School Adjustment
Comparison of Performance Distributions and Hold Harmless Allocations

→ Fiscal Year 2021-22

| Institution | <i>Hypothetical</i> ¹ | | <i>Hypothetical</i> ² | | (C - A) E Distribution Differences |
|------------------------------|--------------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|--|
| | Current Model With No Changes | | Modified Small School Adjustment | | |
| | A Performance Distribution | B Hold Harmless Allocations | C Performance Distribution | D Hold Harmless Allocations | |
| University of Kentucky | \$4,296,900 | \$0 | \$3,692,900 | \$0 | (\$604,000) |
| University of Louisville | 2,934,000 | 0 | 2,524,100 | 0 | (409,900) |
| Eastern Kentucky University | 1,419,900 | 0 | 1,216,900 | 0 | (203,000) |
| Kentucky State University | 0 | (6,495,800) | 364,800 | 0 | 364,800 |
| Morehead State University | 0 | (2,028,700) | 698,600 | 0 | 698,600 |
| Murray State University | 262,900 | 0 | 811,100 | 0 | 548,200 |
| Northern Kentucky University | 1,185,900 | 0 | 1,018,700 | 0 | (167,200) |
| Western Kentucky University | 1,579,900 | 0 | 1,352,400 | 0 | (227,500) |
| Total | \$11,679,500 | (\$8,524,500) | \$11,679,500 | \$0 | \$0 |

¹ The current model with no changes, assuming flat funding, a 2.0% stop loss contribution, and no change in performance metric data.

² The modified small school adjustment approach also assumes flat funding, a 2.0% stop loss contribution, and no change in performance metric data, but it adds calculated hold harmless amounts from fiscal year 2020-21 to the small school adjustments at KSU, MoSU, and MuSU.

Major Decision Points

Modified Small School Adjustment (Cont'd)

Impact of Adopting Modified Small School Adjustment
Comparison of Stop-Loss Contributions and Performance Distribution

→ Fiscal Year 2021-22

| Institution | <i>Hypothetical</i> | | <i>(B - A)</i> |
|------------------------------|---|--|----------------|
| | <i>A</i> | <i>B</i> | <i>C</i> |
| | 2.0% Stop Loss Contributions ¹ | Modified SSA Distribution ² | Difference |
| University of Kentucky | \$3,693,200 | \$3,692,900 | (\$300) |
| University of Louisville | 2,524,200 | 2,524,100 | (100) |
| Eastern Kentucky University | 1,216,800 | 1,216,900 | 100 |
| Kentucky State University | 364,700 | 364,800 | 100 |
| Morehead State University | 698,600 | 698,600 | 0 |
| Murray State University | 811,100 | 811,100 | 0 |
| Northern Kentucky University | 1,018,500 | 1,018,700 | 200 |
| Western Kentucky University | 1,352,400 | 1,352,400 | 0 |
| Total | \$11,679,500 | \$11,679,500 | \$0 |

Under the assumption that performance data does not change, every university would have opportunity to earn back its stop loss contribution in fiscal 2021-22

¹ Hypothetical 2.0% stop-loss contributions that assume performance funds distributed in 2020-21 become recurring to the base of institutions that earned those funds, flat funding in 2021-22, and no change in debt service or mandated program funding.

² Assumes adoption of a modified small school adjustment approach, flat funding in 2021-22, a 2.0% stop loss, and no change in performance metric data.

Major Decision Points

Modified Small School Adjustment (Cont'd)

Discussion Questions

- Does the working group support increasing the small school adjustment and reducing fiscal cliffs at KSU, MoSU, and MuSU?
- Do work group members support the idea of allowing KCTCS to modify its equity adjustment based on a Community Need Index to address fiscal cliffs at six colleges?

