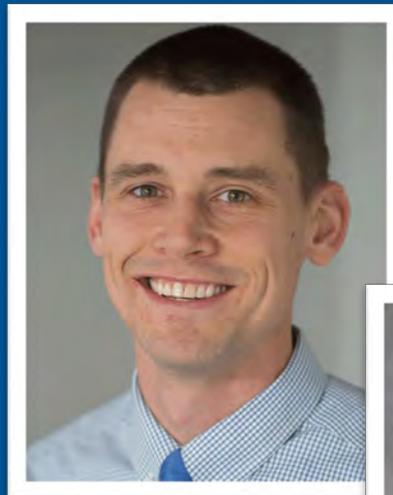


KENTUCKY'S NEW PERFORMANCE FUNDING MODEL: WHAT IT MEANS FOR YOUR CAMPUS



Moderator
Lee Nimocks, CPE



Scott Boelscher
HCM Strategists



Wendell Followell
KCTCS



Bill Payne
CPE





Outcomes Based Funding

September 17, 2019

STRATEGY LABS

State Policy to Increase Higher Education Attainment



SUPPORTED BY
Lumina[™]
FOUNDATION



Lumina[™]
FOUNDATION

**Relentlessly Focused
on Attainment**



**GOAL
2025**

60%

of adults with high quality
degrees or credentials by
the Year 2025

STRATEGY LABS

State Policy to Increase Higher Education Attainment

Lumina's vehicle for higher education system change

Strategy Labs are an open platform for leaders and influencers in all 50 states to share research and data, encourage peer learning and provide opportunities for on-request support from Lumina Foundation and its state policy partners.

Strategy Labs Support

- Technical assistance and consulting support is provided to state leaders working to increase higher education attainment in their states.
- Four types of support
 - Non-Partisan, Evidence-Based Policy Expertise
 - Convening and Facilitation
 - Advising Policymakers
 - Research



OUTCOMES-BASED FUNDING NATIONAL CONTEXT

History of Higher Education Funding Models

- Base-plus funding
 - Linked to historic funding levels
 - Not tied to state goals and priorities
 - Lacks transparency
- Enrollment-driven models emerged in 1960s
 - Linked to goal of increasing access
 - Tied to number of students enrolled
 - More predictable and transparent
 - Reduced political competition and lobbying

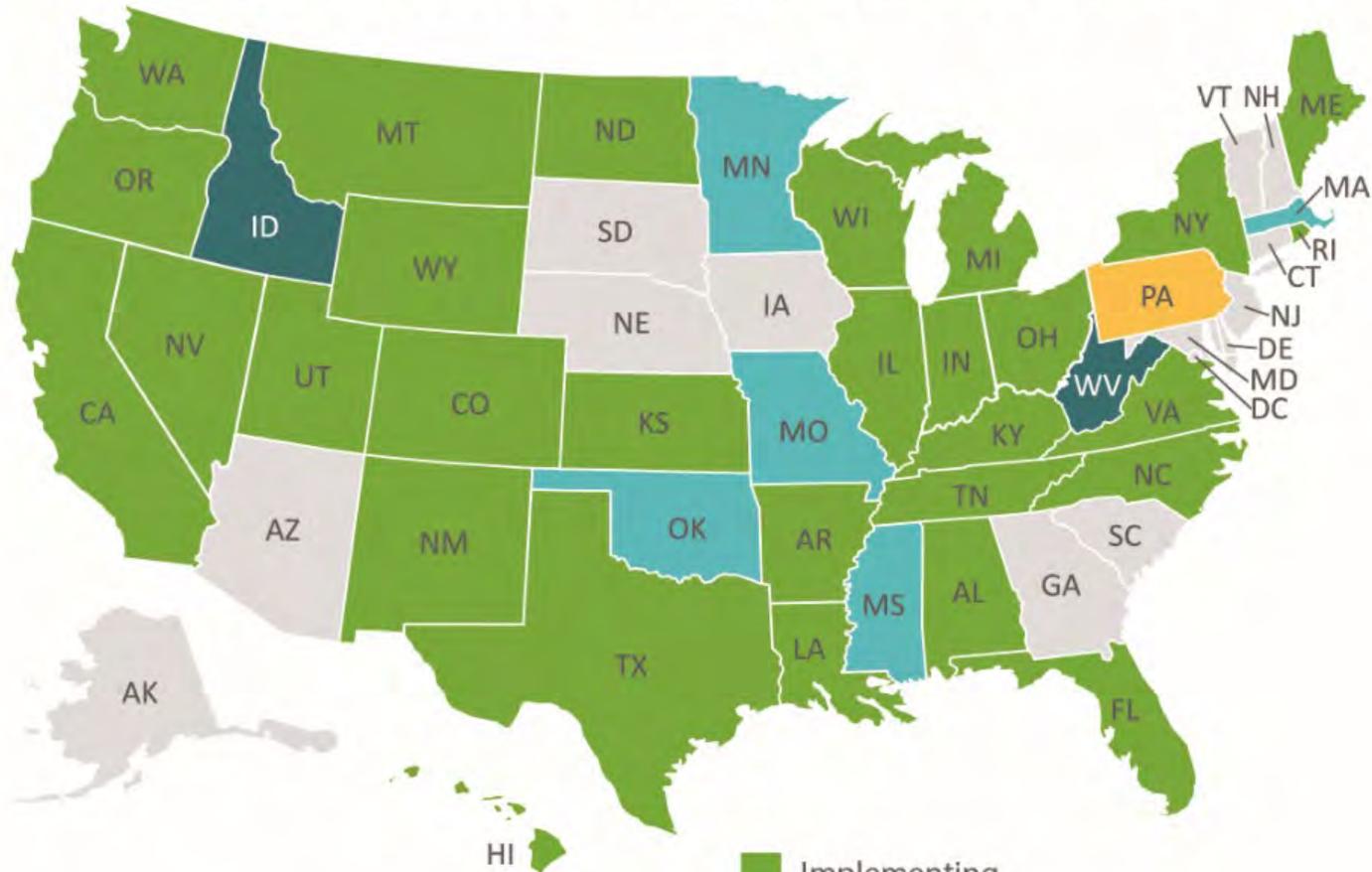
History of Higher Education Funding Models (cont.)

- Tennessee added a performance bonus to their enrollment model in 1978
 - Many states followed. Became known as “performance funding”.
 - Often there were design problems.
 - Fell in and out of favor over next decades.
- In the late 2000s, several states reexamined these older funding methods that no longer aligned with state goals.
 - Began linking funding to student success, increased attainment, closing equity gaps
 - Adapted new models from what was learned from earlier models.
 - This is “performance funding 2.0” or “outcomes-based funding”.

Outcomes-based Funding Theory

- Aligns the state's finance policy with state goals
 - Attainment, Equity, Workforce, Research, etc
- Has the ability to influence institutions through:
 - Financial incentives
 - Awareness of state priorities
 - Awareness of institutional performance
- Provides incentives to adopt and scale evidence-based student success practices

Outcomes-Based Funding in States in FY 2019



PA: Using a transitional model in FY19 as a new performance funding model is developed.

