Kentucky Council on
Postsecondary Education

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Robert L. King
President

December 1, 2016

The Honorable Matt Bevin, Governor, Commonwealth of Kentucky
The Honorable Robert Stivers, President, Kentucky State Senate
The Honorable Greg Stumbo, Speaker, Kentucky House of Representatives
The Honorable Jeff Hoover, Speaker-elect, Kentucky House of Representatives
The Honorable Mike Wilson, Co-Chair, Interim Joint Committee on Education
The Honorable Derrick Graham, Co-Chair, Interim Joint Committee on Education

Gentlemen:

In the enacted 2016-18 budget (HB 303), the General Assembly established a Postsecondary Education Working Group to develop a comprehensive funding model that incorporates elements of campus performance, mission, and enrollment, and to provide a report setting forth its recommendations to the Governor and Interim Joint Committee on Education no later than December 1, 2016. The attached report describes the process and the recommendations from the Working Group.

To achieve such a model, we needed to recognize that each of the public universities, and each of the colleges within KCTCS, have distinct and often significantly different missions that are tied to statutory directives, degree and program offerings, geography and the population of students being served. Despite these differences, each campus leader was willing to agree to certain components in the model that required them to accept compromises from what any of them might find ideal. We sought, and believe we have achieved, consensus among the public institutional leaders.

This proposed model for distributing Kentucky's postsecondary investment will provide clear guidance to our elected officials about how to fairly and strategically invest public dollars, and provide to our campuses incentives designed to stimulate the achievement of state goals. However, this model will not, by itself, meet the growing needs of our state and our students to develop and support the workforce Kentucky needs to be a competitive economy in the 21st century. We believe that over time, additional investment in higher education will be necessary. In this regard, the model also can help define and measure those needs as future budget requests are developed.

We have prepared for consideration by our elected leaders two models; one for the four-year institutions, and a similar (although slightly different) model for KCTCS. Each has three basic components:

Student Success: 35% of the model ties the distribution of allocable funding directly to degree production and progression toward a degree or credential;

Course Completion: 35% of the model ties the distribution of resources to the number of credit hours awarded at each campus;

Operational Support: 30% of the model ties the distribution of resources to campus services and infrastructure that support student learning and success.

The **Student Success** component awards credit both for the production of bachelor's degrees (a volume metric), and the number of degrees awarded per 100 full time equivalent students (an efficiency metric). In addition, premiums are provided for students who earn STEM or healthcare related degrees, and for degrees earned by low-income and underrepresented minority students. The progression element awards increasing credit for each student who reaches critical milestones on the path to a bachelor's degree—specifically at the 30, 60 and 90 credit hour thresholds. KCTCS uses a similar format, appropriate to their institutions, for degree and credential production and student progression. The KCTCS model also awards premiums for transfers to four-year universities and for credentials earned in fields supporting high-wage, high-demand industries.

The **Course Completion** component recognizes enrollment and course completion. It recognizes cost differentials by course level (undergraduate, graduate and professional), and by discipline. The KCTCS model mirrors this component for their array of programs.

The **Operational Support** component recognizes critical expenses related to the maintenance and operation (M&O) of buildings dedicated to student learning (classrooms and teaching labs, libraries, etc.), the cost of instruction and student services (net of M&O), and the operational support of libraries, academic computing, etc. The KCTCS model mirrors this component as well.

The report recommends a phased-in process that includes the distribution of the five percent of base funding identified in HB 303. The pace of the phase-in can be managed through several different mechanisms. As mentioned earlier, the model is designed in such a way that it can be applied to any proportion of base funding, from the five percent in 2017-18 up to and including 100% of allocable funds. A mechanism that can be used in conjunction with the portion of the base being distributed is a "hold harmless" provision. An additional mechanism, which can be used with either or both of the other mechanisms, is a "stop loss" provision. We believe the recommended approach in the report will smooth the phase-in of the model and preclude large, destabilizing shifts in funds between and among campuses.

The report recommends that the models for universities and KCTCS be reviewed periodically to assess their impact on each of the campuses and to consider modifications if circumstances warrant. The models contemplate that individual campuses should eventually receive funding in proportion to the calculations in the formula, a status we describe as "equilibrium." Once equilibrium is achieved, rates of improvement, rather than sheer volume, drive the flow of funds. This allows the smaller campuses to compete more effectively and fairly with the larger campuses. While "equilibrium" can be reached over a long period of time through the regular operation of the models, the fastest way to achieve this state is through the infusion of new funds that could be directed to campuses pursuant to the models.