Major Decision Points

Percent of Formula Share Approach

Background Information

- MuSU has proposed using a “percent of formula share” approach for distributing performance funds in years when the state does not provide new funding (MuSU, Campus Summary Statements)
- Under this approach, performance funds would be distributed using formula totals generated by the model, but the level of redistribution among institutions would be limited
- The approach would reduce the current four-step distribution calculation to one step and could be applied in years when state funds don’t equal or exceed total campus stop loss contributions

Major Decision Points

Percent of Formula Share Approach (Cont'd)

Comparison of Actual and Hypothetical Performance Distributions
 Funding Model Applied Using Percent of Formula Share Approach
 Fiscal Year 2020-21

| Institution | Actual 2020-21 Performance Distribution | Percent Share of Formula Approach | | Hypothetical Formula Share Distribution | Difference |
|------------------------------|---|-----------------------------------|---------------------|---|---------------|
| | | Fiscal 2020-21 Formula Totals | Percent of Total | | |
| University of Kentucky | \$6,621,600 | \$167,244,400 | 32.4% | \$3,784,000 | (\$2,837,600) |
| University of Louisville | 2,938,900 | 113,536,100 | 22.0% | 2,568,900 | (370,000) |
| Eastern Kentucky University | 394,200 | 56,250,400 | 10.9% | 1,272,700 | 878,500 |
| Kentucky State University | 0 | 6,881,700 | 1.3% | 155,700 | 155,700 |
| Morehead State University | 0 | 27,584,400 | 5.3% | 624,100 | 624,100 |
| Murray State University | 0 | 35,338,400 | 6.8% | 799,600 | 799,600 |
| Northern Kentucky University | 967,000 | 46,356,500 | 9.0% | 1,048,900 | 81,900 |
| Western Kentucky University | 757,900 | 63,010,200 | 12.2% | 1,425,700 | 667,800 |
| Total | \$11,679,600 | \$516,202,100 | 100.0% | \$11,679,600 | \$0 |

Public University 2020-21 Performance Fund Allocation: \$11,679,600

Major Decision Points

Percent of Formula Share Approach (Cont'd)

Comparison of Stop Loss Contributions and Performance Distributions
 Funding Model Applied Using Percent of Formula Share Approach
 Fiscal Year 2020-21

| Institution | Actual 2020-21 2.0% Stop Loss Contributions | Actual 2020-21 Performance Distribution | Difference | Actual 2020-21 2.0% Stop Loss Contributions | Hypothetical Formula Share Distribution | Difference |
|------------------------------|---|---|-------------|---|---|------------|
| University of Kentucky | \$3,633,500 | \$6,621,600 | \$2,988,100 | \$3,633,500 | \$3,784,000 | \$150,500 |
| University of Louisville | 2,515,800 | 2,938,900 | 423,100 | 2,515,800 | 2,568,900 | 53,100 |
| Eastern Kentucky University | 1,233,600 | 394,200 | (839,400) | 1,233,600 | 1,272,700 | 39,100 |
| Kentucky State University | 372,200 | 0 | (372,200) | 372,200 | 155,700 | (216,500) |
| Morehead State University | 712,900 | 0 | (712,900) | 712,900 | 624,100 | (88,800) |
| Murray State University | 827,600 | 0 | (827,600) | 827,600 | 799,600 | (28,000) |
| Northern Kentucky University | 1,019,500 | 967,000 | (52,500) | 1,019,500 | 1,048,900 | 29,400 |
| Western Kentucky University | 1,364,500 | 757,900 | (606,600) | 1,364,500 | 1,425,700 | 61,200 |
| Total | \$11,679,600 | \$11,679,600 | \$0 | \$11,679,600 | \$11,679,600 | \$0 |

Major Decision Points

Percent of Formula Share Approach (Cont'd)

Discussion Question

- Do work group members support the idea of using a percent of formula share approach in years when new state funding does not equal or exceed campus stop-loss contributions?

