Overview of Kentucky's Performance Funding Model

Postsecondary Education Working Group New Member Orientation

June 25, 2026

CPE Higher Education Matters

HIGHER EDUCATION Matters

Overview

- Impetus for Model
- Development Process
- Components and Metrics
- Model Mechanics
- Review Process
- Funding History
- Current Status

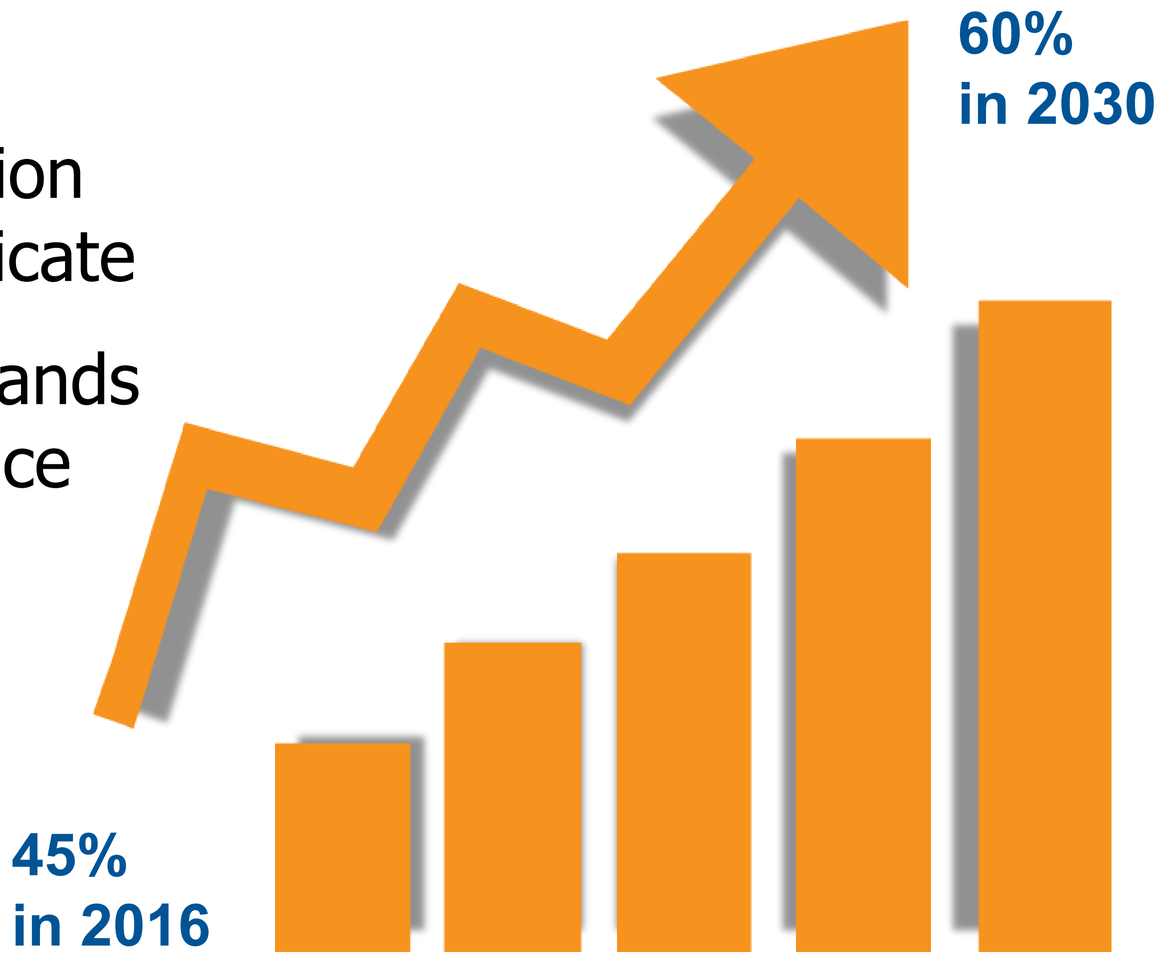
Impetus for Model

Impetus for Model

- There were four main reasons the state of Kentucky adopted performance funding
  - Accelerate progress toward attainment of state goals for postsecondary education
  - Address shortcomings of the previous funding method
  - Rectify funding disparities among institutions that had developed over time
  - Respond to a legislative mandate to convene the working group and develop the model (2016 budget bill, HB 303)

Impetus for Model
Accelerate Progress Toward State Goals

- Increase educational attainment of working age adults to 60% by 2030
- Currently 56% of Kentucky's population has a postsecondary degree or certificate
- The goal responds to workforce demands for a highly trained, educated populace
- Benefits of increased attainment:
  - higher income (lower poverty)
  - accelerated job growth
  - better life choices and health
  - engaged citizens

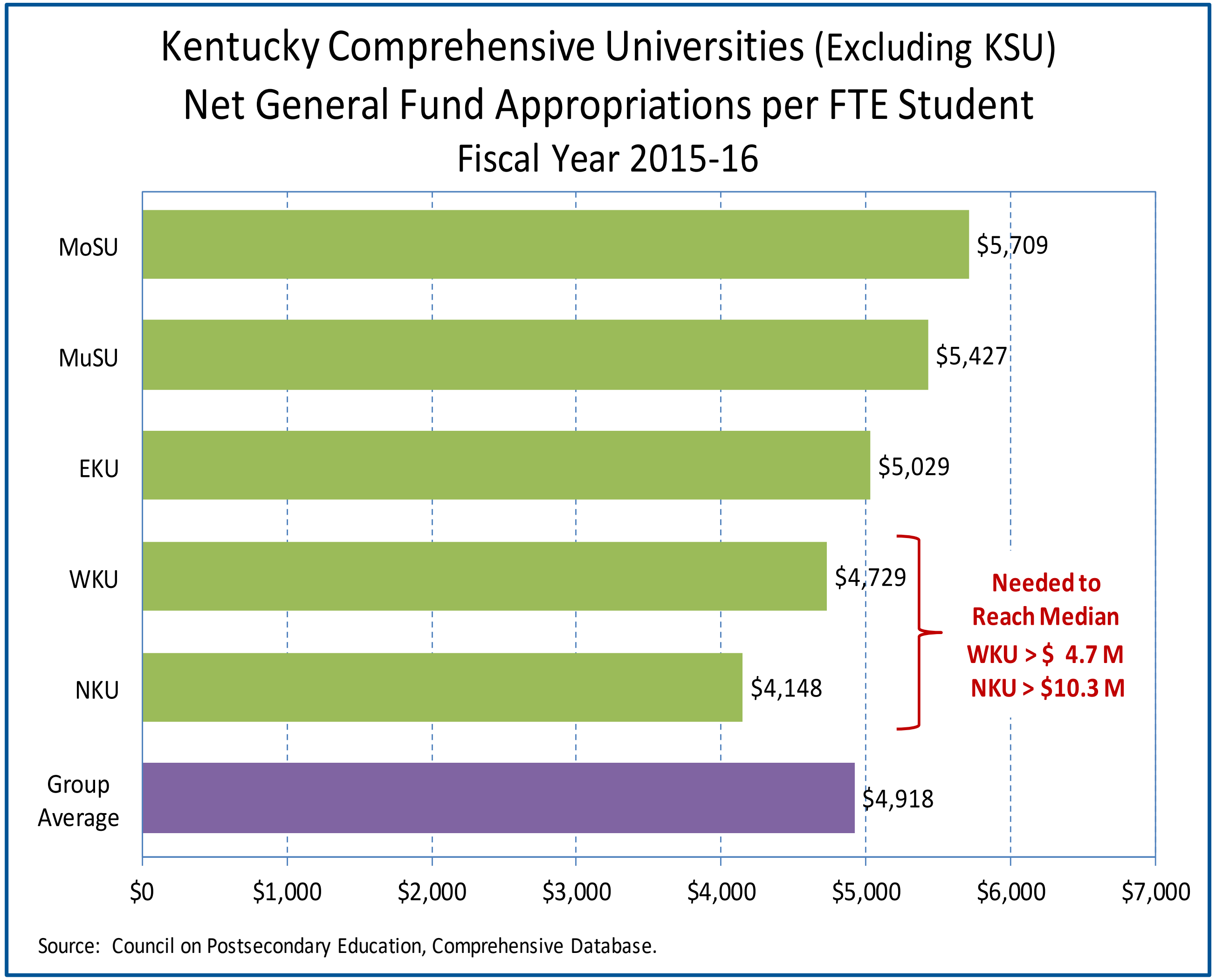


Impetus for Model
Address Shortcomings of Previous Method

- For more than a decade, state appropriations had been distributed based on ***share of funding*** received the prior year (i.e., base plus +, base minus – approach)
- This approach failed to recognize changes in:
  - Enrollment
  - Program mix
  - Student outcomes (e.g., progression, degree completion)
- There were ***no financial incentives*** for achieving desired state goals for postsecondary education

