Eastern Kentucky University, Combs Building, Room 100
521 Lancaster Ave, Richmond, Kentucky 40475

To the Faculty:

11 November 2016

Folks,

On Monday, November 6th, members of the Budget Review Committee received an **updated report on Performance-based funding cuts**. Wednesday, President Benson updated the faculty and staff on the changing budget situation in a campus-wide budget forum. The news is not particularly good.

As Dr. Benson reminded us, the focus of performance-based funding will be on a weighted combination of **Graduation**rates, **Retention** rates, Graduating **underserved minority** populations, and Retaining and graduating students with**STEM-H** related degrees. The president is also pushing for the inclusion of a metric for institutions that serve relatively high populations of low income students as well. This “educational opportunity” measure would be based on the number of Pell-eligible students an institution serves. But as it stands right now, undergraduate degree production is the means to retaining the EKU $60M General Fund appropriation.

The faculty must also be aware of the practical results of the 2016 election as they impact higher education in Kentucky. For the first time in a long time, Republicans now control the governor’s office and both chambers of the General Assembly. That fresh ability to impact public policy with a minimum of resistance means that we should **expect rapid changes**. As Senate President David Givens reportedly told CPE officials and the university presidents who met recently to discuss performance-based funding, “We are not here to negotiate.” And he added that we should not be planning on any additional money for higher education.

“They (Republican leadership) want certain things,” David McFaddin said. They want **bachelor’s degrees** – as many, and as quickly as we can produce them without sacrificing quality. Enrollment matters, but degree production matters more. And apparently they believe that Kentucky‘s future prosperity will be based on more bachelor’s degrees, but not necessarily masters degrees.[i]

This places EKU in a difficult spot in a couple of ways, at least. First, we produce master’s degrees which are devalued under this rationale. But more impactful may be that our largest competitor (UK) recently announced their move away from merit-based scholarships to need-based scholarships. UK will now be incentivized to raid what has been our traditional student population. The president is worried about what that might do to our brand value and mission. “UK just spent $650 million building dorms and they aren’t for graduate students,” he said.

Making matters worse, the old “floor” of 25% of funds being at risk under performance-based funding has quickly been raised to **100% of allocable funds**, which for EKU is roughly **$60 million**. The funding model allocates 100% of the appropriation which also puts at risk 100% of the appropriation in future years. In the short term, thanks to our current three-year graduation rate, EKU is likely to retain the lion’s share of our appropriation. (Enrollment remains steady at a near all-time high for the University, including the second largest freshman class, and best academically prepared ever. Our freshman retention rate is at an all-time high and the four-year rate has doubled over the past seven years.) But if we fail to meet our metrics going forward the model could withhold $20M in the next 5-6 fiscal years.[ii]

Under the plan the comprehensive universities are now placed in the **same funding sector as UK** and UofL (R1s) but the current formula calls for *us* to be funded at **1.0** and *them* to be funded at **1.65**. For a century the old sectors kept us defined, and impacted the cost of tuition and the degrees an institution could offer. Now those sectors are being obliterated.

“The speed (of change) will go up ten-fold,” Dr. Benson told Wednesday’s gathering. “If we do not agree to a plan, they will make a plan for us.” Benson said that makes it incumbent upon us to become more flexible and nimble in the ways we respond. We have to pull together and have discussions about how we get better every day. This new reality will require us to be **proactive and willing to change** to new ways of operating.

The final bit of information shared at the budget forum was that the governor was looking to take on **tax reform**. That should be good news for Kentucky which, in my opinion, has needed tax reform for decades now. The governor’s idea of tax reform, however, seems to be based somewhat on **closing existing loopholes**, but also on a shift toward **consumption taxes**.[iii] It is far from certain that this conception of tax reform will produce additional revenue for the state; more likely less.[iv]

President Benson expressed concern that tuition might come under a state consumption tax. “The (governor’s) idea is that if you want it, you pay for it,” he said. But taxing students’ tuition could really impact needy students. “I am worried that we are going to price-out of education an entire section of our population, “Benson said.