Major Decision Points

Nonresident Student Weighting

Background Information

- Three years ago, the nonresident student weighting in the credit hour metric was a major area of negotiation and compromise
- Several institutions argued for equal weight between resident and nonresident students and others argued that nonresident students should receive zero weight
- Ultimately, the group reached consensus at a 50% weighting
- In recent Campus Summary Statements submitted to the Council, three universities asked the work group to revisit the nonresident student weighting (MuSU, NKU, WKU)

Major Decision Points

Nonresident Student Weighting (Cont'd)

Background Information (Cont'd)

- MuSU has proposed that the working group consider eliminating the nonresident student differential (i.e., adopt equal weighting)

Campus Feedback:

- The 50% weighting for nonresident student earned credit hours limits the benefit of enrolling nonresident students
- The current weighting runs counter to the Council's new nonresident student tuition policy

Major Decision Points

Nonresident Student Weighting (Cont'd)

Comparison of Hypothetical and Actual Performance Distributions
Using Different Weights for Nonresident Student Credit Hours Earned
Fiscal Year 2020-21

| Nonresident Credit Hour Weights: | @ 0.00 | @ .25 | @ .50 | @ .75 | @ 1.00 |
|----------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|---------------------------|
| Institution | Hypothetical Distribution | Hypothetical Distribution | Actual 2020-21 Distribution | Hypothetical Distribution | Hypothetical Distribution |
| University of Kentucky | \$3,799,200 | \$5,330,900 | \$6,621,600 | \$7,586,800 | \$8,141,900 |
| University of Louisville | 3,411,500 | 3,155,000 | 2,938,900 | 2,661,800 | 2,284,000 |
| Eastern Kentucky University | 2,218,600 | 1,228,500 | 394,200 | 0 | 0 |
| Kentucky State University | 0 | 0 | 0 | 0 | 0 |
| Morehead State University | 0 | 0 | 0 | 0 | 0 |
| Murray State University | 0 | 0 | 0 | 0 | 0 |
| Northern Kentucky University | 390,800 | 703,500 | 967,000 | 1,154,300 | 1,253,700 |
| Western Kentucky University | 1,859,500 | 1,261,700 | 757,900 | 276,700 | 0 |
| Total | \$11,679,600 | \$11,679,600 | \$11,679,600 | \$11,679,600 | \$11,679,600 |

Note: Four universities (UK, KSU, MuSU, and NKU) benefit from using higher weightings for credit hours earned by nonresident students, while the remaining universities (UofL, ECU, MoSU, and WKU) benefit from using lower weightings.

Major Decision Points

Nonresident Student Weighting (Cont'd)

Discussion Questions

- Do any work group members support increasing the weighting for nonresident students in the earned credit hour metric?
- If so, by how much?
- Do any work group members support decreasing the weighting for nonresident students?
- If so, by how much?
- How many members support keeping the weighting the same?

Major Decision Points

Premiums for Underserved Populations

Background Information

- The funding models currently provide premiums for degrees and credentials earned in STEM+H fields and awarded to low income, URM, and underprepared students (KCTCS only)
- Over the past five years, institutions have recorded increases in STEM+H, URM, and underprepared degrees and credentials, but awards to low income students have lagged behind