Finally, we want to thank each of our campus presidents for their thoughtful advocacy on behalf of their institutions, and their willingness to make helpful compromises. We also need to thank our participating legislators and the Governor's representatives for their insightful comments, patience and support of this complex undertaking.

We believe the proposed model and recommendations presented in this report constitute the fairest method we have been able to develop to achieve the objectives set forth in HB 303, while recognizing, through compromise and collaboration with each of the universities and KCTCS, the differing needs and demands of each of our institutions.

Respectfully submitted,

Gary Ransdell,
Chair, Postsecondary Education Working Group
President, Western Kentucky University

Robert L. King, President
President, Council on Postsecondary Education

cc: Additional Members of the Postsecondary Education Working Group

John Chilton, State Budget Director
Andrew McNeill, Deputy State Budget Director
David Givens, Kentucky State Senate
Arnold Simpson, Kentucky House of Representatives
Michael Benson, President, Eastern Kentucky University
Jay Box, President, Kentucky Community and Technical College System
Aaron Thompson, Interim President, Kentucky State University
Wayne Andrews, President, Morehead State University
Robert Davies, President, Murray State University
Geoffrey Mearns, President, Northern Kentucky University
Eli Capilouto, President, University of Kentucky
Neville Pinto, Interim President, University of Louisville

The Honorable Chris McDaniel, Co-Chair, Interim Joint Committee on Appropriations & Revenue
The Honorable Rick Rand, Co-Chair, Interim Joint Committee on Appropriations & Revenue
Glenn Denton, Chair, Council on Postsecondary Education
David Byerman, Director, Legislative Research Commission

Report of the Postsecondary Education Working Group
To the Governor and Interim Joint Committee on Education

December 1, 2016

Postsecondary Education Working Group
Participant List

GOVERNOR'S OFFICE REPRESENTATIVE(S)

John Chilton, State Budget Director (OSBD)

Andrew McNeill, Deputy State Budget Director (OSBD)

SENATE PRESIDENT REPRESENTATIVE

Senator David Givens (appointed by President Stivers)

SPEAKER OF THE HOUSE REPRESENTATIVE

Representative Arnold Simpson (appointed by Speaker Stumbo)

PUBLIC INSTITUTION PRESIDENTS

Eastern Kentucky University	Michael Benson
KCTCS	Jay Box
Kentucky State University	Aaron Thompson
Morehead State University	Wayne Andrews
Murray State University	Robert Davies
Northern Kentucky University	Geoffrey Mearns
University of Kentucky	Eli Capilouto
University of Louisville	Neville Pinto
Western Kentucky University	Gary Ransdell (PEWG Chair)

COUNCIL ON POSTSECONDARY EDUCATION

Robert King, President

Introduction

In the 2016 legislative session, the General Assembly determined that there was a need for the development of a comprehensive funding model for the nine public postsecondary education institutions that aligned the Commonwealth's investments in postsecondary education with state policy goals and objectives. In the enacted 2016-18 budget (HB 303), the General Assembly established a Postsecondary Education Working Group comprised of the president of the Council on Postsecondary Education, the president of each public postsecondary institution or his or her representative, the Governor or his representative, the Speaker of the House or his representative, and the President of the Senate or his representative.

The purpose of the Working Group was to develop a:

> comprehensive funding model for the allocation of state General Fund appropriations for postsecondary institution operations… that incorporated elements of campus performance, mission, and enrollment, as well as, any other components as determined through the process (HB 303, pages 112, lines 14-17).

The bill directed the group to complete its work and provide a report setting forth its recommendations to the Governor and Interim Joint Committee on Education no later than December 1, 2016.

The enacted budget (HB 303) transferred $42,944,400 from campus operating budgets to a newly created Postsecondary Education Performance Fund in fiscal year 2017-18, representing 5.0% of the fiscal 2017-18 General Fund appropriations for the public four-year universities (excluding Kentucky State University) and KCTCS. The Performance Fund will be distributed to participating institutions based on achievement of performance goals and metrics enacted by the General Assembly, as recommended by the Postsecondary Education Working Group.