- Implementing
- Developed/Not Implementing
- Developing
- Implementing & Developing

Data collected as of January 2019

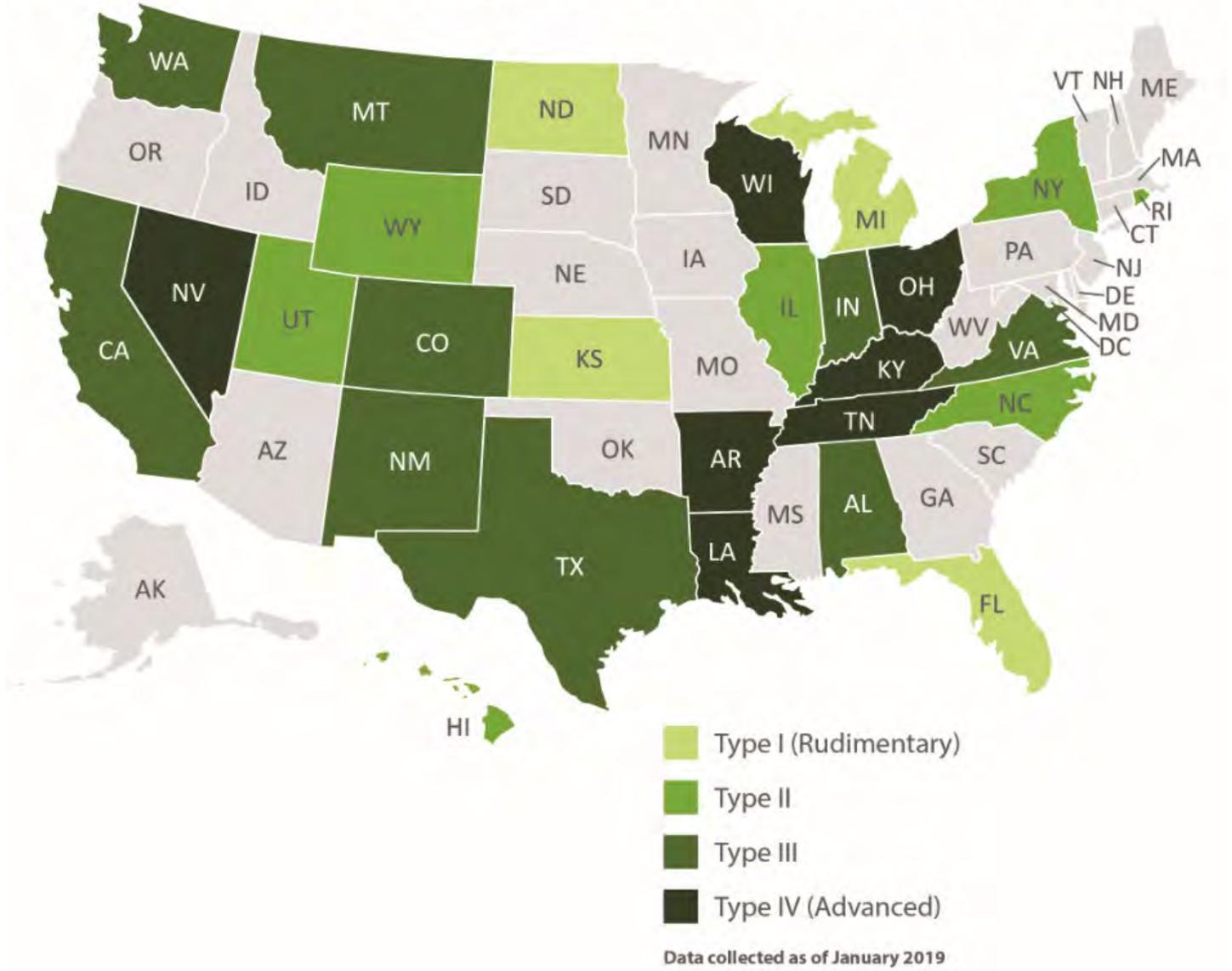
OBF Typology

- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

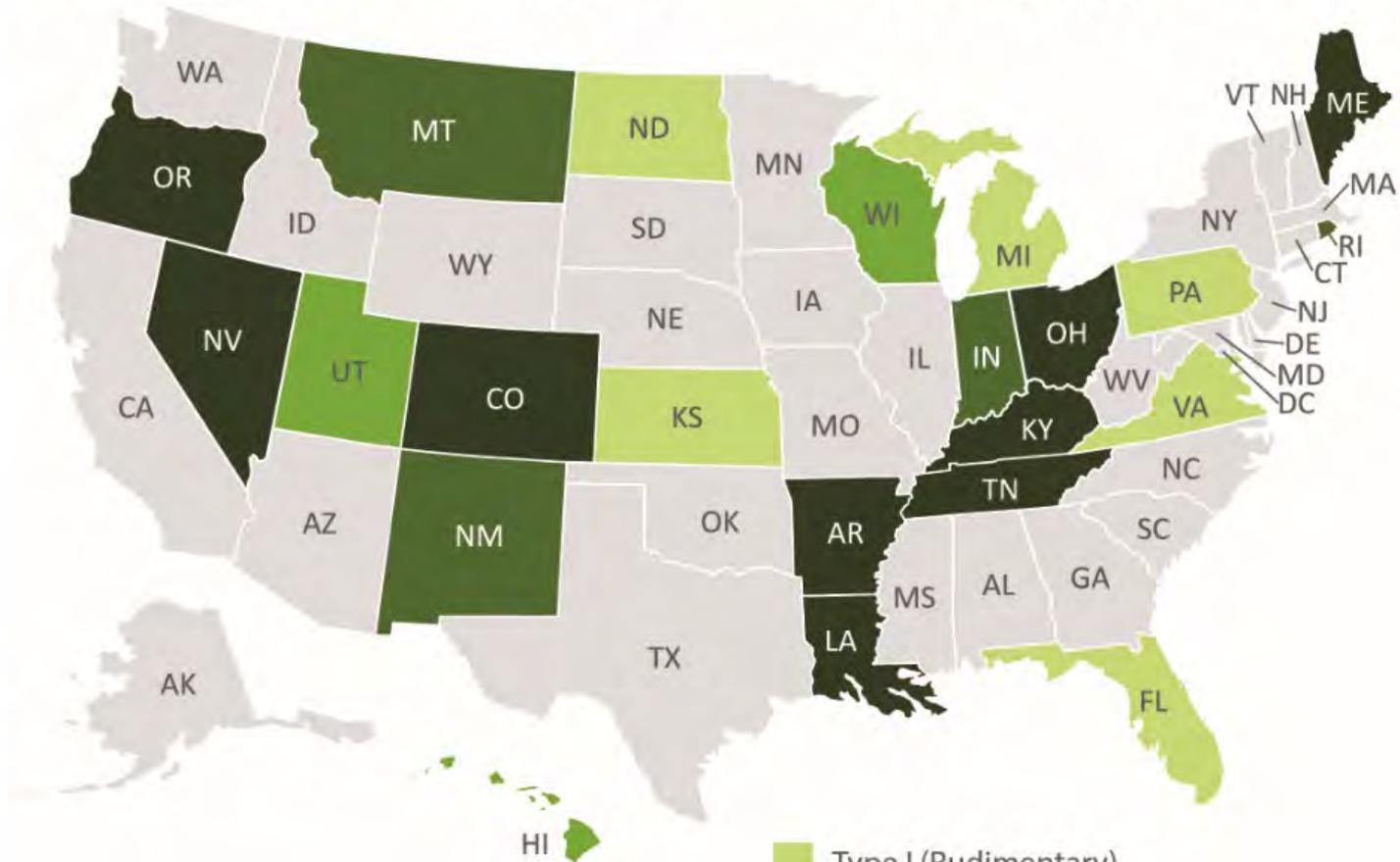
Type IV

- Aligned with completion/attainment goals and related priorities
- Recurring/Base funding
- *High level of state funding (25% or greater)*