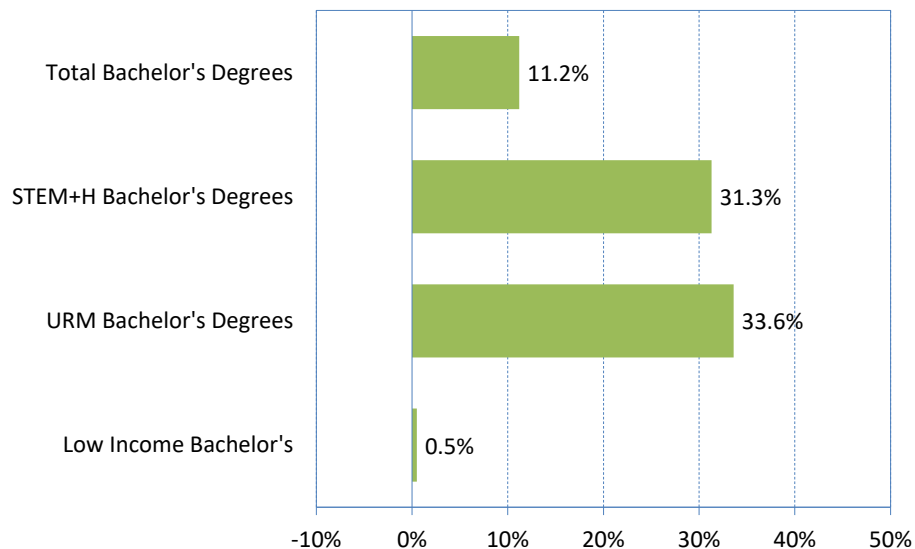
Campus Feedback

- Two institutions propose that the work group consider increasing metric weights for low income and URM degrees (UofL, NKU)

Major Decision Points

Premiums for Underserved Populations (Cont'd)

Percent Change in Bachelor's Degrees Produced by Type Between Academic Years 2013-14 and 2018-19



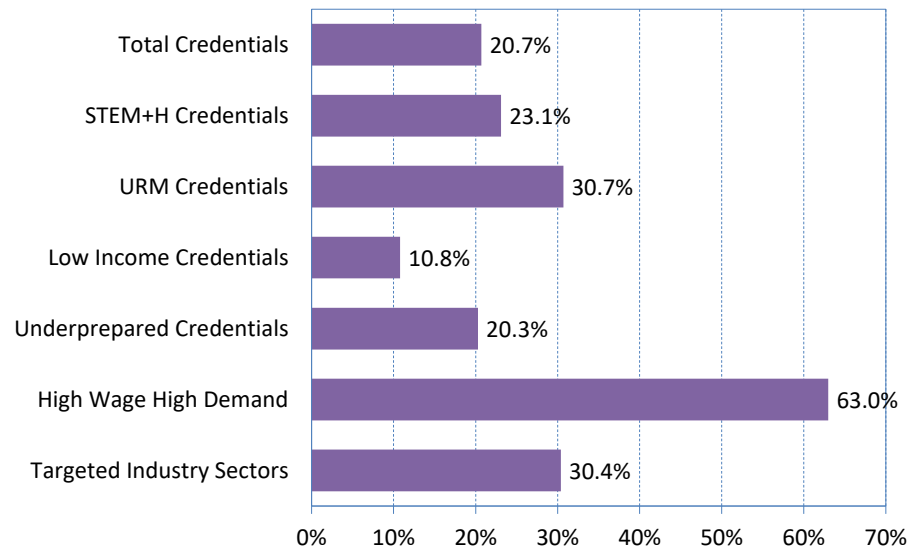
Source: Council on Postsecondary Education, Data and Advanced Analytics Unit, Performance Funding Database.

- STEM+H and URM bachelor's degrees grew at rates that were about three times that of total bachelor's degrees
- Despite a premium in the model, bachelor's degrees awarded to low income students rose by less than 1%

- High-Wage High-Demand, URM, and Targeted Industry credentials grew at rates well above total credentials
- Despite a premium in the model, credentials awarded to low-income students grew less than other credentials



Percent Change in KCTCS Credentials Produced by Type Between Academic Years 2015-16 and 2018-19



Source: Council on Postsecondary Education, Data and Advanced Analytics Unit, Performance Funding Database.