Impetus for Model
Rectify Funding Disparities

- For about a decade, NKU and WKU had argued that they were less well funded than other comprehensives
- Differing rates of enrollment growth and historical disparities had resulted in large differences in per student funding among institutions
- A principal objective of the funding model was to rectify these disparities
- In 2017-18, the General Assembly appropriated $5.3 M to NKU and $2.6 M to WKU to address disparities



Impetus for Model
Respond to Legislative Mandate

- The 2016 budget bill (RS 16, HB 303) directed the Council to establish a working group comprised of:
  - The Governor
  - President of Senate
  - Speaker of the House
  - President of each public university and KCTCS
  - Council president

(or their representative)

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

Development Process

Development Process

- Who were the members of the original working group?
- What was the main objective of the group?
- What state goals for higher education were the models designed to achieve?
- What agreed upon principles guided model development?
- What major decisions were made to achieve consensus and construct the model?

Development Process
Work Group Members

STATE POLICYMAKERS

• John Chilton	State Budget Director (OSBD)
• Andrew McNeill	Deputy State Budget Director (OSBD)
• David Givens	Senator (appointed by President Stivers)
• Arnold Simpson	Representative (appointed by Speaker Stumbo)

COUNCIL ON POSTSECONDARY EDUCATION

• Robert King	President

PUBLIC INSTITUTION PRESIDENTS

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

Development Process
Main Objective

The main objective of the 2016 working group was to:

- Develop a funding model that aligns state funding for higher education operations with desired state policy goals and appropriately reflects differences in mission among campuses

Development Process

Desired State Goals

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

Development Process
Guiding Principles

- ***Outcomes Based***
  - Provide incentives for improved performance by creating a link between state funding and desired state goals
- ***Targeted***
  - Exclude funding for debt service, mandated programs, and other activities that are not credit hour generating
- ***Mission Sensitive***
  - Recognize that different missions may require different levels of funding
- ***Sustainable***
  - Provide ongoing incentives for improvement regardless of the state resource environment

Development Process

Guiding Principles (Cont'd)

- ***Cost Sensitive***
  - Consider differences in costs of credit hours produced by course level and discipline
- ***Stable***
  - The model should <u>not</u> permit large annual shifts in funding to occur
- ***Data Driven***
  - Use reliable and readily available data
- ***Functional***
  - Be capable of being integrated into biennial budget requests
- ***Simple***
  - Use relatively few metrics and be easy to understand

Development Process

Major Decision Points

- The first working group had to make many critical decisions to reach consensus and construct the model
  - Type of model ➡ ☐ targets and goals, or ☑ outcomes based
  - Number of sectors ➡ research and comprehensive institutions ☑ together (same pool) , or ☐ separate
  - Main components ➡ student success, course completion, M&O, institutional support, and academic support
  - Component weights ➡ 35% student success, 35% course completion, 10% for each operational support component

Development Process
Major Decision Points (Cont'd)

- Model metrics ➡ degree types, premiums, student progression, earned credit hours, operational support
- Degree types ➡ ☑ bachelor's only, or ☐ all degrees
- Metric weights ➡ graduated (emphasize completion) ☑ yes ☐ no
- Measures ➡ ☑ numbers of degrees ☐ graduation rate
  ☑ hours earned (progression) ☐ retention rate
- Earned credit hours ➡ ☑ undergraduate ☑ graduate ☐ HS
- Nonresident credit hour weight ➡ ☐ 0% ☐ 35% ☑ 50% ☐ 100%

Development Process

Major Decision Points (Cont'd)

- Sector weightings account for cost and mission differences between sectors ☑ yes ☐ no

Additional rationale for adopting sector weightings:

- Compensate for the exclusion of a graduate degree metric that would reward growth in master's and doctoral degrees
- Compensate for the exclusion of a research metric that would reward growth in research dollars generated
- Calibrate the metrics included in the model to achieve funding parity between the two sectors in the first year of implementation

Development Process
Timeline of Events

- The work group met five times July through November 2016
- Created two models endorsed by all campus presidents
- Submitted recommendations to the Governor and Interim Joint Committee on Education on December 1, 2016
- Formed the basis for SB 153, introduced in February 2017
- SB 153 passed the House and Senate with no changes
- Signed into law by the Governor on March 21, 2017

Development Process
Statutory Responsibility

KRS 164.092 – Kentucky's Performance Funding Statute

> This section establishes a comprehensive funding model for the public postsecondary education system to be implemented by the Council on Postsecondary Education. The funding model shall include a public university sector formula and a KCTCS sector formula.

In sections (5) and (6), the statute provides specific instructions regarding the components, metrics, and distribution of funds for the public university sector. It provides similar instructions in sections (7) and (8) for the KCTCS sector.

> By May 1 each year, the council shall certify to the Office of the State Budget Director the amount to be distributed to each of the public universities and KCTCS as determined by the comprehensive funding model created in this section, not to exceed the available balance in the performance fund.

Components and Metrics

Components and Metrics

- What were the original funding components included in the model and how were they selected?
- What allocation percentages were assigned to each component funding pool?
- What were the original metrics used in the funding model and how were they selected?
- What allocation percentages were assigned to each metric?

Components and Metrics

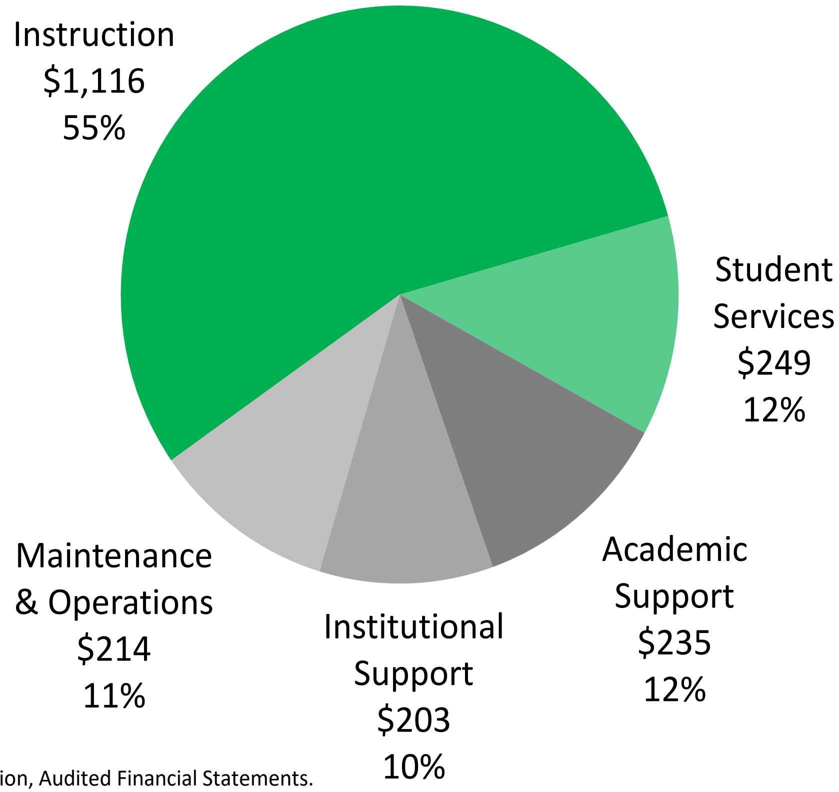
Funding Components and Allocation Percentages

The working group reached consensus on an approach that:

- Aligned funding model components with categories of postsecondary education system E&R spending
- The weighting of operational support components closely mirrored postsecondary institution spending on indirect costs
- Spending on direct costs formed the basis for a 70% allocation to student success and course completion funding components