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- *Formula driven/incentives continuous improvement*
- *Sustained for two or more consecutive fiscal years*

Outcomes-Based Funding in Two-Year Sector by Type in FY 2019



Outcomes-Based Funding in Four-Year Sector by Type in FY 2019

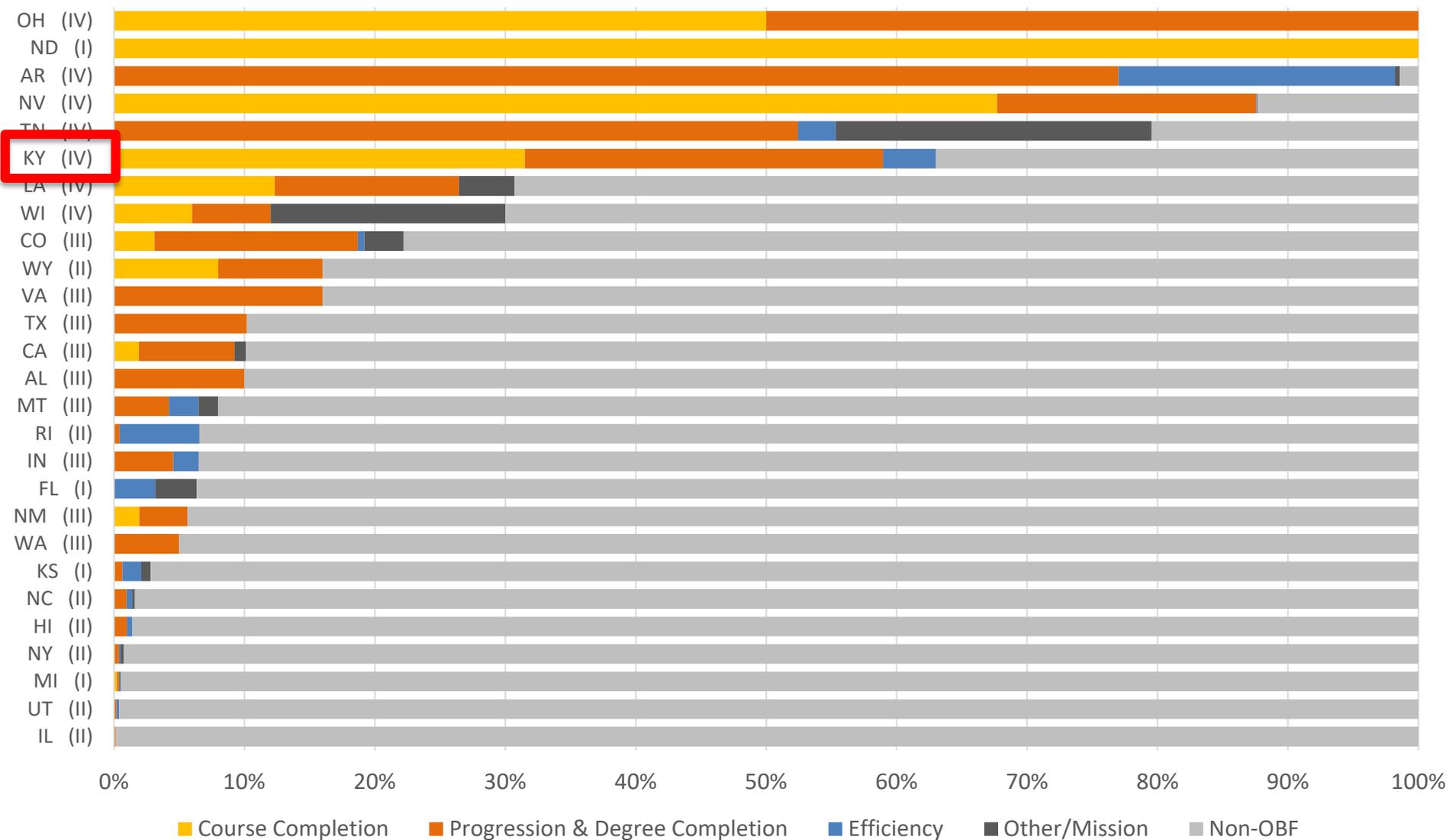


PA: Implementing for PASSHE universities only. Using a transitional model in FY19 as a new performance funding model is developed.
ME: Model will be phased out after FY19.

