Kentucky Council on Postsecondary Education

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Governor

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Aaron Thompson, Ph.D.
President

December 1, 2023

The Honorable Andy Beshear, Governor, Commonwealth of Kentucky
The Honorable Robert Stivers, President, Kentucky State Senate
The Honorable David Osborne, Speaker, Kentucky House of Representatives
The Honorable Stephen West, Co-Chair, Interim Joint Committee on Education
The Honorable James Tipton, Co-Chair, Interim Joint Committee on Education

Kentucky Leaders,

Pursuant to KRS 164.092 (11)(b), the Council on Postsecondary Education (CPE) convened a Postsecondary Education Working Group (PEWG) in calendar year 2023 to determine if the comprehensive funding models for the public universities and Kentucky Community and Technical College System (KCTCS) were functioning as expected, to identify any unintended consequences of the models, and to recommend any adjustments to the models. This letter communicates the recommendations of the PEWG, which was comprised of the Council president, the public university presidents and KCTCS president, and Cabinet Secretary John Hicks representing the Governor, Senator David Givens representing the President of the Senate, and Representative James Tipton representing the Speaker of the House.

The work group met five times between January 25, 2023 and September 6, 2023. During the course of those meetings, they reviewed and discussed trends in student success outcomes data, financial impact information, and campus and CPE staff responses to performance funding surveys before arriving at their recommendations. Work group members ultimately agreed to propose incremental changes to the models, which collectively will address many of the issues identified by the group during their review. For more information regarding the process and activities by which the working group conducted their review, methods and data sources used in the review, and the rationale for group recommendations see the attached Summary Report.

The working group recommends five changes to the university model:

- Increase the premium in the model for low-income bachelor's degrees from 3% to 8% of allocable resources, and reduce the credit hours earned component from 35% to 30%
- Add an adult learner metric to the model within the credit hours earned component

- Eliminate the degree efficiency index currently used to weight bachelor's degrees
- Modify the small school adjustments at KSU and MoSU to bring those institutions to funding parity with peers and allow them to fully compete in the model
- Increase the weighting for nonresident credit hours earned from 50% to 75% to help institutions maintain enrollment and better align the model with CPE's tuition policy

The work group recommends six changes to the KCTCS model. These changes were endorsed by KCTCS's college presidents:

- Add an adult learner metric to the model that rewards credential production and assign it 4% of allocable resources
- Reallocate the model's equity adjustment using a Community Needs Index that takes into account a service region's poverty and employment rates (10% of Formula Base)
- Increase weightings for credentials earned by URM, underprepared, and low-income students and increase the weighting for transfer students (from 2% each to 4% each)
- Reduce the total weighting of three student progression metrics from 12% to 7% to allow for increases in weightings described in the first and third bullets above
- Merge overlapping credential metrics (i.e., weighted credentials, STEM+H, high-wage high-demand, and targeted industries) into one credential metric tied to the economy and reduce the total weighting from 15% to 8% to clarify incentives, simplify the model, and accommodate increased weightings in the first and third bullets above
- Use rolling three-year average data for all metrics except square feet to provide additional stability to the model

The first review of the funding models, conducted in 2020, established a funding floor for all institutions and eliminated stop-loss carve outs of campus base funds. This meant that, going forward, state appropriations rather than campus contributions would be the source of funding for the performance fund. In addition, distributed performance funds would no longer be recurring to institutions that earned the funds but would be recurring to the performance fund itself. These adjustments were not changes to the funding models, per se, but rather changes in the way the models are applied.

If authorized by the General Assembly, the recommendations of the 2023 working group cited above would constitute incremental but constructive changes to the funding models. These proposals, agreed to in their entirety by all stakeholders, represent the working group's best thinking on how to create financial incentives and leverage the funding models to advance state goals for postsecondary education. Work group members, therefore, respectfully request that policymakers accept the recommended adjustments and make the necessary changes in statute and regulation to implement those adjustments.

In coming weeks, Council on Postsecondary Education staff will contact legislators and LRC staff regarding the working group's recommendations and will be available as needed to assist bill drafters and LRC staff to incorporate these changes into law.

I want to thank each of our campus presidents for their thoughtful advocacy on behalf of their respective institutions, and for their willingness to make helpful compromises. I also want to thank Senator David Givens, Representative James Tipton, and Executive Cabinet Secretary John Hicks for their thoughtful comments, patience, and support during this second review of Kentucky's comprehensive funding models.

I believe the proposed changes will allow our postsecondary institutions to continue making progress toward the state's college attainment goals, while providing additional stability during this challenging time for higher education.