Desired State Goals

On June 3, 2016, the Council on Postsecondary Education voted to adopt *Stronger by Degrees: A Plan to Create a More Educated and Prosperous Kentucky*, 2016-2021 Strategic Agenda for Postsecondary and Adult Education (see Appendix A). At the heart of the Strategic Agenda is a goal to raise Kentucky's educational attainment level to 58 percent by the year 2025, up from its current level of 45 percent. Achieving this goal is critical if the Commonwealth hopes to accelerate job creation, grow the economy, and expand its tax base through the contributions of a more highly skilled and productive workforce.

The Strategic Agenda identifies postsecondary education success as one of three urgent priorities for 2016 through 2021. It espouses the belief that Kentucky's future depends on more people advancing through the postsecondary education system and graduating in less time. It highlights a moral and social imperative to close achievement gaps for low-income and underrepresented minority students. These obligations are captured in objectives 6 and 7 of the Strategic Agenda:

Objective 6: Increase persistence and timely completion for all students at all levels, particularly for low-income and underrepresented minority students (Strategic Agenda, Objective 6, p. 13).

Objective 7: Increase the number of KCTCS students who complete career-oriented certificates and associate degree programs and successfully transfer to four-year institutions (Strategic Agenda, Objective 7, p. 13).

One of the key strategies for achieving these objectives is to "[i]mplement a new funding model with an outcomes-based component to reward institutions for increases in completion and other key metrics" (Strategic Agenda, Strategy 6.6, p. 13). The funding models recommended in this report are well aligned with strategies and objectives of the Strategic Agenda and, through the metrics contained therein, clearly identify desired state goals for postsecondary education.

The Commonwealth wants its public four-year universities to:

- Increase retention and progression of students toward timely bachelor's degree completion;
- Increase the number of bachelor's degrees earned by all types of students;
- Grow the number of bachelor's degrees produced in fields that garner higher salaries upon graduation (i.e., STEM+H fields, or science, technology, engineering, and math plus health); and
- Close achievement gaps by increasing the number of bachelor's degrees earned by low income and underrepresented minority students.

The Commonwealth wants KCTCS institutions to:

- Increase retention and progression of students toward timely certificate, diploma, and associate degree completion;
- Increase the number of certificates, diplomas, and associate degrees earned by all types of students;
- Grow the number of credentials produced in fields that garner higher salaries upon graduation (i.e., STEM+H fields; high-wage, high-demand fields);
- Increase the number of credentials produced in areas of pressing state need or opportunity (i.e., targeted industry fields);
- Close achievement gaps by increasing the number of credentials earned by low income, underprepared, and underrepresented minority students; and
- Facilitate credit hour accumulation and transfer of students to four-year institutions.

Guiding Principles

During a previous iteration of funding model development and in conjunction with preparation of the Council on Postsecondary Education's 2016-18 biennial budget recommendation, a Funding Strategy Steering Committee comprised of Council members, the president of the

Council on Postsecondary Education, and nine postsecondary institution presidents developed and achieved near consensus on a goal and set of guiding principles that would direct development of a new funding distribution mechanism, which would form the basis for the Council's 2016-18 and subsequent institutional operating requests. That goal and guiding set of principles was shared with the Postsecondary Education Working Group at their July 19, 2016 meeting for review and discussion, along with a request from CPE staff for any suggested changes.

No changes were proposed by Working Group members at either the July 19 meeting or the September 7 meeting, and the goal and guiding principles document served as a framework that guided the funding model development process. Listed below are several principles that influenced model construction.

- Mission Sensitive – The distribution mechanism will be based on shared recognition that dissimilar institutional missions require different levels of funding.
- Outcomes Based – The distribution mechanism will provide incentives for improved institutional and student performance by establishing an explicit link between the attainment of desired state outcomes (e.g., increased degree production, closing achievement gaps, reduced time to degree, research productivity) and allocation of available resources.
- Completion Driven – The impact of differing levels of earned credit hours, variations in program mix, residency status, and dissimilarities in disciplines and course offerings across institutions will be considered in the development of the distribution mechanism.
- Sustainable – The distribution mechanism will continue to provide incentives for improved institutional and student performance, regardless of whether state appropriations for postsecondary education increase, decrease, or remain stable.
- Reasonably Stable – The distribution mechanism will not permit large, annual shifts in funding to occur.
- Allow Appropriate Exclusions – The distribution mechanism will exclude mandated public service, medical, agriculture, and research programs, which are not student credit hour generating, as well as, other programs that the Council may deem as appropriate for exclusion, from the allocable resources that will be distributed by the funding mechanism.