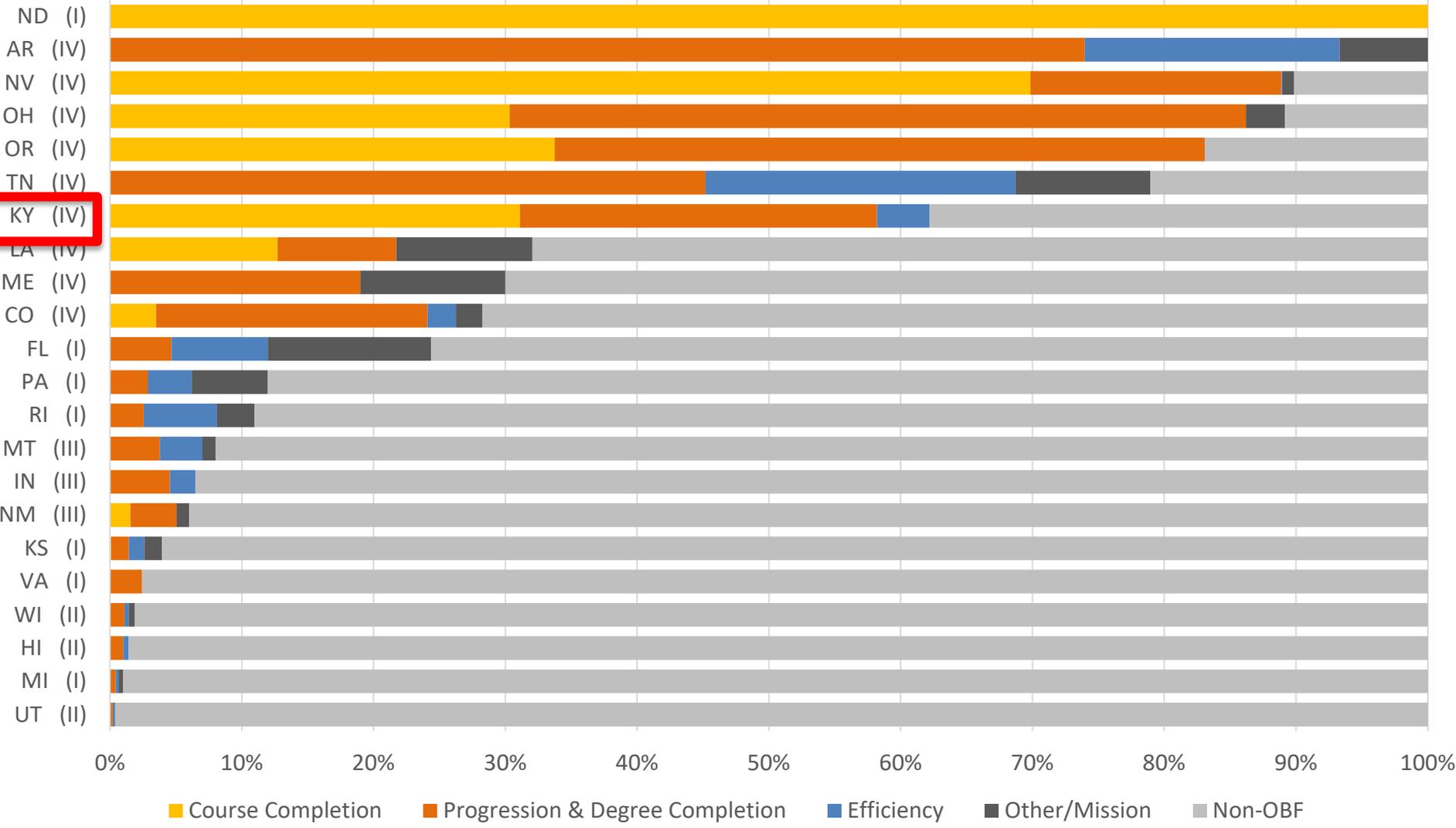
- Type I (Rudimentary)
- Type II
- Type III
- Type IV (Advanced)

Data collected as of January 2019

OBF as a Share of State Institutional Support: 2-Year Sectors



OBF as a Share of State Institutional Support: 4-Year Sectors



Continuous Engagement and Support

- The model should be a policy tool, not just a budget exercise
- Clearly communicate how the model works
 - Transparent incentives
 - Interactive projection tools
 - Report annual effects of model
 - Funding formula summits

Continuous Engagement and Support

- Provide support to institutions
 - Analysis of institution specific outcome and funding data
 - Sharing best practices for increasing success
 - Student success improvement grants
- Track and address unintended consequences
 - Establish formal review process
 - Monitor academic standards
 - Student learning outcomes, faculty surveys, grade distributions
 - Monitor student access
 - Monitor funding volatility

STRATEGY LABS

State Policy to Increase Higher Education Attainment

StrategyLabs.LuminaFoundation.org

Presented by Scott Boelscher
Senior Associate, HCM Strategists
Scott_Boelscher@hcmstrategists.com





Performance Funding Model for Kentucky's Public Universities

Dr. William Payne, Vice President for Finance and Administration
Kentucky Council on Postsecondary Education
September 17, 2019

Overview

- Impetus for New Approach
- Funding Model Goals
- Components and Metrics
- Key Features
- Results Achieved

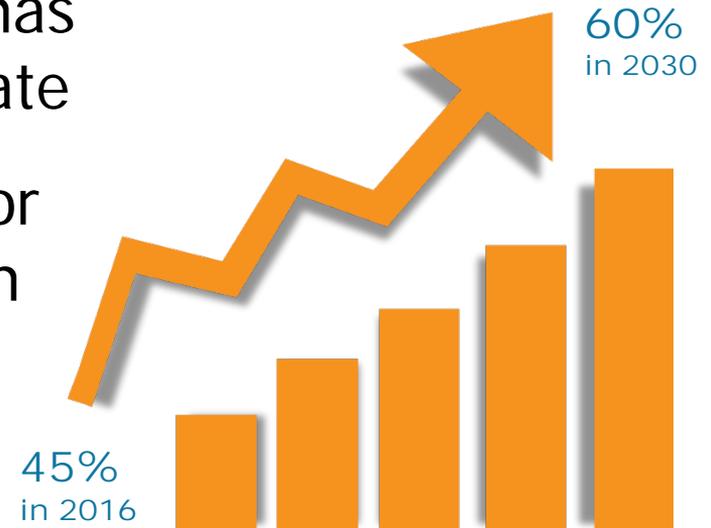
Impetus for New Approach

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

Impetus for New Approach (Cont'd)

Kentucky's Big Goal

- Increase educational attainment of working age adults to 60% by 2030
- Currently 45% of KY's population has a postsecondary degree or certificate
- Responds to workforce demands for highly trained, educated population
- Benefits of increased attainment:
 - higher income (lower poverty)
 - accelerated job growth
 - better life choices and health
 - engaged citizens



Impetus for New Approach (Cont'd)