Education and Related Spending by Component
Fiscal Year 2019-20

Total = $2,016 Million



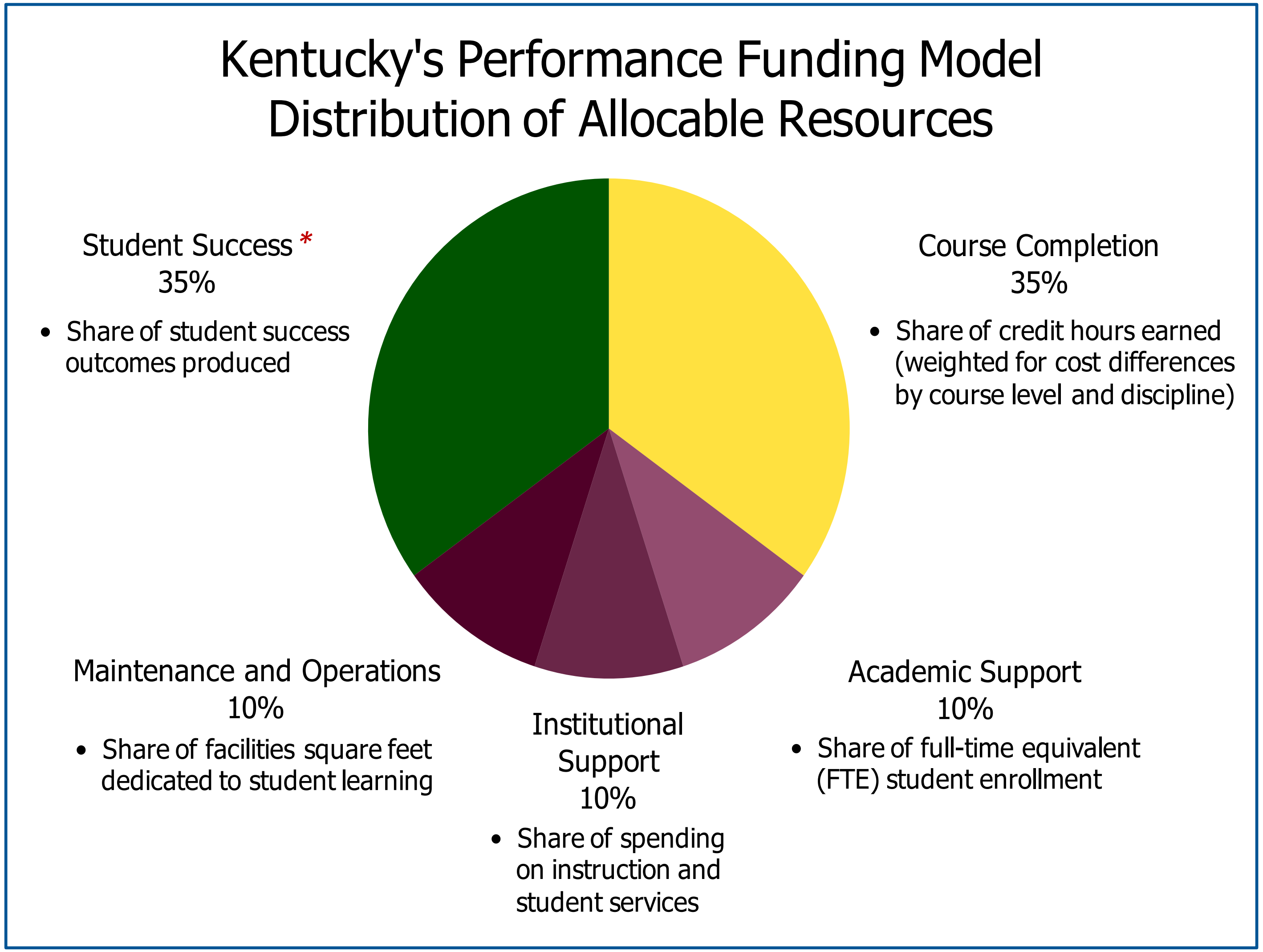
Source: Postsecondary Institution, Audited Financial Statements.

Components and Metrics
Funding Components and Allocation Percentages (Cont'd)

The 2016 working group recommended five main components for the model:

- Student Success
- Course Completion
- Maintenance and Operations
- Institutional Support
- Academic Support

Categories of state resources that closely mirrored elements of campus spending



** The 2023 work group changed Student Success to 40% and Course Completion to 30%.*

Components and Metrics
Model Metrics and Allocation Percentages

The main objectives of the working group were to select metrics and allocation percentages that:

- were aligned with desired state goals for higher education
- were commonly used in other states
- would provide incentives for institutions to accelerate progress toward identified goals
- would assign progressively greater weight the further a student progressed toward completion (i.e., graduated scale)
- would provide premiums for high priority populations

Components and Metrics
Model Metrics and Allocation Percentages (Cont'd)

University Metrics

Student Success

• Progression (@ 30 hours)	3.0%
• Progression (@ 60 hours)	5.0%
• Progression (@ 90 hours)	7.0%
• Total Bachelor's Degrees	9.0%
• STEM+H Bachelor's	5.0%
• URM Bachelor's Degrees	3.0%
• Low Income Bachelor's	3.0%
• Course Completion	35.0%

Operational Support

• Maintenance & Operations	10.0%
• Institutional Support	10.0%
• Academic Support	10.0%

KCTCS Metrics

Student Success

• Progression (@ 15 hours)	2.0%
• Progression (@ 30 hours)	4.0%
• Progression (@ 45 hours)	6.0%
• Total Credentials	10.0%
• URM Credentials	2.0%
• Low Income Credentials	2.0%
• Underprepared Credentials	2.0%
• STEM+H Credentials	2.0%
• High Wage High Demand	1.0%
• Targeted Industry Sectors	2.0%
• Transfers	2.0%
• Course Completion	35.0%

Operational Support *(Same as Universities)*

* Graduated to emphasize completion.

Model Mechanics

Model Mechanics

- How does the public university funding model work? What steps are required to run the model?
- How does the KCTCS funding model work? What steps are required to run the model?
- Are the steps for running the models prescribed in statute or administrative regulation?

Model Mechanics
University Funding Model

- **STEP 1** – Calculate the *Adjusted Net General Fund* for each public postsecondary institution

Adjusted Net General Fund	=	Total Regular General Fund Appropriation	–	Debt Service	–	Mandated Programs Funds

- **Adjusted Net General Fund** – the amount of ***recurring*** state operating funds at each institution that is available to educate students
- Appropriations to the *Postsecondary Education Performance Fund* are allocated between the public universities and KCTCS based on each sector's share of postsecondary system total adjusted net General Fund

Model Mechanics

University Funding Model (Cont'd)

➢ **STEP 1** – Calculate the *Adjusted Net General Fund* for each public postsecondary institution *(Cont'd)*

Fiscal Year 2025-26

	A	B	C	(A - B - C)
Institution	2025-26 Total General Fund [1]	Debt Service	Mandated Programs [2]	Adjusted Net General Fund
University of Kentucky	$321,374,600	($23,546,000)	($102,113,400)	$195,715,200
University of Louisville	162,326,200	(25,094,500)	(5,921,800)	131,309,900
Eastern Kentucky University	84,645,700	(7,894,000)	(13,043,200)	63,708,500
Kentucky State University	35,272,400	(3,830,500)	(12,098,000)	19,343,900
Morehead State University	56,354,900	(9,524,000)	(10,165,500)	36,665,400
Murray State University	56,218,800	(5,886,500)	(7,903,800)	42,428,500
Northern Kentucky University	65,990,400	(9,751,000)	(3,225,900)	53,013,500
Western Kentucky University	100,119,600	(16,330,000)	(13,095,700)	70,693,900
Total	$882,302,600	($101,856,500)	($167,567,300)	$612,878,800

[1] Each institution's regular General Fund appropriation in the 2024-2026 Budget of the Commonwealth (24 RS, HB 6).

[2] Research and public service programs that are created by statute or budget bill language, are funded with state appropriations, and are generally not credit hour generating.