See Appendix B for a complete rendition of the goal and guiding principles document.

Model Development

Members of the Postsecondary Education Working Group met five times between July 19, 2016 and November 28, 2016. A brief synopsis of each of these meetings is provided below. Copies of meeting agendas and meeting minutes can be found in Appendix C and Appendix D of this report, respectively.

First Meeting

The first meeting of the Working Group was held on July 19 at the Council on Postsecondary Education in Frankfort, Kentucky. At that meeting, Western Kentucky University president Gary Ransdell was chosen to serve as Chair of the Working Group. The group discussed funding models that had been developed and recommended by the Council over several biennia, including a model developed for the 2016-18 biennium and a model that had been developed by legislative leaders during the session. Council staff presented information on the 2016-2021 Strategic Agenda for Postsecondary and Adult Education and goals for Kentucky's higher education system were discussed.

CPE staff presented several sample models, including a targets and goals approach, a relative improvement model, and an outcomes-based funding model. Chair Ransdell called for a vote on these models and a majority of Working Group members agreed that an outcomes-based model, which included elements of relative improvement among institutions, would be the best approach. Chair Ransdell recapped meeting discussions, noting the following areas of general agreement:

- Performance funding should be phased in;
- Kentucky State University should be held harmless in early years of implementation;
- Mandated programs should be excluded from allocable funds distributed by the model;
- Once implemented, the model should be reevaluated in the 2018-2020 timeframe;
- The ratio of course completion to student success outcomes in the model should be 50/50; and
- The Working Group should review 50/50 models that group all public institutions together and those that retain three separate sectors.

Next steps included deciding on the percentage of allocable funding that would be distributed using the model, appropriate metrics, and the level of sector differentiation.

Second Meeting

The second meeting of the Working Group was held on September 7 at the Kentucky Chamber of Commerce in Frankfort. At that meeting, University of Kentucky president Eli Capilouto presented a proposal for a model that would distribute performance funds based solely on degree production. The proposal called for a relative improvement approach that included all degree levels (bachelor's, master's, doctoral, first professional) with no differential weighting by degree level in the first year of implementation.

Northern Kentucky University president Geoffrey Mearns presented a plan, calling for a comprehensive funding model that would distribute 100% of allocable funds, which could be phased-in over several years and would make appropriate use of stop-loss provisions. Kentucky State University president Aaron Thompson proposed that a small-school adjustment be included regardless of the approach selected.

Chair Ransdell asked CPE staff to construct a hybrid model that would contain elements of each proposal and run the model using actual numbers from the prior year. The Working Group discussed ways in which a model could be implemented, including distributing the $42.9 million in the Postsecondary Education Performance Fund in 2017-18 on the basis of degree production only, and increasing the percentage distributed based on performance in subsequent years and adding additional components and metrics as a basis for distribution. Chair Ransdell asked CPE staff to work on a model that would keep the sector shares in place, as well as, a model that would allow funding to move between sectors.

Third Meeting

On November 2, the Working Group met again at the Kentucky Chamber of Commerce in Frankfort, Kentucky. At that meeting, Chair Ransdell explained that since the last meeting, CPE staff had met individually with officials at each campus to review a comprehensive model that combined elements of approaches proposed by several Working Group members at the September 7 meeting and that, from his perspective, the hybrid model addressed many of the concerns raised by some institutions at the last meeting. He reiterated that the shared hope was that the group could achieve consensus, if not full unanimity, on a funding model that ultimately would be incorporated into statute.

CPE staff presented its proposed approach and a discussion ensued. The proposed model distributes 100% of allocable resources based on rational criteria, with 70% of those resources distributed based on performance. Half of the 70% would be distributed based on student success outcomes (i.e., bachelor's degree production and student progression) and the other half distributed based on earned credit hours. The remaining 30 percent of allocable resources would be distributed in support of vital campus operations, such as maintenance and operation of facilities, institutional support, and academic support, or what has been called in the past "open the doors" money.

This proposal would put all four-year institutions in a common sector. Weightings for each metric are used to ensure that neither the research sector institutions, nor the comprehensive sector institutions are either advantaged or disadvantaged by being in the same performance pool in the first full year of implementation. Funding would shift, however, in future years from institutions having less growth than the system average to institutions recording more growth, regardless of sector. The model contains a small school adjustment and can be used in conjunction with hold harmless and stop-loss provisions. Finally, the model could be used to generate a funding request and to distribute any new funding.