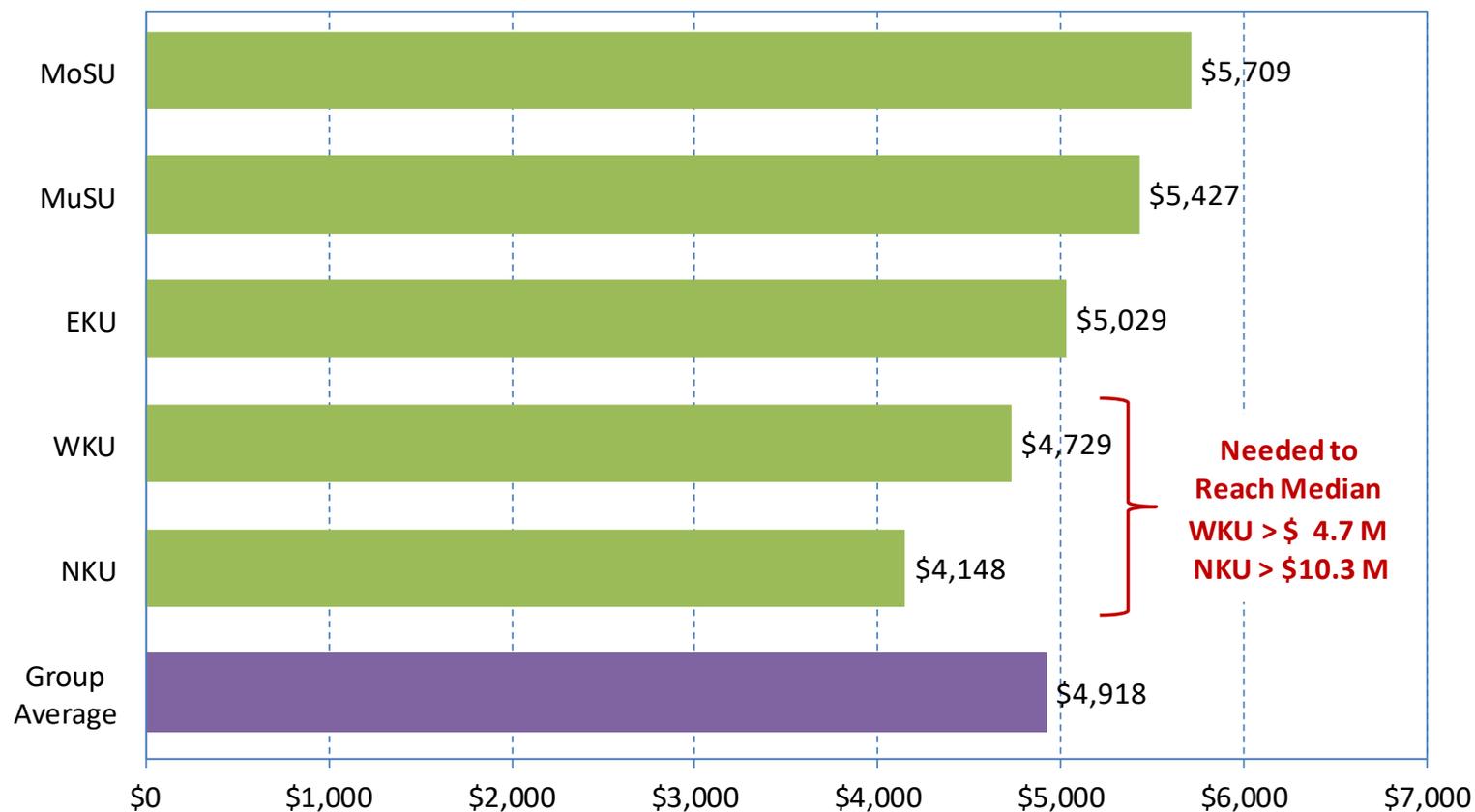
Shortcomings of Previous Method

- For more than a decade, state appropriations were distributed based on share of funding received the prior year (across-the-board base +, base -)
- This approach failed to recognize changes in:
 - Enrollment
 - Program mix
 - Student outcomes (progression, degree completion)
- No financial incentives for achieving desired state goals for postsecondary education

Impetus for New Approach (Cont'd)

Rectify Funding Disparities

Kentucky Comprehensive Universities (Excluding KSU)
Net General Fund Appropriations per FTE Student
Fiscal Year 2015-16



Source: Council on Postsecondary Education, Comprehensive Database.

Impetus for New Approach (Cont'd)

Respond to Legislative Mandate

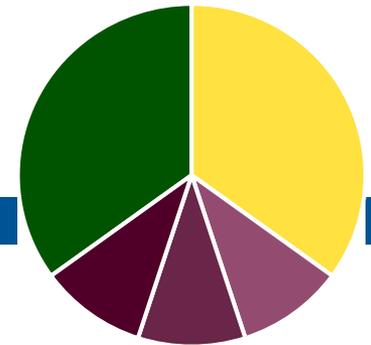
- The 2016 budget bill (HB 303) directed the Council to establish a working group that included:
 - The Governor
 - President of Senate
 - Speaker of the House
 - President of each public university and KCTCS
 - Council president

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

Funding Model Goals

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

Components



Kentucky Performance Funding Model
 Major Components, Allocation Percentages, and Funding Pools
 Fiscal 2018-19 (Dollars in Millions)

<u>Model Component</u>	<u>Allocation Percentages</u>	<u>Component Funding Pools</u>	<u>Distribution Method</u>
Student Success	35%	\$181.9	Share of student success outcomes produced
Course Completion	35%	181.9	Share of weighted student credit hours earned
Maintenance and Operations	10%	52.0	Share of facilities square feet dedicated to student learning
Institutional Support	10%	52.0	Share of spending on instruction and student services
Academic Support	10%	52.0	Share of FTE student enrollment
Total Allocable Resources	100%	\$519.8	



Key Features

- Backs out research and public service appropriations that are not instruction related (mandated programs)
- Weights student credit hours earned to account for cost differences by degree level and discipline
- Applies 50% weighting for credit hours earned by out-of-state students (100% for in-state students)
- Provides premiums for degrees earned by low income and minority students (and degrees in STEM+H fields)
- Uses hold harmless and stop loss provisions to provide gradual phase in (max 3% loss, over 3 years)

Key Features (Cont'd)

Premiums for Underserved Populations

Kentucky Performance Funding Model

Premiums for Low Income and Minority Student Degree Production

Fiscal Year 2018-19

<u>Component Category</u>	<u>Allocation Percent</u>	<u>Size of Pool</u>	<u>Weighted Degrees</u>	<u>State Funding per Degree</u>	<u>Funding Multiple</u>
A → Bachelor's Degrees	9.0%	\$46,784,400	22,975	\$2,036	1.0
<hr/>					
Bachelor's Degrees				\$2,036	
B → Low Income Bachelor's	3.0%	\$15,594,800	11,606	1,344	
Low Income Total				\$3,380	1.7
<hr/>					
Bachelor's Degrees				\$2,036	
C → Minority Bachelor's	3.0%	\$15,594,800	2,410	6,471	
Minority Total				\$8,507	4.2

Total Allocable Resources: \$519,827,100



Results Achieved

- State funding is no longer being distributed based on historical share, but on outcomes produced
- Funding based on outcomes is providing incentives for student progression and timely completion
- Institutions are reacting to the model strategically
- Most funding disparities that developed over time have been rectified (equilibrium at 6 of 8 universities)
- Over the past four years, bachelor's degrees up 12%, URM degrees up 27%, and STEM+H degrees up 29%

Results Achieved (Cont'd)

Beating the Sector Average

Kentucky Performance Funding Model
 Metrics Where Rates of Growth Exceeded Sector Average
 Between Fiscal Years 2017-18 and 2018-19