Model Mechanics

University Funding Model (Cont'd)

- **STEP 2** – Determine amounts of *Allocable Resources* to run through the model

Allocable Resources = Adjusted Net General Fund – Small School Adjustment

- **Allocable Resources** – the amount of funds at each institution, and in total for the sector, that will be run through the university model
- **Small School Adjustment** – a fixed amount of base operating funds that is set aside for each institution and <u>not</u> run through the model

Model Mechanics

University Funding Model (Cont'd)

➢ **STEP 2** – Determine amounts of *Allocable Resources* to run through the model *(Cont'd)*

Fiscal Year 2025-26

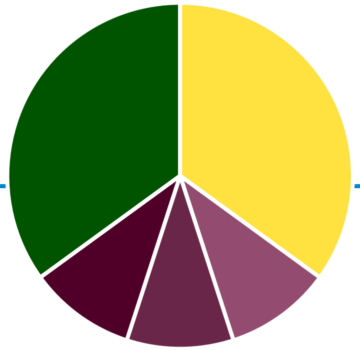
Institution	A Adjusted Net General Fund	B Small School Adjustment [1]	(A - B) Allocable Resources
University of Kentucky	$195,715,200	($16,999,300)	$178,715,900
University of Louisville	131,309,900	(12,391,500)	118,918,400
Eastern Kentucky University	63,708,500	(4,451,200)	59,257,300
Kentucky State University	19,343,900	(11,094,800)	8,249,100
Morehead State University	36,665,400	(5,802,400)	30,863,000
Murray State University	42,428,500	(4,451,200)	37,977,300
Northern Kentucky University	53,013,500	(4,451,200)	48,562,300
Western Kentucky University	70,693,900	(4,451,200)	66,242,700
Total	$612,878,800	($64,092,800)	$548,786,000 [2]

[1] In the first full year of implementation, Small School adjustments were 10% of the adjusted net General Fund at UK, 10% at UofL, and 10% of the comprehensive sector total divided by six. The equal deduction amounts among comprehensives provided a small school adjustment in that sector. Adjustments changed over time due to budget cuts and to help small institutions compete.

[2] In 2025-26, the total amount of resources run through the university model was $548.8 million.

Model Mechanics

University Funding Model (Cont'd)



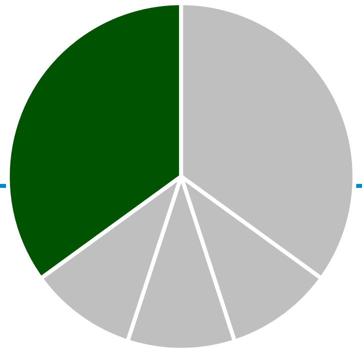
➢ **STEP 3** – Assign allocable resources to *Component Pools*

Fiscal Year 2025-26

Model Component	Allocation Percentages	Component Funding Pools	Distribution Method
Student Success [1]	40%	$219,514,400	Share of student success outcomes produced
Course Completion	30%	164,635,800	Share of weighted student credit hours earned
Maintenance and Operations	10%	54,878,600	Share of facilities square feet dedicated to student learning
Institutional Support	10%	54,878,600	Share of instruction and student services spending
Academic Support	10%	54,878,600	Share of FTE student enrollment
Total Allocable Resources	100%	$548,786,000	

[1] Per a change in statute (KRS 164.092), beginning in 2024-25, the Student Success component increased from 35% to 40% and the Course Completion component decreased from 35% to 30%.

Model Mechanics
University Funding Model (Cont'd)



- **STEP 4** – Allocate success component to *Metric Pools*

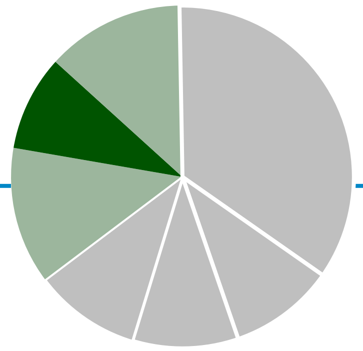
Fiscal Year 2025-26

Student Success Metric	Allocation Percentages	Success Metric Funding Pools
Student Progression @ 30 Credit Hours	3.0%	$16,463,600
Student Progression @ 60 Credit Hours	5.0%	27,439,300
Student Progression @ 90 Credit Hours	7.0%	38,415,000
Bachelor's Degrees	9.0%	49,390,700
STEM+H Bachelor's Degrees	5.0%	27,439,300
First-Generation Bachelor's Degrees	3.0%	16,463,600
Low-Income Bachelor's Degrees	8.0%	43,902,900
Total Student Success Component	40.0%	$219,514,400

Total 2025-26 Allocable Resources: $548,786,000

Model Mechanics

University Funding Model (Cont'd)



➢ **STEP 5** – Distribute Pools Based on *Share of Outcomes*

Fiscal Year 2025-26

Institution	Weighted Bachelor's Degrees	Percent of Total	Bachelor's Degree Pool Distribution
University of Kentucky	8,633	37.2%	$18,392,000
University of Louisville	4,812	20.8%	10,251,700
Eastern Kentucky University	2,328	10.0%	4,960,200
Kentucky State University	169	0.7%	360,300
Morehead State University	989	4.3%	2,106,800
Murray State University	1,544	6.7%	3,289,200
Northern Kentucky University	2,023	8.7%	4,309,500
Western Kentucky University	2,685	11.6%	5,721,000
Total	23,184	100.0%	$49,390,700

Total 2025-26 Bachelor's Degree Pool: $49,390,700

Model Mechanics

University Funding Model (Cont'd)

➢ **STEP 6** – Sum all component and metric pool distributions to determine a *Formula Distribution* for each institution

Fiscal Year 2025-26

Institution	Student Success	Course Completion	Maintenance & Operations	Institutional Support	Academic Support	Fiscal 2025-26 Formula Totals
UK	$76,984,500	$55,589,900	$20,571,600	$16,629,500	$19,690,900	$189,466,400
UofL	47,601,500	38,017,200	10,211,000	13,393,100	11,786,200	121,009,000
EKU	22,683,100	16,693,000	5,086,100	5,302,600	5,498,700	55,263,500
KSU	2,345,600	1,372,000	1,465,800	879,900	692,200	6,755,500
MoSU	10,362,000	6,528,600	3,145,800	3,117,300	2,416,000	25,569,700
MuSU	15,187,800	10,182,300	4,393,000	3,865,600	3,461,900	37,090,600
NKU	18,656,200	18,140,300	4,317,200	5,780,700	5,126,200	52,020,600
WKU	25,693,500	18,112,400	5,688,200	5,909,900	6,206,400	61,610,400
Total	$219,514,200	$164,635,700	$54,878,700	$54,878,600	$54,878,500	$548,785,700
Allocation	40%	30%	10%	10%	10%	100%

- **Formula Distribution** – the amount of funding the model calculates an institution should have based on its share of outcomes produced

Model Mechanics
University Funding Model (Cont'd)

- **STEP 7** – Calculate the difference between each institution's *Current Distribution* and its *Formula Distribution*

Comparison of Current and Formula Distributions of Allocable Resources
Fiscal Year 2025-26

Institution	Current Distribution of Resources	Formula Distribution of Resources	Dollar Difference
University of Kentucky	$178,715,900	$189,466,400	$10,750,500
University of Louisville	118,918,400	121,009,000	2,090,600
Eastern Kentucky University	59,257,300	55,263,500	(3,993,800)
Kentucky State University	8,249,100	6,755,500	(1,493,600)
Morehead State University	30,863,000	25,569,700	(5,293,300)
Murray State University	37,977,300	37,090,600	(886,700)
Northern Kentucky University	48,562,300	52,020,600	3,458,300
Western Kentucky University	66,242,700	61,610,400	(4,632,300)
Total	$548,786,000	$548,785,700	($300)

- **STEP 8** – Distribute available performance funds to rectify funding differences across institutions

Model Mechanics
KCTCS Funding Model

➢ **STEP 1** – Calculate the *Adjusted Net General Fund* for each public postsecondary institution

Fiscal Year 2025-26

	A	B	C	(A - B - C) D		
Institution	Fiscal 2025-26 General Fund	Adjustments to General Fund	2025-26 Mandated Program Funding	2025-26 Adjusted Net General Fund	Percent of Total	Sector Allocations
University of Kentucky	$321,374,600	($23,546,000)	($102,113,400)	$195,715,200		
University of Louisville	162,326,200	(25,094,500)	(5,921,800)	131,309,900		
Eastern Kentucky University	84,645,700	(7,894,000)	(13,043,200)	63,708,500		
Kentucky State University	35,272,400	(3,830,500)	(12,098,000)	19,343,900		
Morehead State University	56,354,900	(9,524,000)	(10,165,500)	36,665,400		
Murray State University	56,218,800	(5,886,500)	(7,903,800)	42,428,500		
Northern Kentucky University	65,990,400	(9,751,000)	(3,225,900)	53,013,500		
Western Kentucky University	100,119,600	(16,330,000)	(13,095,700)	70,693,900		
Subtotal	$882,302,600	($101,856,500)	($167,567,300)	$612,878,800	78.02%	$89,719,000
KCTCS	196,810,900	(11,457,000)	(12,657,200)	172,696,700	21.98%	25,281,000
Total	$1,079,113,500	($113,313,500)	($180,224,500)	$785,575,500	100.00%	$115,000,000

Model Mechanics
KCTCS Funding Model (Cont'd)

- **STEP 2** – Determine amount of *Allocable Resources* to run through the model