KCTCS president, Dr. Jay Box, presented a model for distributing funds among its sixteen community and technical colleges. CPE and KCTCS staffs collaborated on developing a model for the two-year sector and the features of the resulting model are very similar to the four-year sector version.

An additional meeting was requested and agreed to for November 15 at the Council on Postsecondary Education in Frankfort. CPE staff was charged with looking at the effects of several changes (i.e., looking at unrestricted funds, removing depreciation and interest expenses, changing three-year averages used in the model to four-year averages, etc.) President King also asked for staff to find ways to address the challenges faced by institutions serving low income students.

Fourth Meeting

The fourth meeting of the Postsecondary Education Working Group was held on November 15 at the Council on Postsecondary Education in Frankfort. At that meeting, the Working Group reviewed the details of the KCTCS model, which would be shared with community and technical college presidents the following day. There was some discussion about the size of a potential funding request generated by the KCTCS model. President Ransdell suggested that any requests for new funding derived from either the four-year sector model or the two-year sector model be proportionate to the current shares of funding in each sector.

President King indicated that the spreadsheets shared by CPE and KCTCS staffs showing how the sample models could be used to formulate budget requests were for illustrative purposes and that the Working Group should focus its efforts on achieving consensus regarding the conceptual framework of the model, not on producing budget requests. He did acknowledge that at an appropriate time the proposed models can provide a rational basis for generating future budget requests. Chair Ransdell and others noted that it made sense to have separate models for the universities and community colleges, given their distinctly different missions.

The Working Group discussed an email that had been circulated by Morehead State University president Wayne Andrews. The email recommended that the model be phased in, maintain differentiation between the research and comprehensive sectors, better address access and affordability, include a larger small school adjustment, better define metrics and weights, and not include a funding request.

Chair Ransdell asked president King and CPE staff to prepare a consensus document for the November 28 meeting, based on the model before the Working Group. He expressed hope that most, if not all, university presidents and president King would sign the document.

Fifth Meeting

The fifth meeting of the Working Group was held on November 28 at the Council on Postsecondary Education. Chair Ransdell reminded the group that this would be the final meeting and that the main objectives for the meeting would be to reach consensus on the model and the report. He stated that distribution of $42.9 million appropriated to the Postsecondary Education Performance Fund in 2017-18 would be contingent on reaching agreement on the model and that legislators would use the report to draft bill language for the 2017 session, thus codifying the funding model's framework in statute.

President King advised the group that final data for some metrics would not be available until early February 2017 and that Council staff was still evaluating mandated program requests received from two campuses (i.e., EKU and UofL). CPE staff presented an updated version of the model, which distributes 35% of allocable resources based on student success outcomes, 35% based on earned credit hours, and 30% in support of vital campus operations. The updated model included new degree, FTE student, and square feet data, and placed slightly higher weightings on degrees earned by underrepresented minority and low income students.

The Working Group discussed and reached consensus on a number of aspects of the four-year university model, including weightings of metrics in the Student Success component (i.e., bachelor’s degrees 9.0%; STEM+H degrees 5.0%; URM degrees 3.0%; low income degrees 3.0%; 30 credit hour progression 3.0%; 60 credit hour progression 5.0%; 90 credit hour progression 7.0%) and weightings for Course Completion and Operational Support components (i.e., earned credit hours 35.0%; maintenance and operation of facilities 10.0%; institutional support 10.0%; academic support 10.0%). CPE staff proposed hiring a consulting firm in the spring to conduct a postsecondary institution facilities audit to establish a firm baseline of facilities square feet at each campus for distributing M&O funds.

CPE staff presented a spreadsheet showing how the $42.9 million appropriated to the Postsecondary Education Performance Fund in 2017-18 could be distributed using the funding model. To retain appropriate balance between the research and comprehensive sectors in this iteration of the model, KSU was excluded from the calculations. The proposed approach also included an adjustment for mandated programs. Because the size of the performance pool in 2017-18 represented only 5.0% of each institution’s state appropriation (excluding KSU), CPE staff proposed that the model be applied without stop loss or hold harmless provisions. The Working Group reached consensus to endorse the model as presented for fiscal 2017-18.