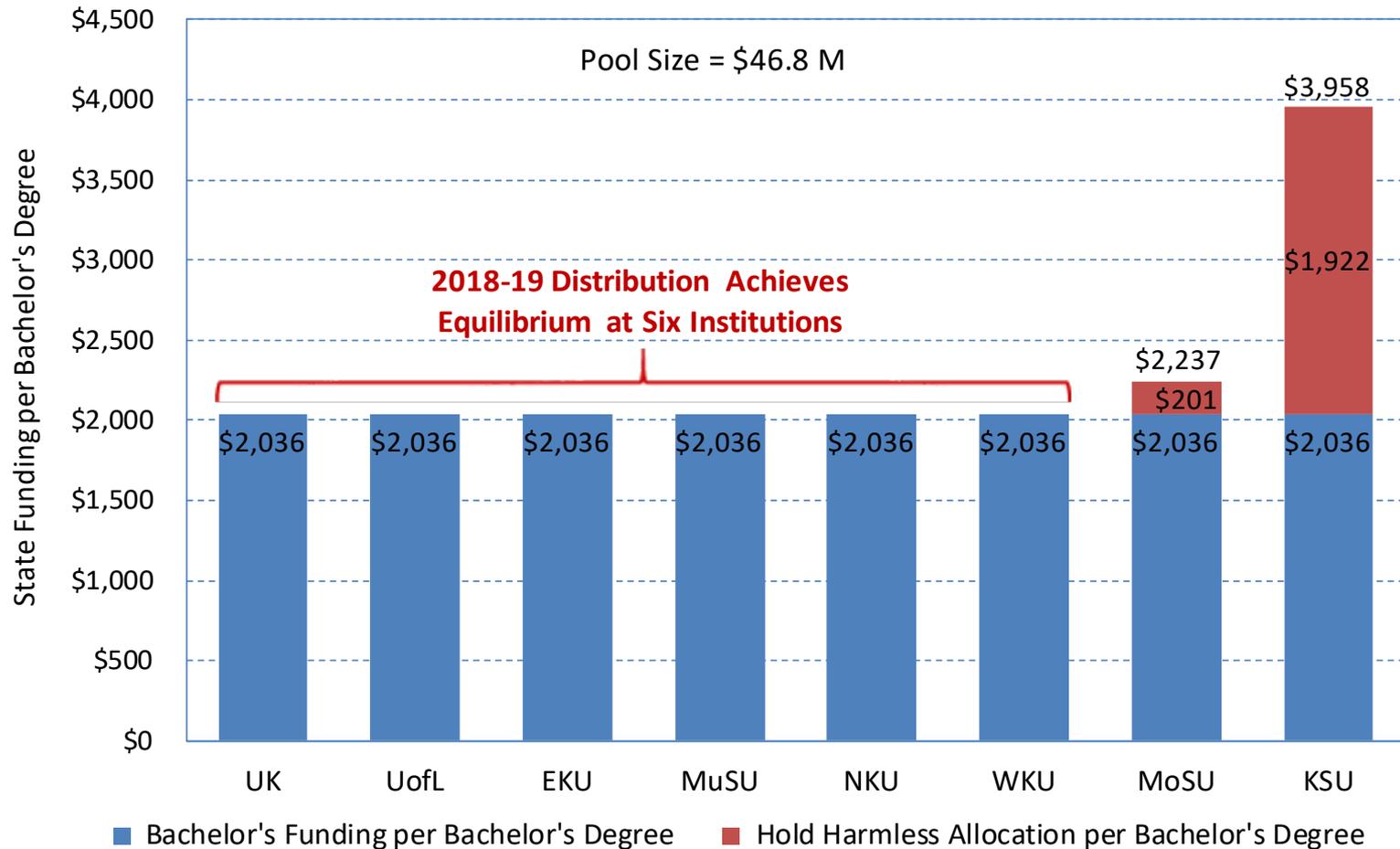
Performance Metric	UK	UofL	EKU	KSU	MoSU	MuSU	NKU	WKU
Student Success Outcomes								
Bachelor's Degrees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
STEM+H Bachelor's Degrees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
URM Bachelor's Degrees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Low Income Bachelor's Degrees	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Student Progression @ 30 Hours	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Student Progression @ 60 Hours	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Student Progression @ 90 Hours	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Earned Credit Hours	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Operational Support Activity								
Instructional Square Feet	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct Cost of Instruction	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
FTE Students	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Metrics Above Sector Average	11	6	5	3	5	4	2	1



Results Achieved (Cont'd)

Eliminating Funding Disparities

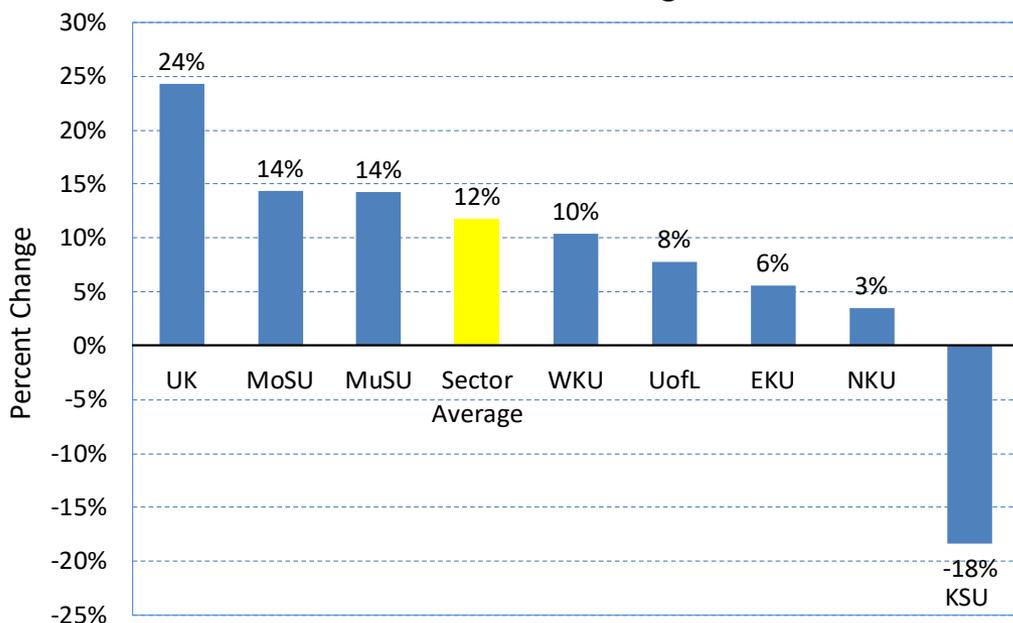
Kentucky Performance Funding Model
 Bachelor's Degree Component Funding per Weighted Bachelor's Degree
 Fiscal Year 2018-19



Results Achieved (Cont'd)

Accelerating Degree Production

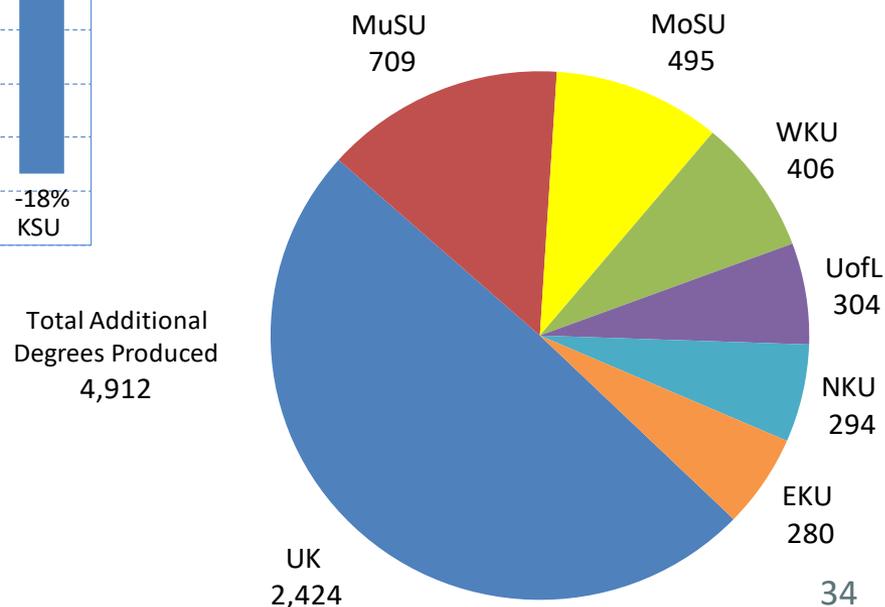
Four-Year Change in Bachelor's Degrees Produced
Academic Years 2013-14 through 2017-18