Allocable Resources = Adjusted Net General Fund – Small School/ CNI Adjustment

- **Allocable Resources** – the amount of funds at each institution, and in total for the sector, that will be run through the KCTCS model
- **Small School Adjustment** – a fixed amount (10%) of KCTCS base operating funds that is set aside and redistributed to KCTCS colleges using a Community Needs Index (CNI)

Model Mechanics

KCTCS Funding Model (Cont'd)

- **STEP 2** – Determine amount of *Allocable Resources* to run through the model *(Cont'd)*

  - Each college has 1/16th of the 10% amount pulled back

  - The amount is redistributed to KCTCS colleges using a Community Needs Index (CNI)

  - The CNI is a measure of community economic disadvantage based on unemployment, labor force participation, and poverty

Fiscal Year 2025-26	A Adjusted Net General Fund	B Small School Adjustment	C = (A-B) Allocable Resources
Ashland	8,919,700	($1,079,400)	$7,840,300
Big Sandy	10,097,800	(1,079,400)	9,018,400
Bluegrass	18,988,400	(1,079,400)	17,909,000
Elizabethtown	11,929,800	(1,079,400)	10,850,400
Gateway	9,335,600	(1,079,400)	8,256,200
Hazard	11,393,900	(1,079,400)	10,314,500
Henderson	4,370,700	(1,079,400)	3,291,300
Hopkinsville	6,253,700	(1,079,400)	5,174,300
Jefferson	21,716,500	(1,079,400)	20,637,100
Madisonville	8,241,300	(1,079,400)	7,161,900
Maysville	8,318,800	(1,079,400)	7,239,400
Owensboro	8,547,800	(1,079,400)	7,468,400
Somerset	13,041,000	(1,079,400)	11,961,600
Southcentral	9,675,100	(1,079,400)	8,595,700
Southeast	9,580,100	(1,079,400)	8,500,700
West Kentucky	12,286,500	(1,079,400)	11,207,100
	$172,696,700	**($17,270,400)**	**$155,426,300**

Model Mechanics

KCTCS Funding Model (Cont'd)

- **STEP 3** – Assign allocable resources to *Component and Metric Pools*
- **STEP 4** – Distribute Pools Based on *Share of Metric Outcomes*

Component	Component Funding Pool	Metric	Credential Details	Percent of Model
Student Success (35%)	$54,399,000	Credentials (24%)	Tied to the Economy	8%
			Low-Income	4%
			Underprepared	4%
			First-Generation	4%
			Adult	4%
		Transfers		4%
		Progression (15 / 30 / 45 credit hours)		7 % (1%/2%/4%)
Course Completion (35%)	$54,399,100	Credit Hours Passed (Weighted)		35%
Academic Support (10%)	$15,542,700	Full-time Equivalent Students (FTE)		10%
Institutional Support (10%)	$15,542,800	Direct Cost Share		10%
Maintenance & Operations (10%)	$15,542,800	Square Feet		10%

Model Mechanics

KCTCS Funding Model (Cont'd)

- **STEP 5** – Sum all component and metric pool distributions to determine a *Formula Distribution* for each college
- **STEP 6** – Calculate a *CNI Score* for each college and allocate the small school adjustment
- **STEP 7** – Calculate each college's adjusted net general fund *Total with Adjustment* combining the Formula Totals plus the funds redistributed using the CNI Score Adjustment

Fiscal Year 2025-26	D Formula Totals	E Small School / CNI Adjustment		F Totals w/ Adjustment
Ashland	$7,318,800	0.4	$1,149,600	$8,468,300
Big Sandy	6,099,700	1.8	1,384,300	7,483,900
Bluegrass	21,861,200	(1.0)	909,100	22,770,300
Elizabethtown	12,455,600	(0.6)	968,800	13,424,400
Gateway	9,901,500	(2.4)	665,800	10,567,300
Hazard	6,646,700	2.7	1,538,500	8,185,200
Henderson	2,770,100	(1.5)	828,200	3,598,300
Hopkinsville	4,903,500	0.7	1,202,900	6,106,400
Jefferson	20,277,800	(1.3)	854,400	21,132,200
Madisonville	6,759,800	(0.2)	1,041,800	7,801,600
Maysville	8,088,600	(0.0)	1,076,800	9,165,400
Owensboro	9,883,100	(0.9)	916,400	10,799,500
Somerset	12,401,300	0.8	1,216,100	13,617,400
Southcentral	10,130,100	(0.5)	995,700	11,125,800
Southeast	6,323,000	3.1	1,608,600	7,931,600
West Kentucky	9,605,700	(1.0)	913,400	10,519,100
	$155,426,300		$17,270,400	$172,696,700

Model Mechanics

KCTCS Funding Model (Cont'd)

- **STEP 8** – Calculate the difference between each institution's *Current Funding Level* and *Formula Calculation*
- **STEP 9** – Distribute available performance funds to rectify funding differences across institutions

Fiscal Year 2025-26	Total Performance Pool
Ashland	1,098,800
Big Sandy	-
Bluegrass	4,646,400
Elizabethtown	2,739,300
Gateway	2,156,300
Hazard	-
Henderson	-
Hopkinsville	1,040,700
Jefferson	3,497,600
Madisonville	979,100
Maysville	1,870,200
Owensboro	2,203,700
Somerset	2,778,600
Southcentral	2,270,300
Southeast	-
West Kentucky	-
Total	$25,281,000

Funding Model Reviews

Funding Model Reviews

- How many times has the Postsecondary Education Working Group been convened? For what purposes?
- How many times have the funding models been subjected to formal comprehensive review?
- As part of each review, what have work group members been charged to do?
- What changes to the funding models have occurred because of the reviews?

Funding Model Reviews
Postsecondary Education Working Groups

➢ The Council on Postsecondary Education has convened the *Performance Funding Work Group* a total of four times:

- 2016 – Developed university and KCTCS funding models
  – Made major decisions and recommended model approach, components, metrics, and allocation percentages

Formal Reviews

- 2020 – Conducted a detailed review to determine if models were operating as expected, recommended changes
- 2023 – Conducted a detailed review to determine if models were operating as expected, recommended changes
- 2024 – Convened for purpose of defining "underrepresented students" in university and KCTCS models

Funding Model Reviews
Working Group's Charge

➡ KRS 164.092, 11(b)(c)

Beginning in fiscal year 2020-21 and every three fiscal years *[now every four years going forward]* thereafter, the working group shall convene to:

- determine if the comprehensive funding model is functioning as expected
- identify any unintended consequences of the model
- recommend any adjustments to the model

The results of the review and recommendations of the working group shall be reported to the Governor, the Interim Joint Committee on Appropriations and Revenue, and Interim Joint Committee on Education by December 1 of each fiscal year that the working group convenes

Funding Model Reviews
2020 Working Group

The 2020 working group recommended few changes to the model:

- Established a General Fund floor, or base level of state support, for each postsecondary institution (i.e., referred to as Funding Floor 2020-21)
- Discontinued stop-loss carve outs contributed by institutions to the performance fund each year
- Required that General Fund appropriations for performance be recurring to the Performance Fund, not to the institutions
  - *This meant that, going forward, any funds appropriated to the Performance Fund would be provided by the General Assembly*
  - *Distributions from the fund would be determined using existing models and would not be recurring to the institutions*

Funding Model Reviews

2023 Working Group

- In 2023, CPE staff convened the working group to conduct a statutorily required review of the funding models
- The group met five times and reached consensus on changes

Jan 25

- Reviewed goals and guiding principles
- Reviewed model components and metrics, financial impact information

Mar 1

- CPE staff presented trends in student outcomes data
- Reviewed responses to campus funding model surveys

Apr 19

- Reviewed responses to CPE staff funding model survey
- Discussed proposed adjustments and scenario impacts

Jul 26

- CPE staff presented 2023-24 funding model distribution
- Discussed biennial budget options and model scenarios

Sep 6

- Reviewed operating funds request
- Discussed proposed model adjustments
- Reached consensus on recommendations

Funding Model Reviews

2023 Working Group (Cont'd)

The 2023 working group recommended six changes to the university funding model:

1) increase the premium for low-income bachelor's degrees awarded (from 3% to 8% pool allocation)
2) decrease the course completion funding component from 35% to 30% (to provide the 5% applied to low-income bachelor's degrees)
3) add a new adult learner metric to the model
4) eliminate degree efficiency weighting (from bachelor's degree metric)
5) increase the small school adjustments for KSU and MoSU
6) increase nonresident credit hour weighting (from 0.50 to 0.75)