Morehead State University president Wayne Andrews distributed a two page document to the Working Group detailing his concern that out-of-state students, who were not reciprocity students, were weighted too heavily in the model, especially given the Council’s policy, which requires that the net tuition and fee revenue paid by nonresident students cover the direct costs of their instruction and student services at each campus. CPE staff reminded the group that the 50% weighting for out-of-state students represented a compromise position from an earlier iteration of funding model development. Furthermore, educating out-of-state students can help Kentucky reach its postsecondary education attainment goal, since many are still living in Kentucky and are employed and paying taxes five years after graduation.

There was robust discussion among the four-year university presidents regarding the issue of sector differentiation. Several presidents (i.e., those at EKU, MoSU, and MuSU) expressed reservations about combining all four-year universities into one performance funding pool, but were willing to defer to the majority opinion in order to achieve consensus. The group agreed to evaluate the model every three years to ensure that there are no unintended consequences. The group also agreed to meet the third week of January 2017 to review draft bill language.

KCTCS president Jay Box provided an update regarding the two-year sector model and his discussions with community and technical college presidents. He reported that all the presidents support the model, but that some stressed the importance of including stop loss provisions to minimize the impact at colleges that have experienced enrollment declines, particularly in eastern and western Kentucky.

The two-year college model closely mirrors the four-year university model, but contains different metrics and weightings within the Student Success component. Dr. Box indicated that the model had been modified to place a higher weighting on associate degrees, than on certificates taking more than one year to complete, and that a higher weighting had been placed on certificates taking more than one year to complete, than on certificates taking less than one year to complete. These changes were in response to a request made by Representative Arnold Simpson at a previous meeting.

The Working Group reviewed and discussed a draft report prepared by CPE staff and made suggestions for changes based on agreements reached and concerns expressed during the meeting. Chair Ransdell asked CPE staff to modify the report to reflect agreed upon changes and send a revised version to the Working Group. He stated that once group members were given an opportunity to review changes, CPE staff would affix their signatures to a consensus document to be included in the report.

Recommendations

Based on meetings and discussions to date, members of the Postsecondary Education Working Group recommend that the Governor and General Assembly enact legislation during the 2017 session, establishing comprehensive funding models for the allocation of state appropriations for college and university operations and directing the Council on Postsecondary Education and the public postsecondary institutions to implement those models, beginning with distribution of the $42.9 million appropriated to the Postsecondary Education Performance Fund in fiscal 2017-18 and increasing the proportion distributed using comprehensive models in subsequent years.

This report contains three sets of recommendations, one for the public four-year universities, another for the Kentucky Community and Technical College System (KCTCS), and a third set containing a suggested timeframe for implementing the models.

<u>Four-Year Universities</u>

It is recommended that the funding model for the public four-year universities adhere to the following criteria:

- The funding model should include all public research and comprehensive universities in a four-year sector performance pool, but contain safeguards to ensure that neither the research, nor comprehensive sector is advantaged or disadvantaged during the first full year of implementation.
- It should be capable of distributing any level of state appropriations, up to and including 100% of allocable resources, among the public universities based on rational criteria, including student success, course completion, and operational support components.

- Allocable resources are defined as state General Fund appropriations net of mandated programs and a small school adjustment.

- At least 35% of allocable resources should be distributed among universities based on each institution's share of sector total student success outcomes produced.

- In the public four-year sector, student success outcomes should include bachelor's degree production, degrees per 100 undergraduate full-time equivalent (FTE) students, numbers of students progressing beyond 30, 60, and 90 credit hour thresholds, STEM+H degree production, and degrees earned by low income and underrepresented minority students.

- Another 35% of allocable resources should be distributed among universities based on each institution's share of sector total student credit hours earned, weighted to account for cost differences by degree level (i.e., lower division and upper division baccalaureate, master's, doctoral research, and doctoral professional) and academic discipline.

- The remaining 30% of allocable resources should be distributed among the universities in support of vital campus operations, such as maintenance and operation of facilities, institutional support, and academic support. Specifically:
  - To support maintenance and operation (M&O) of campus facilities, 10% of allocable resources should be distributed among universities based on each institution's share of Category I and Category II square feet, net of research, non-class laboratory, and open laboratory space.
  - To support campus administrative functions, 10% of allocable resources should be distributed based on share of sector total instruction and student services spending, net of M&O.
  - To support academic support services such as libraries and academic computing, 10% of allocable resources should be distributed based on each institution's share of sector total FTE student enrollment.

- The funding model for the public four-year sector should include a small school adjustment to minimize impact on smaller campuses.

- Implementation of the funding model should make use of hold harmless and stop loss provisions in early years of implementation in a manner that continues to provide incentives to produce desired state outcomes.