Major Decision Points

Premiums for Underserved Populations (Cont'd)

Performance Funding Model for the Public Universities
 Premiums for Low Income and Minority Student Degree Production
 Fiscal Year 2020-21

| <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> |
|---------------------------|---------------------------|---------------------|-------------------------|---------------------------------|-------------------------|
| → Bachelor's Degrees | 9.0% | \$46,574,400 | 24,320 | \$1,915 | 1.0 |
| Bachelor's Degrees | | | | \$1,915 | |
| → Low Income Bachelor's | 3.0% | \$15,524,800 | 11,619 | 1,336 | 0.7 |
| Low Income Total | | | | \$3,251 | |
| Bachelor's Degrees | | | | \$1,915 | |
| → Minority Bachelor's | 3.0% | \$15,524,800 | 2,751 | 5,643 | 2.9 |
| Minority Total | | | | \$7,558 | |

Total Allocable Resources: \$517,493,200

Note: The premium for a STEM+H bachelor's degree is \$3,199 or 1.7 times a bachelor's degree.

Major Decision Points

Premiums for Underserved Populations (Cont'd)

Discussion Questions

- Do work group members support increasing the weighting for bachelor's degrees awarded to URM students?
- If so, which metric should have its weight reduced to accommodate that increase?
- Should the weighting for bachelor's degrees awarded to low income students be increased?
- If so, which metric should have its weight reduced to accommodate that increase?

Major Decision Points

Weighting Between Sectors

Background Information

- HB 303 directed CPE to convene a working group to develop a comprehensive model for distributing state General Fund that incorporated elements of enrollment, mission, and performance
- To account for differences in mission and instructional costs, the university model applies different weights between research and comprehensive sectors
- The assignment of differential weights by sector was one of many areas of negotiation and compromise in the model's development
- High-cost graduate degrees and research not rewarded in model

Major Decision Points

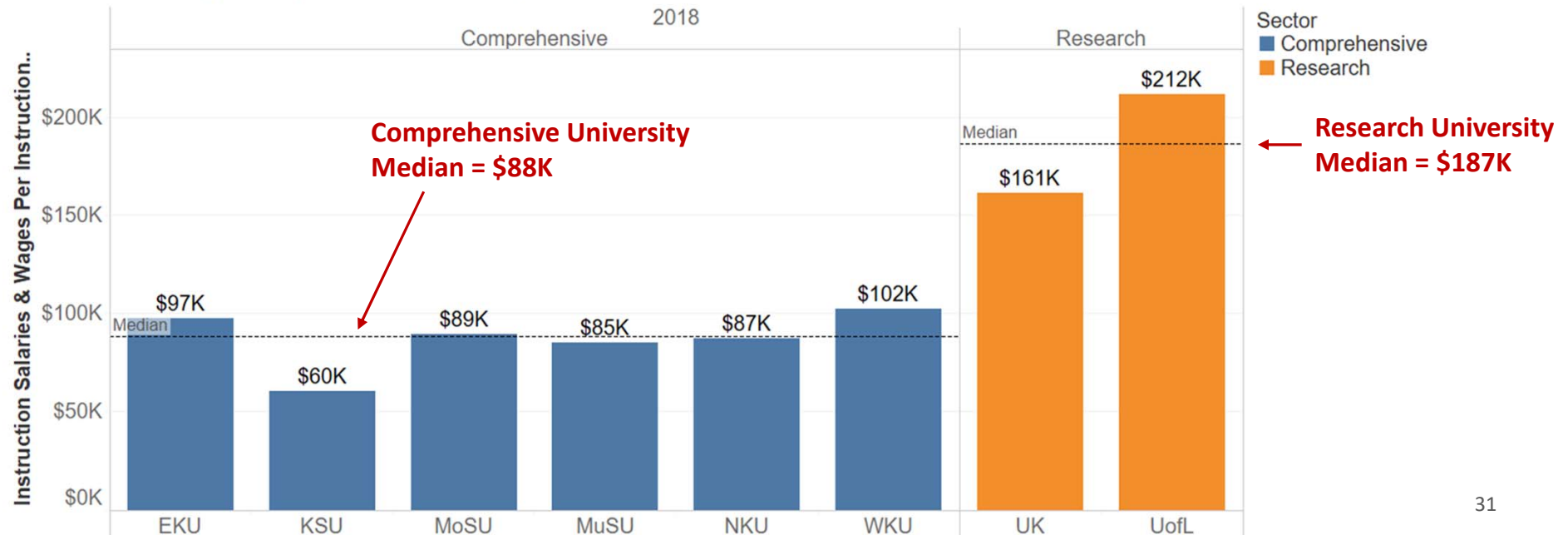
Weighting Between Sectors (Cont'd)