Thank you,

Aaron Thompson

Aaron Thompson
President, Council on Postsecondary Education

C: University Presidents
KCTCS President
Senator David Givens, PEWG member
Secretary John Hicks, PEWG member
Senator Christian McDaniel, Chair, Senate Appropriations and Revenue Committee
Representative Jason Petrie, Chair, House Appropriations and Revenue Committee
Madison Silvert, CPE Chair
Carla Wright, OSBD staff
Jay Hartz, LRC Director

Summary of Performance Funding Model Review and Recommendations
Postsecondary Education Working Group

Council on Postsecondary Education
December 1, 2023

Introduction

In 2023, pursuant to KRS 164.092 (11)(b), the Council on Postsecondary Education (CPE) convened a Postsecondary Education Working Group (PEWG) to conduct a comprehensive review of Kentucky's public university and Kentucky Community and Technical College System (KCTCS) funding models. That group, which was comprised of the Council president, public university presidents and KCTCS president, and state policymakers, is charged to come together every three years to determine if the funding models are functioning as expected, to identify any unintended consequences of the models, and to recommend adjustments to the models.

The working group met five times between January 25, 2023 and September 6, 2023 to conduct their review. During the course of those meetings, the group examined and discussed funding model components and metrics, campus and CPE staff responses to funding model surveys, performance fund appropriations and distributions, information about the financial impacts of the models, and trends in student outcomes before developing recommendations.

Review Summary

The key takeaways from the working group's review include the following:

- Overall, campus officials indicated that the funding models are functioning as expected and the models' goals, components, and metrics are well aligned with campus priorities
- The models have contributed to progress toward the state's 60x30 college attainment goal, which the state is on track to meet
- One unintended consequence was lack of state support for the models in early years of implementation, which resulted in redistribution of base funds among institutions and limited the models' effectiveness
- Establishing a funding floor 2020-21 and eliminating campus stop-loss carve outs (i.e., changes enacted based on 2020 work group recommendations) and recent state investment in higher education has facilitated operation of the models and helped narrow funding gaps within sectors
- Several universities indicated that sector weightings and metrics based on enrollment and size make it hard for comprehensive universities to compete with research institutions, but there was lack of consensus to adjust the model to address these issues
- Several institutions advocated making earned funds recurring to institutions, but this was seen as running counter to the recommendations of the 2020 working group
- Several universities and KCTCS supported the idea of adding a base funding component to the models to offset inflationary cost increases, but this was addressed outside the models through the Council's 2024-2026 budget recommendation
- Several universities advocated separate research and comprehensive sector models to account for mission differences, but there was lack of consensus to pursue this change

- CPE staff found that the models have addressed shortcomings of the previous funding method by recognizing changes in enrollment, program mix, and performance and that historical funding disparities among institutions are being rectified
- Kentucky is making great strides in all areas of degree production except for awards to low-income students, which could stem from the low-income degree premium being the lowest among bachelor's degree premiums
  - Between 2014 and 2021, the number of total bachelor's degrees awarded increased by 8 percent, the number of bachelor's degrees awarded in STEM+H fields grew by 28%, and the number awarded to URM students increased by 38%
  - During that same period, the number of bachelor's degrees awarded to low-income students decreased by -1.4%
- An unexpected outcome of the models is downward trends in the number of students reaching 30-credit-hour and 60-credit-hour progression thresholds, resulting from a general decline in enrollment that affected most Kentucky institutions
- Enrollment declines were caused by decreasing numbers of high-school graduates, falling college-going rates, and the impact of COVID-19
- The degree efficiency index used to weight bachelor's degree production in the university model created a disincentive to grow enrollment
- Over time, changes in formula share of resources among institutions have been gradual and incremental (i.e., there have not been drastic shifts in resources among institutions)
- In the KCTCS model, overlapping degree metrics (i.e., STEM+H, high-wage high-demand, targeted industries) created confusion since some degrees were counted several times
- Kentucky's funding models currently do not include metrics or incentives that encourage enrollment, progression, and completion of adult learners, but they should
- The state will not be able to achieve its 60x30 college attainment goal unless institutions expand efforts to target the adult learner population
- The KCTCS model should increase weightings for degrees earned by underrepresented minority students and underprepared students and should increase the weighting in the model for transfer students
- Increasing small school adjustments at KSU and MoSU by the amount of their respective 2023-24 hold harmless allocations would bring those institutions to funding parity with their peers and allow them to compete more effectively in the model
- Reallocating equity adjustment in the KCTCS model using a Community Needs Index would allow community colleges located in economically challenged regions (i.e., low income, high unemployment) an increased opportunity to earn performance funds

Recommendations

Work group members ultimately agreed to recommend a limited number of changes to the funding models. These changes are intended to build upon the successes of the current models and bring about incremental but constructive change going forward.