- Hold harmless is a term used to indicate that existing base funding for a given institution or for an entire sector of institutions will not be subject to transfer to other institutions for a specified period of time, even though formula totals in the funding model would call for such transfers.

- A stop loss provision would allow for the transfer of existing base funding from one institution to another, but the amount eligible for transfer would be limited to some predetermined ceiling, typically expressed as a percent of an institution's state General Fund appropriation. For example, a 1.0% stop loss provision would limit the amount that could be transferred from one institution to another to 1.0% of the contributing institution's General Fund base.

- It is recommended that every effort be made to achieve equilibrium in the four-year university model as soon as possible, which can best be accomplished through a combination of new funding for postsecondary education and application of a hold harmless provision in the first full year of implementation.

- Equilibrium is defined as a condition in which every institution has an appropriately proportionate level of resources given its level of productivity in achieving student success and course completion outcomes. Once equilibrium is achieved, the funding model rewards rates of improvement above the sector average rate, which allows smaller campuses to compete more effectively and fairly with larger ones.

- Going forward, it is recommended that the Council on Postsecondary Education conduct annual assessments of four-year university net General Fund appropriations and tuition and fee revenue per full-time equivalent student by residency status and the proportion of educational costs paid by out-of-state students and share results of those analyses with the postsecondary institution presidents.

- The Postsecondary Education Working Group should be reconvened every three years to determine if the elements (e.g., the structure of the four-year sector; weighting for nonresident students; etc.) and overall model for the four-year universities are functioning as expected and to identify any potential unintended consequences. It is anticipated that the group, upon reaching consensus to do so, will be able to recommend changes to the model either through the regulatory process by CPE, or through statutory amendment.

<u>KCTCS</u>

It is recommended that the funding model for the Kentucky Community and Technical College System adhere to the following criteria:

- The funding model should include all sixteen KCTCS institutions in the two-year sector performance pool.

- It should be capable of distributing any level of state appropriations, up to and including 100% of allocable resources, among the community and technical colleges based on rational criteria, including student success, course completion, and operational support components.

- In the two-year sector, allocable resources are defined as state General Fund appropriations net of mandated programs and an equity adjustment.

- At least 35% of allocable resources should be distributed among the community and technical colleges based on each institution's share of sector total student success outcomes produced.

- In the two-year sector, student success outcomes should include:
  - certificate, diploma, and associate degree production;
  - numbers of students progressing beyond 15, 30, and 45 credit hour thresholds;
  - STEM+H, targeted industry, and high-wage, high-demand credentials;
  - credentials earned by low income, underprepared, and underrepresented minority students; and
  - transfers to four-year institutions.

- Another 35% of allocable resources should be distributed among community and technical colleges based on each institution's share of sector total student credit hours earned, weighted to account for cost differences by academic discipline.

- The remaining 30% of allocable resources should be distributed among KCTCS institutions in support of vital campus operations, such as maintenance and operation of facilities, institutional support, and academic support.

- The funding model for the community and technical colleges should include an equity adjustment to account for declining enrollment in some regions of the Commonwealth and use hold harmless and stop loss provisions in early years of implementation.

- It is recommended that every effort be made to achieve equilibrium in the two-year sector model as soon as possible, which can best be accomplished through a combination of new funding for postsecondary education and application of a hold harmless provision in the first full year of implementation.

- The Postsecondary Education Working Group should be reconvened every three years to determine if the two-year college model is functioning as expected and identify any potential unintended consequences. It is anticipated that the group, upon reaching consensus to do so, will be able recommend changes to the model either through the regulatory process by CPE, or through statutory amendment.

<u>Phase In</u>

It is recommended that the comprehensive funding models for both the four-year and two-year college sectors be implemented according to the following schedule:

- In fiscal 2017-18, each sector should use its respective funding model to distribute its share of $42.9 million appropriated to the Postsecondary Education Performance Fund.

- Given that the dollar amounts transferred to the Performance Fund represent only 5.0% of each participating institution’s state appropriation, it is recommended that these funds be distributed among institutions without using hold harmless or stop loss provisions.
- That same year, the funding models could be used to inform the Council’s 2018-20 biennial budget recommendation, which is submitted to the Governor and General Assembly in November.
- In fiscal 2018-19, the funding models should be fully implemented within each sector, but hold harmless provisions should be applied to prevent reduction of any institution’s General Fund base in the first full year of implementation.
- In fiscal 2019-20, the funding models should continue to be fully implemented, but transition from using hold harmless provisions to 1.0% stop loss provisions.
- In fiscal 2020-21, each sector should transition from using 1.0% stop loss provisions to 2.0% stop loss provisions and the Postsecondary Education Working Group should reconvene to evaluate the model and discuss potential changes.