Instructional Salaries & Wages Per Instructional Staff

All Full-Time Instructional Staff

Instruction - Salaries and wages are amounts paid as compensation for services to all employees - faculty, staff, part time, full time, regular employees, and student employees of the colleges, schools, departments, and other instructional divisions of the institution and for departmental research and public service that are not separately budgeted. This would include compensation for academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students.

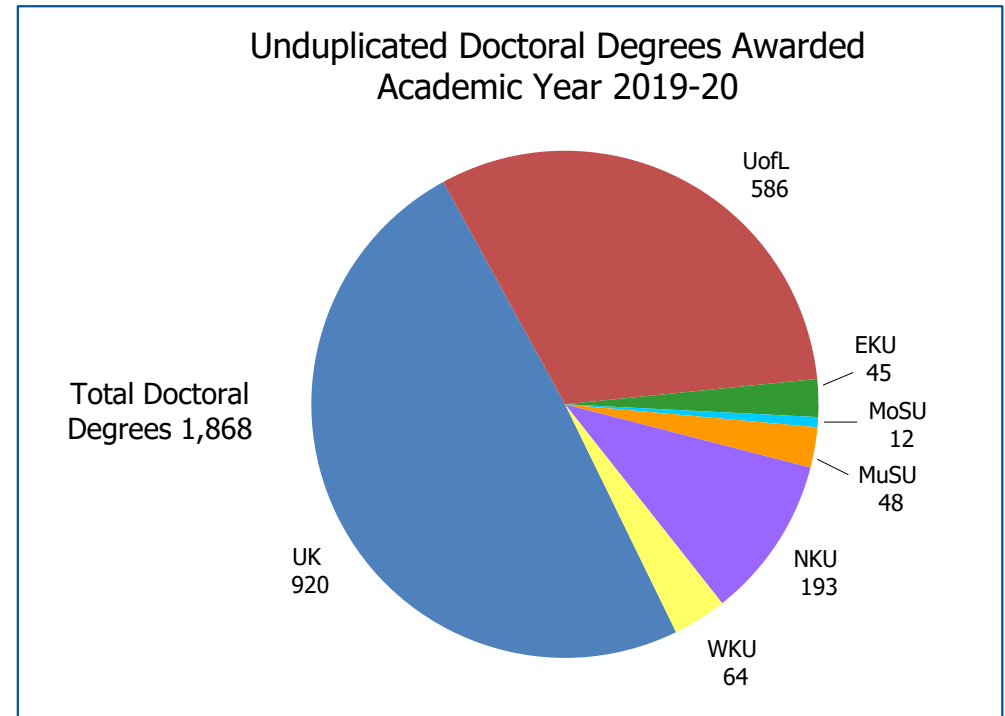
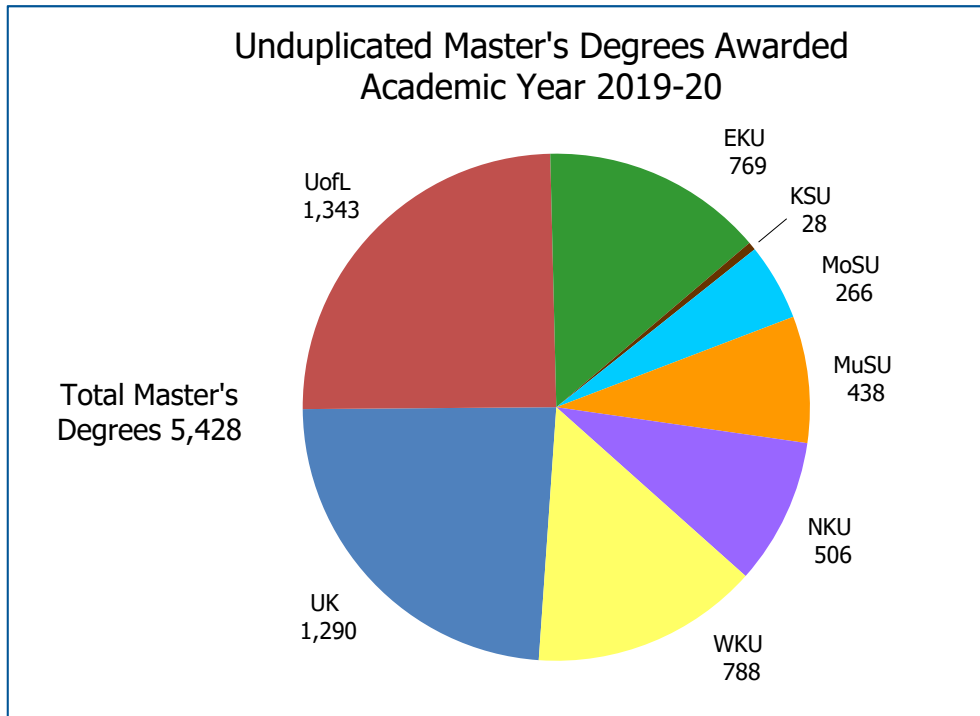
Instructional Staff - An occupational category that consists of the following two functions: 1) "Instruction" only and 2) "Instruction combined with research and/or public service"