The work group recommends five changes to the university model:

1) *Increase Low-Income Degree Premium*. The university funding model currently allocates 3% of available resources for bachelor's degrees awarded to low-income students. The work group recommends an increase in this metric to 8% and a concomitant decrease in the earned-credit-hour component (i.e., from 35% to 30%).
2) *Add Adult Learner Metric*. The working group recommends that a new adult learner metric be added to the model by incorporating a new category of students into the earned-credit-hours component and assigning a weighting of 1.0 for hours earned by those students (i.e., in addition to resident, nonresident, reciprocity categories).
3) *Eliminate Degree Efficiency Index Weighting*. The current model uses an efficiency index to weight the number of bachelor's degrees produced at each institution. The intent was to provide an incentive for efficient bachelor's degrees production, but the index has not operated as intended due to declining enrollment at most institutions. The work group recommends eliminating the degree efficiency index in the university model.
4) *Increase Small School Adjustments at KSU and MoSU*. Since the model's first full year of implementation, KSU and MoSU have had negative hold harmless allocations and have not received a share of any performance distribution. Work group members agreed that adding current year hold harmless amounts to the small school adjustments at KSU and MoSU would help bring these institutions to funding parity with peers and allow them to compete more effectively in the model.
5) *Increase Nonresident Credit Hour Weighting*. The university model includes an earned credit hour component that assigns differential weightings based on student residency status. Currently, credit hours earned by resident and reciprocity students are assigned a weighting of 1.00 and hours earned by nonresident students are weighted at 0.50. The work group recommends increasing the weighting for nonresidents to 0.75, which will help institutions maintain enrollment and is better aligned with CPE's tuition policy.

The work group recommends six changes to the KCTCS model. These changes were all endorsed by KCTCS's college presidents:

1) *Add Adult Learner Metric*. KCTCS supports, and the work group recommends, that a new adult learner credential metric, comprising 4% of allocable resources, be added to the KCTCS model. In order for Kentucky to achieve its 60x30 college attainment goal, it is essential for KCTCS to increase the number of adult learners earning credentials.
2) *Reallocate Equity Adjustment Using Community Needs Index*. Currently, 10% of the KCTCS Adjusted Net General Fund is distributed to the 16 community colleges equally. The work group proposes that a Community Needs Index, which considers a service

region's level of poverty, unemployment, and labor participation rate, be used to allocate these funds.

3) *Increase Weightings for Targeted Student Populations*. KCTCS supports, and the work group recommends, increasing the metric weightings for credentials earned by URM, underprepared, and low-income students, and increasing the weighting for transfer students. Currently, each of these metrics is assigned a 2% weighting. KCTCS and the work group members recommend increasing the weightings to 4% for each metric.
4) *Reduce Weighting of Progression Metrics*. The work group proposes to reduce the weightings of progression metrics in the model from a total of 12% to 7%. This change will help accommodate increases in weightings for special populations (see #3 above).
5) *Merge Overlapping Credential Metrics*. The KCTCS model currently includes several categories of credentials that are assigned different allocation percentages (i.e., weighted credentials and STEM+H, high-wage high-demand, and targeted industry credentials). Some of the credentials are counted multiple times in separate categories (i.e., they overlap), which clouds incentives and causes confusion. KCTCS requests, and the working group recommends, that these overlapping metrics be merged into a single credential metric tied to the economy and that the total weighting be reduced from 15% to 8%. This change also accommodates increases in weightings for special populations.
6) *Use Three-Year Rolling Average Data*. The university model has used three-year rolling averages of metric data since the inception of performance funding. This practice has smoothed out year-to-year changes in the data and made funding outcomes more predictable. At this time, to bring about increased predictability and stability, KCTCS officials support, and the working group recommends that the KCTCS funding model be modified to allow use of three-year rolling averages for all metrics, except square feet.

Concluding Remarks

The first review of the funding models, conducted in 2020, established a funding floor for all institutions and eliminated stop-loss carve outs of campus base funds. This meant that, going forward, state appropriations rather than campus contributions would be the source of funding for the performance fund. In addition, distributed performance funds would no longer be recurring to institutions that earned the funds but would be recurring to the performance fund itself. These adjustments were not changes to the funding models, per se, but rather changes in the way the models are applied.

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