Funding Model Reviews
2023 Working Group (Cont'd)

The 2023 working group recommended six changes to the KCTCS funding model:

1) add a new adult learner metric to the model
2) allocate equity adjustment using a new Community Needs Index
3) reduce weighting of progression metrics (from 12% to 7%)
4) merge overlapping metrics into one credential metric tied to the economy (merge STEM+H, high-wage-demand, targeted)
5) reduce credential metric weighting (from 15% to 8%); increase weighting for URM, underprepared, low income, and transfer
6) use rolling three-year average data for all metrics except square feet

Funding Model Reviews
2024 Working Group

- SB 191 (RS 24) directed the Council to convene the working group for sole purpose of defining "underrepresented students" in model

The 2024 working group recommended the following changes to the university funding model:

- Define “underrepresented students” as first-generation college students
- Assign 3.0% of allocable resources to bachelor’s degrees earned by first-generation college students
- Apply a differential sector weighting to the first-generation bachelor’s degree metric, calculated at the midpoint between no weighting and full weighting

Funding Model Reviews

2024 Working Group (Cont'd)

The 2024 working group recommended the following changes to the KCTCS funding model:

- Adopt first-generation college student credentials as the "underrepresented students" metric
- Align allocation percentages at 4.0% each for credentials earned by:
  - first-generation college students
  - low-income students
  - underprepared students
  - nontraditional age (25+) students

Funding Model Reviews
2026 Working Group

- For the 2026 working group, <u>December 1</u> is the <u>deadline</u> for submitting recommended changes to the models to state policymakers
- Current statute allows the working group to be convened prior to the start of the calendar year to allow time for group to complete its work
- CPE staff plans to recommend that the working group meet once a month between June and November (up to six meetings in 2026)
- The first meeting of the working group will likely be an orientation session for new members
- Ultimately, specific dates and times of meetings will be determined by work group members as the 2026 review process gets underway

Funding History

Funding History

- How much has Kentucky invested in performance funding since 2016? What were the sources of those funds?
- How have appropriations to the Performance Fund been allocated among institutions as part of annual distributions?
- What are "state funds for educating students" and how have they changed over time?
- To what extent has the adoption of performance funding moved comprehensive universities toward funding parity?

Funding History
Appropriations by Source

- For four years, funding models were implemented with *no new funding*
- Lack of funding resulted in redistribution of the General Fund base among institutions
- In March 2021, KRS 164.092 was amended to *eliminate stop loss* carve outs and *establish a funding floor*
- In 2022, the Kentucky General Assembly started investing in performance funding

Funding Models for the Universities and KCTCS Institutions
Implementation Schedule and Funding Sources
(Dollars in Millions)

Timeline	Fiscal Year	Institution Contribution	New State Funding	Total Funding [1]
Year 0	2017-18	$42.9	$0.0	$42.9
Year 1	2018-19	31.0	0.0	31.0
Year 2	2019-20	38.7	0.0	38.7
Year 3	2020-21	14.9	0.0	14.9
Year 4	2021-22	$0.0	$17.3	$17.3
Year 5	2022-23	0.0	97.3	97.3
Year 6	2023-24	0.0	97.3	97.3
Year 7	2024-25	0.0	105.0	105.0
Year 8	2025-26	0.0	115.0	115.0
Year 9	2026-27	0.0	115.0	115.0

[1] State appropriations, stop-loss contributions, and other campus carve outs added to the Performance Fund and distributed based on outcomes produced.

Funding History
Distributions by Institution

- The first significant allocation of state appropriations to the Performance Fund occurred in fiscal year 2022-23
- Despite increases in the Small School Adjustment in 2025, KSU and MoSU received little funding during this period
- To address this issue, CPE recommended a minimum distribution for KSU and MoSU in its 2026-28 budget request

Performance Fund Distributions by Institution
Fiscal Years 2022-23 Through 2026-27

Institution	2022-23 Distribution	2023-24 Distribution	2024-25 Distribution	2025-26 Distribution	2026-27 Distribution
UK	$30,904,300	$33,338,500	$34,737,000	$41,174,700	$44,264,500
UofL	17,523,600	17,594,600	18,752,200	21,522,000	20,749,300
EKU	4,927,900	3,222,900	4,769,400	4,880,300	5,326,400
KSU	0	0	0	0	0
MoSU	0	0	214,400	0	0
MuSU	3,296,800	3,095,000	4,759,800	5,069,300	4,808,400
NKU	11,363,500	12,683,900	13,224,300	11,811,700	10,161,400
WKU	7,777,200	5,858,400	5,460,300	5,261,000	4,392,900
KCTCS	21,513,800	21,513,800	23,082,600	25,281,000	25,297,100
Total	$97,307,100	$97,307,100	$105,000,000	$115,000,000	$115,000,000

Fiscal Impact

State Funds for Educating Students

- The unit of measure that CPE staff uses to make funding comparisons across institutions over time is the *State Funds for Educating Students* metric

State Funds for Educating Students = General Fund Appropriation - Debt Service and Mandated Program Funds + Performance Fund Distribution

- When divided by an enrollment measure, such as the number of full-time equivalent students, this metric allows staff to assess progress toward achieving the goal of funding parity

Fiscal Impact
State Funds for Educating Students (Cont'd)

- Between 2017 and 2021, lack of funding and campus carve outs resulted in negative dollar and percent changes at six of nine institutions

Change in State Funds for Educating Students
Between Fiscal Years 2016-17 and 2020-21

(Nominal Dollars in Millions)

Institution	2016-17 State Funds	2020-21 State Funds	Dollar Change	Percent Change
UK	$181.1	$184.7	$3.5	2.0%
UofL	132.1	126.2	(5.9)	-4.4%
EKU	62.6	60.8	(1.7)	-2.8%
KSU	20.0	18.2	(1.8)	-8.8%
MoSU	38.9	34.9	(4.0)	-10.2%
MuSU	43.4	40.6	(2.8)	-6.5%
NKU	45.0	50.9	5.9	13.1%
WKU	66.4	67.6	1.2	1.8%
KCTCS	169.5	165.8	(3.7)	-2.2%
System	$759.0	$749.7	($9.3)	-1.2%

- Removal of stop loss, adoption of funding floor 2020-21, and infusion of new performance and inflation funds resulted positive change numbers

Change in State Funds for Educating Students
Between Fiscal Years 2020-21 and 2026-27

(Nominal Dollars in Millions)

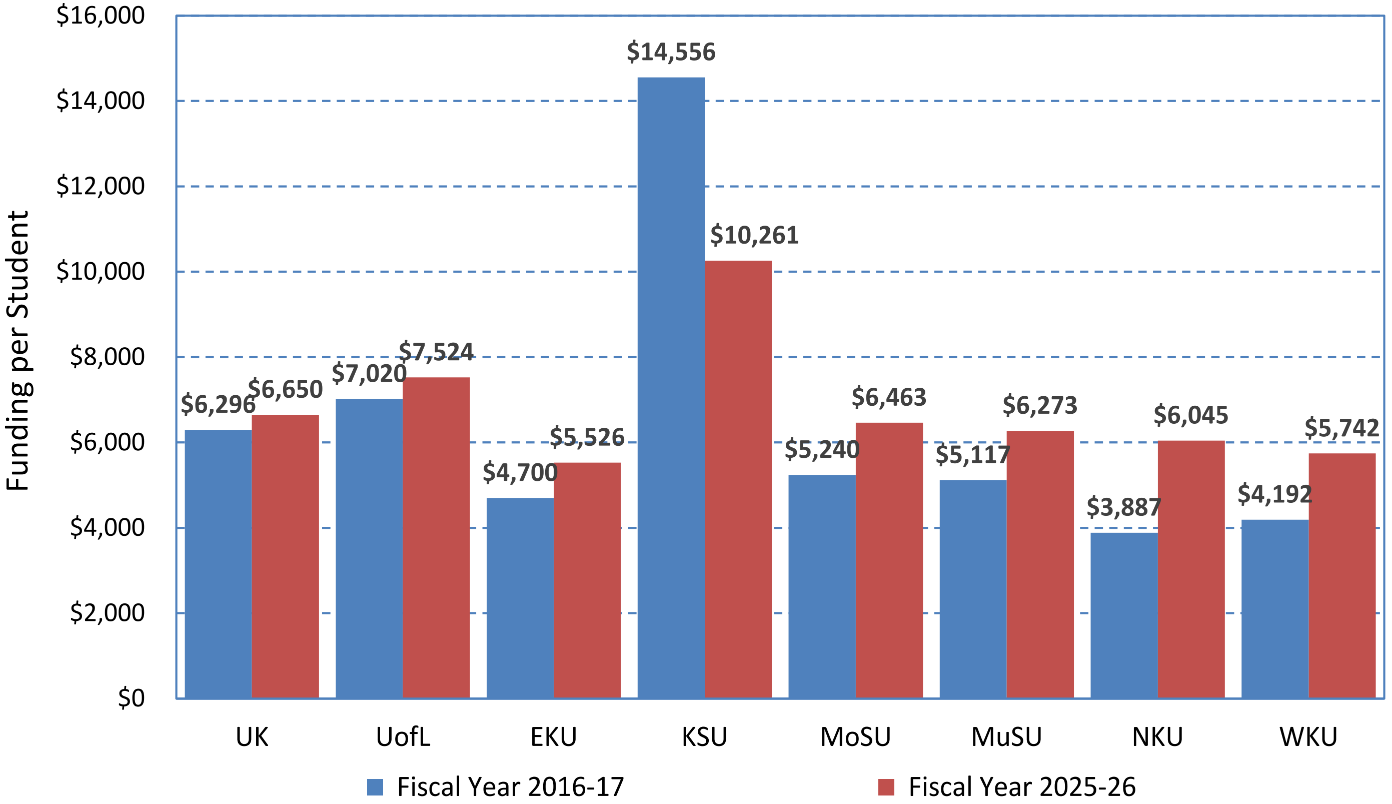
Institution	2020-21 State Funds	2026-27 State Funds	Dollar Change	Percent Change
UK	$184.7	$239.5	$54.8	29.7%
UofL	126.2	152.1	25.8	20.5%
EKU	60.8	69.0	8.2	13.5%
KSU	18.2	19.3	1.1	6.1%
MoSU	34.9	36.7	1.7	5.0%
MuSU	40.6	47.2	6.7	16.5%
NKU	50.9	63.2	12.3	24.1%
WKU	67.6	75.1	7.5	11.0%
KCTCS	165.8	198.0	32.2	19.4%
System	$749.7	$900.1	$150.3	20.1%