Major Decision Points

Weighting Between Sectors (Cont'd)

- In 2019-20, Kentucky's research universities accounted for 49% of master's degrees and 81% of doctoral degrees awarded by public universities



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Major Decision Points

Weighting Between Sectors (Cont'd)

Background Information (Cont'd)

- MuSU asked CPE staff to share how sector weights were calculated
- The weights were calibrated to achieve equilibrium between sectors within each metric in the first year of implementation

Campus Feedback

- Perception that comprehensive and smaller institutions are disadvantaged by research sector weights
- Institutions have proposed eliminating differential weights for FTE students (EKU) and for low income and URM degrees (MuSU)

Major Decision Points

Weighting Between Sectors (Cont'd)

Council on Postsecondary Education
Funding Model for the Public Universities

June 6, 2017

Metric Weighting Chart

| <u>Funding Model Metrics</u> | <u>Research Universities</u> | <u>Comprehensive Universities</u> |
|---|------------------------------|-----------------------------------|
| Bachelor's Degrees (Normalized) | 1.67345 | 1.00000 |
| STEM+H Bachelor's Degrees | 1.54105 | 1.00000 |
| URM Bachelor's Degrees | 1.22322 | 1.00000 |
| Low Income Bachelor's Degrees | 2.35120 | 1.00000 |
| Student Progression (@ 30 Credit Hours) | 1.49386 | 1.00000 |
| Student Progression (@ 60 Credit Hours) | 1.45320 | 1.00000 |
| Student Progression (@ 90 Credit Hours) | 1.56076 | 1.00000 |
| Student Credit Hours Earned (Weighted) | 1.14208 | 1.00000 |
| Facilities Square Feet | 1.36134 | 1.00000 |
| Instruction and Student Services Costs | 0.90251 | 1.00000 |
| FTE Student Enrollment | 1.34278 | 1.00000 |

Major Decision Points

Weighting Between Sectors (Cont'd)