- Three universities - UK, MuSU, and MoSU - produced 74% of the cumulative net gain in bachelor's degrees over the past four years



Cumulative Net Gain in Bachelor's Degrees Produced
Academic Years 2013-14 through 2017-18



- Growth rates above the sector average increase an institution's share of funding for a given metric



KENTUCKY COMMUNITY & TECHNICAL COLLEGE SYSTEM

PERFORMANCE FUNDING MODEL OVERVIEW

WENDELL A. FOLLOWELL, VICE PRESIDENT AND TREASURER

SEPTEMBER 17, 2019



KCTCS Performance Funding Model

RATIONAL

Well-aligned with campus missions and state goals for higher education.

COMPREHENSIVE

Capable of distributing any proportion of base funding (up to 100%).

DYNAMIC

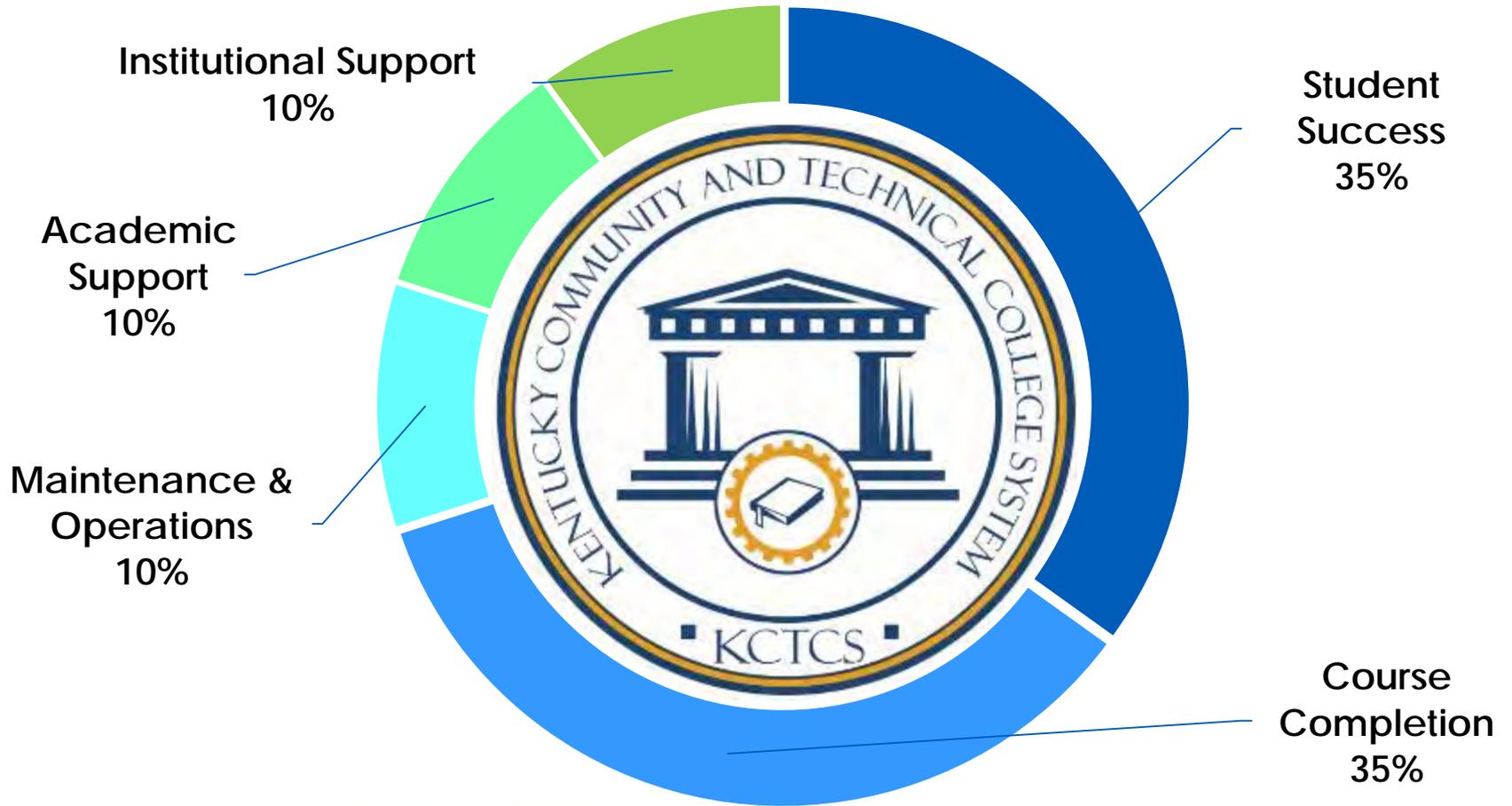
Reacts to changes in campus productivity and changes in levels of state support.