Fiscal Impact
State Funds for Educating Students (Cont'd)

- Since 2017, state funds per student increased at every university except KSU (-$4,295)
- The largest increases were at NKU (+$2,158), WKU (+$1,550), MoSU (+$1,223), and MuSU (+$1,156)
- The smallest increases were at UK (+$354) and UofL (+$504)
- A decade of enrollment decline contributed to increases among comprehensive universities

Chart 1

State Funds for Educating Students[1] per Full-Time Equivalent Student
Fiscal Years 2016-17 and 2025-26



[1] Regular General Fund appropriation, minus debt service and mandated program funding, plus performance fund distribution
Source: Council on Postsecondary Education, Finance Policy and Programs Unit, Performance Funding Database.

Current Status

Current Status

- How much did each institution receive as part of its fiscal year 2026-27 performance distribution?
- How did each institution's distribution change between fiscal years 2025-26 and 2026-27?
- What is the Performance Metric Scorecard and how is it used?
- How does the funding model achieve alignment between outcomes produced and funding?
- What institutions have consistently achieved growth rates above the sector average for the most metrics?

Current Status
Fiscal 2026-27 Distribution

- The enacted state budget appropriated $115.0 M to the Performance Fund in 2026-27
- By May 1 each year, CPE staff is required to run the model and certify a distribution to OSBD
- This year, six universities and KCTCS will receive a share of the fiscal 2026-27 distribution
- Despite increases in their small school adjustments, KSU and MoSU will <u>not</u> receive any funds

Public Universities and KCTCS — Table 1
2026-27 Performance Fund Distribution

Institution	Distribution
University of Kentucky	$44,264,500
University of Louisville	20,749,300
Eastern Kentucky University	5,326,400
Kentucky State University	0
Morehead State University	0
Murray State University	4,808,400
Northern Kentucky University	10,161,400
Western Kentucky University	4,392,900
KCTCS	25,297,100
Total	$115,000,000

Follow-Up Analyses
Change in Annual Distribution

- Every year, CPE staff calculates the one-year change in annual Performance Fund distributions
- Between 2025-26 and 2026-27, UK (+$3.1 M), EKU (+$446,100), and KCTCS (+$16,100) increased the amount of their distributions
- Since the total distributed stayed the same, increases were <u>mainly</u> driven by changes in outcomes
- It is estimated that $310,000 of the increase at UK was caused by a $500,000 budget reduction

Change in Performance Fund Distributions Between Fiscal Years 2025-26 and 2026-27 — Table 2

Institution	2025-26 Distribution	2026-27 Distribution	Difference
University of Kentucky	$41,174,700	$44,264,500	$3,089,800
University of Louisville	21,522,000	20,749,300	(772,700)
Eastern Kentucky University	4,880,300	5,326,400	446,100
Kentucky State University	0	0	0
Morehead State University	0	0	0
Murray State University	5,069,300	4,808,400	(260,900)
Northern Kentucky University	11,811,700	10,161,400	(1,650,300)
Western Kentucky University	5,261,000	4,392,900	(868,100)
Subtotal	$89,719,000	$89,702,900	($16,100)
KCTCS	25,281,000	25,297,100	16,100
Total	$115,000,000	$115,000,000	$0

Follow-Up Analyses

Performance Metric Scorecard

- Every year, CPE staff produces a *Performance Metric Scorecard*
- As can be seen in Attachment C, between 2025-26 and 2026-27, four universities achieved growth rates that exceeded the sector average on six or more metrics
- UK was above the sector average on 8 out of 11 metrics, EKU on 8 metrics, UofL on 7, and KSU on 6
- There is high correlation between number of metrics with above average growth and funding

Performance Funding Model for the Public Universities
Metrics Where Rates of Growth Exceeded Sector Average
Between Fiscal Year 2025-26 and 2026-27 Iterations

Attachment C
June 8, 2026

Performance Metric	UK	UofL	EKU	KSU	MoSU	MuSU	NKU	WKU	Pool Size (In Millions)
Student Success Outcomes									
Bachelor's Degrees	☐	☑	☐	☑	☐	☑	☐	☑	$57.1
STEM+H Bachelor's Degrees	☐	☐	☐	☑	☐	☑	☑	☑	31.7
First-Generation Bachelor's Degrees	☑	☑	☑	☑	☐	☐	☐	☑	19.0
Low-Income Bachelor's Degrees	☐	☑	☑	☑	☐	☑	☐	☑	50.8
Student Progression @ 30 Hours	☑	☑	☑	☐	☐	☐	☐	☐	19.0
Student Progression @ 60 Hours	☑	☑	☑	☐	☐	☐	☐	☐	31.7
Student Progression @ 90 Hours	☑	☑	☑	☐	☐	☐	☐	☐	44.4
Course Completion Component									
Student Credit Hours Earned	☑	☐	☑	☑	☐	☑	☐	☐	190.5
Operational Support Activity									
Instructional Square Feet	☑	☐	☑	☑	☐	☐	☐	☐	63.5
Direct Cost of Instruction	☑	☑	☐	☐	☐	☑	☐	☐	63.5
FTE Students	☑	☐	☑	☐	☐	☐	☐	☐	63.5
Metrics Above Sector Average	8	7	8	6	0	5	1	4	
								Total Allocable Resources:	$635.0