Council on Postsecondary Education
Funding Model for the Public Universities

June 6, 2017

STEM+H Bachelor's Degree Weights

| <u>Campus/Sector</u> | <u>Allocable Resources</u> | <u>Contributed Percent</u> | <u>Contributed Amount</u> | <u>STEM+H Degrees</u> | <u>Sector Subsidy</u> | <u>Weight Factors</u> |
|----------------------|----------------------------|----------------------------|---------------------------|-----------------------|-----------------------|-----------------------|
| UK | \$163,067,600 | 5.0% | \$8,153,380 | 1,464.3 | | |
| UofL | 118,814,800 | 5.0% | 5,940,740 | 805.0 | A | (A ÷ B) |
| Research | \$281,882,400 | | \$14,094,120 ÷ | 2,269.3 = | \$6,210.69 | 1.54105 |
| EKU | \$57,914,000 | 5.0% | \$2,895,700 | 702.7 | | |
| KSU | 15,262,400 | 5.0% | 763,120 | 57.3 | | |
| MoSU | 33,831,400 | 5.0% | 1,691,570 | 311.7 | | |
| MuSU | 38,583,500 | 5.0% | 1,929,175 | 649.3 | | |
| NKU | 45,566,000 | 5.0% | 2,278,300 | 635.7 | | |
| WKU | 64,328,000 | 5.0% | 3,216,400 | 813.0 | B | (B ÷ B) |
| Comprehensive | \$255,485,300 | | \$12,774,265 ÷ | 3,169.7 = | \$4,030.16 | 1.00000 |
| Four-Year | <u>\$537,367,700</u> | | <u>\$26,868,385</u> | <u>5,439.0</u> | | |

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Major Decision Points

Weighting Between Sectors (Cont'd)

Council on Postsecondary Education
Funding Model for the Public Universities

June 6, 2017

URM Bachelor's Degree Weights

| <u>Campus/Sector</u> | <u>Allocable Resources</u> | <u>Contributed Percent</u> | <u>Contributed Amount</u> | <u>URM Degrees</u> | <u>Sector Subsidy</u> | <u>Weight Factors</u> |
|----------------------|----------------------------|----------------------------|---------------------------|--------------------|-----------------------|-----------------------|
| UK | \$163,067,600 | 3.0% | \$4,892,028 | 469.3 | | |
| UofL | 118,814,800 | 3.0% | 3,564,444 | 487.7 | A | (A ÷ B) |
| Research | \$281,882,400 | | \$8,456,472 ÷ | 957.0 = | \$8,836.44 | 1.22322 |
| EKU | \$57,914,000 | 3.0% | \$1,737,420 | 218.7 | | |
| KSU | 15,262,400 | 3.0% | 457,872 | 157.0 | | |
| MoSU | 33,831,400 | 3.0% | 1,014,942 | 61.0 | | |
| MuSU | 38,583,500 | 3.0% | 1,157,505 | 136.3 | | |
| NKU | 45,566,000 | 3.0% | 1,366,980 | 192.3 | | |
| WKU | 64,328,000 | 3.0% | 1,929,840 | 295.7 | B | (B ÷ B) |
| Comprehensive | \$255,485,300 | | \$7,664,559 ÷ | 1,061.0 = | \$7,223.90 | 1.00000 |
| Four-Year | <u>\$537,367,700</u> | | <u>\$16,121,031</u> | <u>2,018.0</u> | | |

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Major Decision Points

Weighting Between Sectors (Cont'd)

Discussion Questions

- Do working group members support the elimination of the sector differential for the FTE metric in the Academic Support pool?
- Do working group members support the elimination of the sector differential for low income and URM metrics?
- Do work group members support any changes to the weightings between sectors?

Next Steps

- Finalize Remaining Decision Points
- Review Performance Metric Proposals
 - Add Adult Learner Metric
 - Reward All Degrees Conferred
 - Increase Low Income Degree Weighting
 - Increase URM Degree Weighting
 - Modify Direct Cost Metric
 - Modify or Eliminate Square Footage Metric

Questions?



Twitter: CPENews and CPEPres



Website: <http://cpe.ky.gov>



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