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
Northern Kentucky University

Jay K. Box, President
Kentucky Community and Technical College System

Eli Capilouto, President
University of Kentucky

Aaron Thompson, Interim President
Kentucky State University

Neville G. Pinto, Interim President
University of Louisville

Wayne D. Andrews, President
Morehead State University

Gary A. Ransdell, President
Western Kentucky University

Appendix A

Strategic Agenda for Postsecondary and Adult Education

- For a copy of the Councils' 2016-2021 Strategic Agenda for Postsecondary and Adult Education visit: http://cpe.ky.gov/NR/rdonlyres/6A6E8841-3F48-4751-B4D7-4A021AC99D18/0/FINAL201621StrategicAgenda.pdf

Appendix B

Goal and Guiding Principles

Council on Postsecondary Education
Funding Strategy Steering Committee

Goal and Guiding Principles

The first meeting of the Funding Strategy Work Group was held on May 28, 2014. At that meeting, campus chief budget officers, chief academic officers, and institutional research directors discussed the broad goals they have for adopting a new funding strategy, as well as, the basic principles that will be used to guide the funding strategy development process. The main outcome of those discussions was a suggestion by work group members that CPE staff draft an initial list of goals and principles for review and discussion by the Funding Strategy Steering Committee.

The purpose of this document is to identify a draft set of goals and guiding principles that when finalized by the Steering Committee will direct development of a new funding distribution mechanism, which will form the basis for the Council's 2016-18 and subsequent institutional operating recommendations. The draft set of goals and principles is provided below.

Goal

Develop a postsecondary education funding distribution mechanism that aligns state General Fund appropriations for higher education operations with public policy goals and objectives of the *Postsecondary Education Improvement Act of 1997* (HB1) and the Council's *Strategic Agenda for Postsecondary and Adult Education*.

Guiding Principles

- Mission Sensitive – The distribution mechanism will be based on shared recognition that dissimilar institutional missions require different levels of funding.

- Outcomes Based – The distribution mechanism will provide incentives for improved institutional and student performance by establishing an explicit link between the attainment of desired state outcomes (e.g., increased degree production, closing achievement gaps, reduced time to degree, research productivity) and allocation of available resources.

- Completion Driven – The impact of differing levels of earned credit hours, variations in program mix, residency status, and dissimilarities in disciplines and course offerings across institutions will be considered in the development of the distribution mechanism.

- Easily Communicated – The distribution mechanism will be based on relatively few key metrics and be easy to understand and communicate.

- Sustainable – The distribution mechanism will continue to provide incentives for improved institutional and student performance, regardless of whether state appropriations for postsecondary education increase, decrease, or remain stable.

- Reasonably Stable – The distribution mechanism will not permit large, annual shifts in funding to occur.

- Data Driven – The distribution mechanism will rely on data that are valid and reliable, readily available, and can be verified when necessary.

- Flexible – The distribution mechanism will not limit future budget requests. The Council will be free to recommend additions to base funding and supplemental requests, such as appropriations for Strategic Investment and Incentive Trust Fund programs or other unique activities that are not common across institutions, provided such requests do not circumvent or otherwise diminish the integrity of the distribution mechanism.

- Allow Appropriate Exclusions – The distribution mechanism will exclude mandated public service, medical, agriculture, and research programs, which are not student credit hour generating, as well as, other programs that the Council may deem as appropriate for exclusion, from the allocable resources that will be distributed by the funding mechanism.

- Efficient – The distribution mechanism and overall funding recommendation will provide the postsecondary institutions maximum fiscal and management flexibility to be effective, efficient, and meet the needs of Kentucky, including continuing provision of lump sum appropriations with necessary accountability requirements.

Appendix C

Meeting Agendas

- For a copy of Postsecondary Education Working Group meeting agendas visit: http://cpe.ky.gov/committees/2016+Performance+Funding+Work+Group.htm

Appendix D

Meeting Notes

- For a copy of Postsecondary Education Working Group meeting notes visit: http://cpe.ky.gov/committees/2016+Performance+Funding+Work+Group.htm