Follow-Up Analyses

Alignment Between Outcomes and Funding

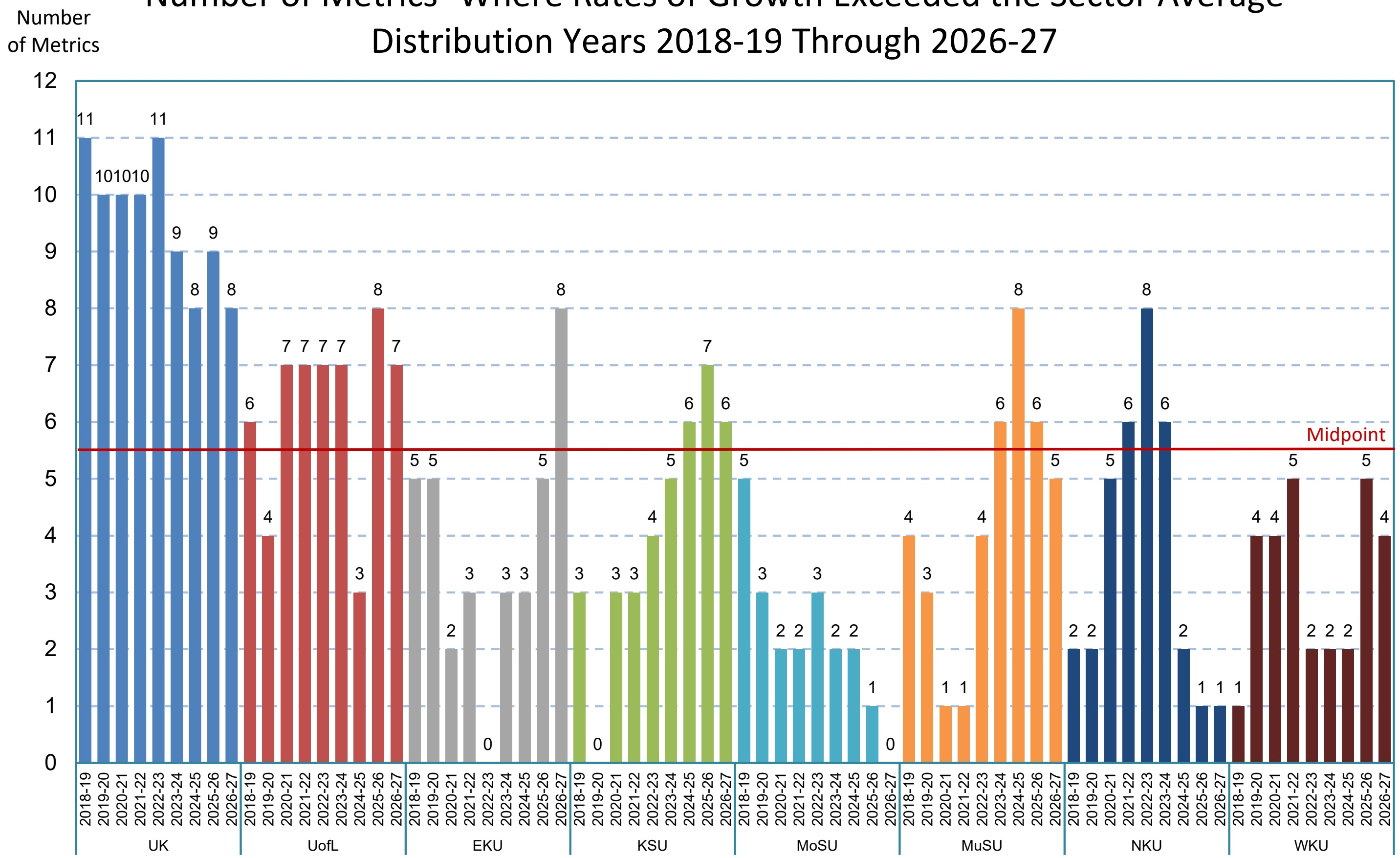
- For any given metric, if an institution achieves a growth rate above the sector average growth rate, then its share of funding for that metric will increase
- The more metrics (out of 11 total) for which an institution achieves growth rates above the sector average, the better chance it has of increasing its overall share of funding
- The degree to which a metric's growth exceeds the sector average matters (i.e., 3.0 ppts above average is better than 1.0 ppt)
- The size of the metric funding pool also matters (i.e., a 1.0 ppt gain in share of a <u>larger</u> pool results in <u>larger</u> gain in funding)

Follow-Up Analyses

Alignment Between Outcomes and Funding (Cont'd)

- This chart shows the number of metrics each year where growth rates exceeded the sector average growth rate by institution
- Consistency in achieving growth rates above the sector average for a larger number of metrics over multiple years is important
- Between 2019 and 2027, UK and UofL consistently had the largest number of metrics with growth rates above the sector average
- KSU, MuSU, and NKU each had numbers of metrics above the midpoint three out of nine years

Performance Funding Model for the Public Universities
Number of Metrics[1] Where Rates of Growth Exceeded the Sector Average
Distribution Years 2018-19 Through 2026-27



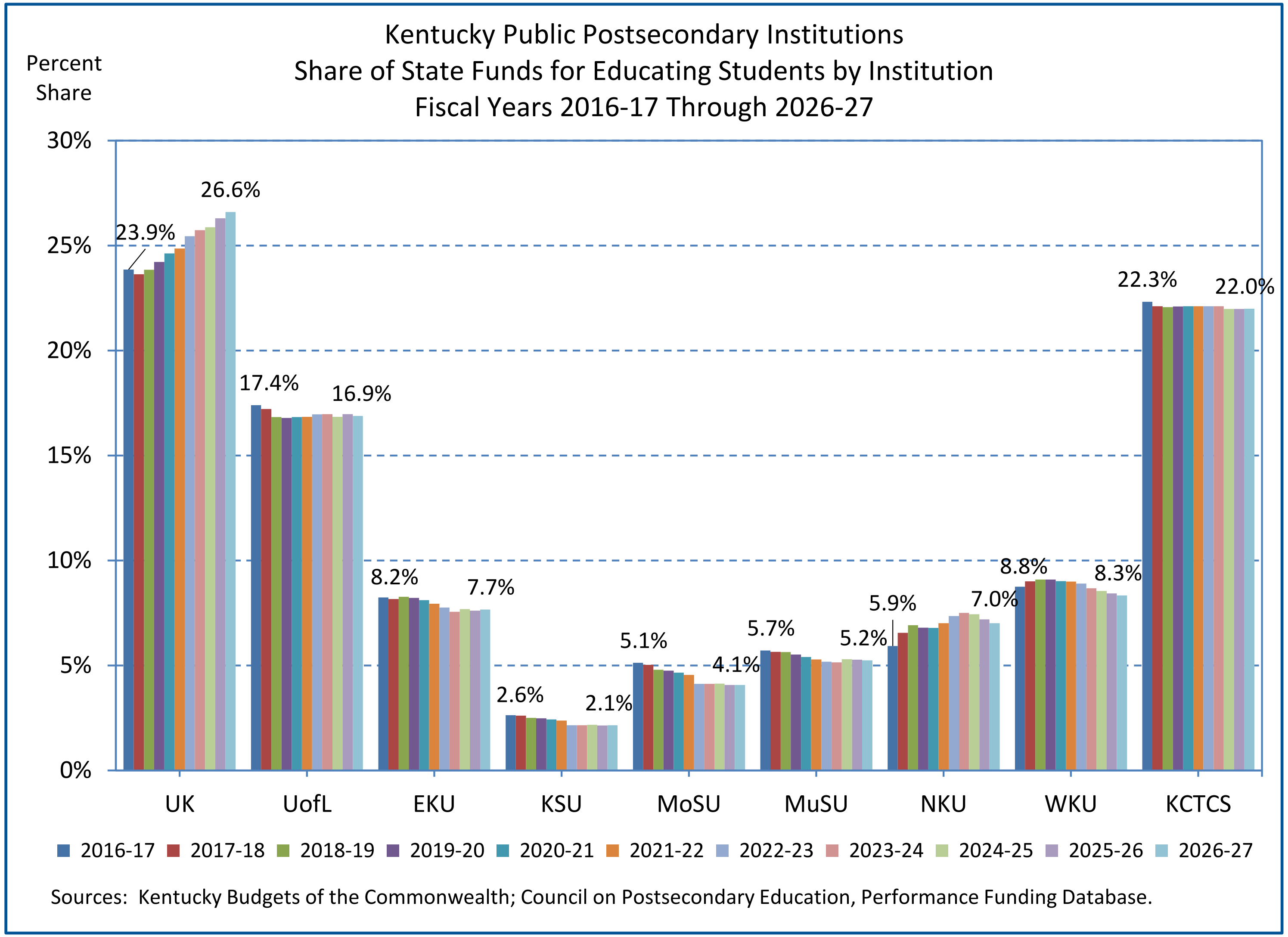
[1] There has been a total of 11 metrics every year that the funding model has been in operation, except for 2024-25, when there were 10.

Source: Kentucky Council on Postsecondary Education, Performance Funding Model Database.

Follow-Up Analyses

Alignment Between Outcomes and Funding (Cont'd)

- This chart shows the change in each institution's share of state funds for educating students
- Between 2017 and 2027, two institutions UK (+2.7 ppt) and NKU (+1.1 ppt) increased their proportionate share of funds
- The largest decline in state funds share was at MoSU (-1.0 ppt)
- UofL, EKU, KSU, MuSU, and WKU had the same decline (-0.5 ppt)
- Annual changes in the share of state funds have been gradual



Questions?

Twitter: CPENews and CPEPres

Website: http://cpe.ky.gov

Facebook: KYCPE

CPE
Higher Education Matters