FAIR

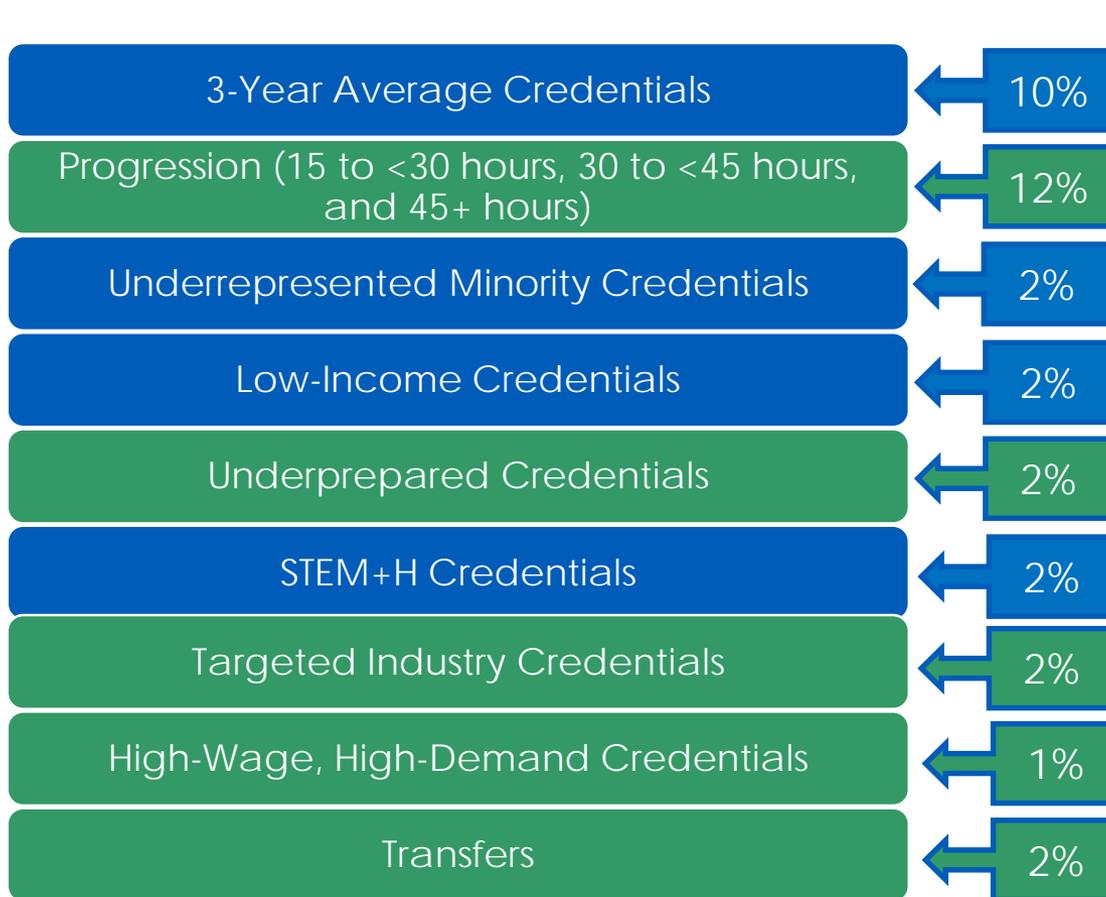
Provides like funding for like activities.



Component Metrics



Student Success



35%



Course Completion

Weighted Course Completion

Total semester credit hours completed by students at the college in prior academic year, weighted to account for cost differences in academic disciplines.

Course completion is defined as receiving an A, B, C, D, or P.

Weights:

- 1.0 Low-Cost Program Areas
 - History
- 1.5 Medium-Cost Program Areas
 - Science/Technology
- 2.0 High-Cost Program Areas
 - Advanced Technology/Trades/Healthcare



35%



Maintenance and Operations/Academic Support

Maintenance & Operations

Distributed based on each institution's share of Category I (Instructional) and Category II (Non-Instructional) square feet, net of research, non-class laboratory and open laboratory space, to support maintenance and operation of campus facilities.



10%

Academic Support

Distributed based on each institution's share of total Full-Time Equivalent (FTE) student enrollment for prior academic year.



10%



KENTUCKY
COMMUNITY & TECHNICAL
COLLEGE SYSTEM

Institutional Support

Institutional Support

Distributed based on each institution's share of total instruction and student services spending, net of maintenance and operations, to support administrative functions.



10%



COMPREHENSIVE FUNDING GOALS

Increase retention and progression of students

Increase the number of degrees and credentials earned by all types of students

Grow the number of degrees and credentials that garner higher salaries upon graduation: STEM+H (Science, Technology, Engineering, Mathematics, and Health) fields; **high-wage, high-demand fields**

Close achievement gaps by increasing the number of degrees and credentials earned by low-income, minority and **underprepared students**



STATE BENEFITS

An overall rise in the number of graduates maximizes taxpayers' return on investment in higher education

More credentials translates to a more highly-skilled workforce that will help strengthen Kentucky's economy

Shorten period to credential helps reduce costs to students and their families resulting in on-time graduation

A better educated citizenry helps meet current workforce demand, helps attract new industries, provides a better quality of life



KCTCS BENEFITS



Encourages streamlining of processes to enable students to complete in a timely fashion

Aligns programs/degrees with the state's needs and the communities where our colleges are located

Reduces cost to our students to shorten time to credential increasing on-time graduation

Our students improve and better themselves and their lives with increased opportunities

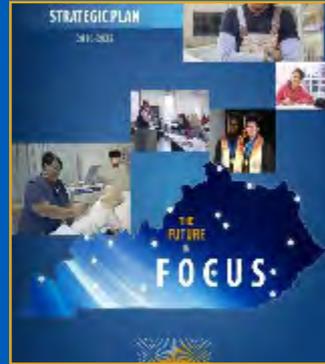


HOW DO THEY RELATE:



2016-2021 CPE Strategic Agenda

- Increase the number of KCTCS students who complete career-oriented certificates and associate degree programs.



KCTCS Strategic Plan Goals

- Align programs and curricula with needs of employers that enhance the employability, job placement, and career development of KCTCS graduates.



Performance Funding Goals

- Grow the number of degrees and credentials that garner higher salaries upon graduation.

Increase Career-Oriented Degrees to Improve Job Placement and Career Development for Kentuckians.

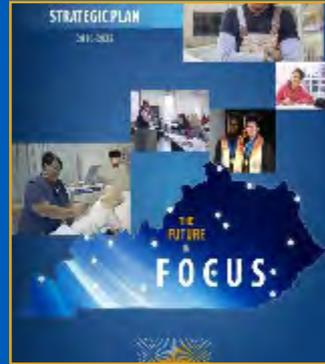


HOW DO THEY RELATE:



2016-2021 CPE Strategic Agenda

- Increase persistence and timely completion for all students at all levels, particularly for low-income and underrepresented minority students



KCTCS Strategic Plan Goals

- Increase access and success for all KCTCS students, particularly among traditionally underserved students



Performance Funding Goals

- Close achievement gaps by increasing the number of degrees and credentials earned by low-income, minority and underprepared students.

Increase the Completion of Degrees for Underserved Students.

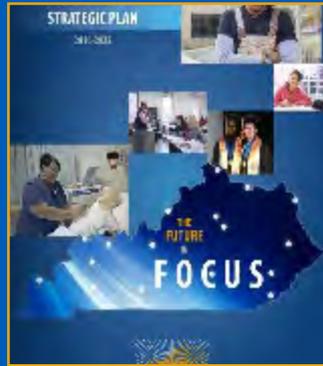


HOW DO THEY RELATE:



2016-2021 CPE Strategic Agenda

- Main goal to raise Kentucky's educational attainment level to 58 percent by the year 2025, up from its current level of 45 percent.



KCTCS Strategic Plan Goals

- Raise the level of educational attainment in the commonwealth by positioning KCTCS as the accessible, affordable, and relevant postsecondary education choice for Kentuckians.



Performance Funding Goals

- Increase the number of degrees and credentials earned by all types of students.

Raise Kentucky's Education Attainment Level.



QUESTIONS



KENTUCKY
COMMUNITY & TECHNICAL
COLLEGE SYSTEM