Below are some notes from David McFaddin:

Performance Funding Update: 11-7-16 (EKU Budget Working Group)

- The performance working group has now met three times and is scheduled to meet two more times on November 15th and November 28th to finalize the working groups report and model design.
- A lot of ground has been covered as it relates to the models design but as we near the end of the process here are the design core principles that have come to anchor the model:

- ***Outcomes based model that distributes 100% of allocable resources based on rational criteria:***

- ***70% distributed based on performance (student success and course completion outcomes)***

- ***30% allocated in support of vital campus operations (M&O of facilities, institutional support, and academic support)***

- ***Includes all public four-year universities in performance pool, but includes safeguards to ensure that neither sector is advantaged or disadvantaged at implementation***

- ***Contains small school adjustment to minimize impact on smaller campuses***

- ***Makes use of hold harmless and stop loss provisions in early years of implementation***
- ***The model awards 1.65 weighting to 1 for the R1 schools versus the comprehensive universities. The rational is based on higher instructional cost.***
- Allocable resources are defined as General Fund appropriations net of mandated programs and a small school adjustment. For EKU that is now $60 million for year zero of the model which is fiscal year 2017-2018.
- Recommended Phase In

  - Fiscal 2017-18 (Year Zero)
    –Run the model with additional year of data and use results to:
    Distribute Postsecondary Education Performance Fund (5%)
    Inform Council's 2018-20 biennial budget recommendation

  - Fiscal 2018-19 (Year One)

  - –Apply hold harmless provision in first year of implementation
    –Request sufficient additional appropriations that when combined with hold harmless allocation will achieve equilibrium in first year

  - Fiscal 2019-20 (Year Two)
    –Transition to 1% stop loss in second year

  - Fiscal 2020-21 (Year Three)
    –Transition to 2% stop loss in third year and each year thereafter

Support Materials:

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

Outcomes Based Components:

- **Student Success (35% of allocable resources)**
  - Distributed based on each institution's share of sector total student success outcomes produced
  - Bachelor's Degrees
  - Degrees per 100 UG FTE Students
  - STEM+H, URM, and Low Income Degrees
  - Student Progression (@ 30, 60, and 90 credit hour thresholds)
  - Educational Opportunity (under consideration)

- **Course Completion (35% of allocable resources)**
  - Distributed based on each institution's share of sector total student credit hours earned (weighted to account for cost differences by degree level and discipline)

Operational Support Components

Maintenance and Operations (10% of allocable resources)
- Distributed based on each institution's share of square feet, net of research and non-class laboratory space

Institutional Support (10% of allocable resources)
- Distributed based on share of sector total instruction and student services spending, net of M&O

Academic Support (10% of allocable resources)
- Funding for academic support services, such as libraries and academic computing
- Distributed based on share of FTE student enrollment

Finally, here is an overall picture of our current budget. With so many options under consideration and with the increased pressure that is likely to be placed on less productive programs by the performance-based funding model, I believe we should track changes and keep an eye on the relative balance of cuts as we move forward. The Faculty Senate Budget Committee has chosen not to make that a priority.

The balance as it stands today is roughly 50/50 between academic (Instruction + Academic Support) and non-academic (all other) sectors of the budget. But it should also be noted that since 2012 the administrative side has reduced recurring operating and personnel expenses by roughly $8M. While a 50%/50% academic to non-academic percentage split for future budgets is an important goal, it will very likely be difficult to achieve in the era of performance-based funding cuts.

It seems with every passing day that our challenges mount. We are a state university and exist at the will of the state government. And the philosophical arguments being made by our university presidents and CPE (and EKU faculty) about the value of liberal arts disciplines – while true - would seem to be falling on deaf ears in Frankfort. The state has all of the power it needs to reshape the nature of higher education in the Commonwealth, and there is every indication that it is about to do so.

I wish the news was better. But for all of my gloom and doom, there is much the university can do to pull together, determine its own destiny, and reshape itself as necessary for this new reality. That is the work ahead.

Sincerely,

Richard

[i] It is expected that legislation will be filed by the Kentucky Senate Majority for the 2017 session that is likely to micro-manage aspects of university degree production as a way of leveraging change. If the State Senate does micro-manage degree production linked to performance in statute, EKU will be required to develop plans to transition from uncompetitive degree offerings towards some kind of degree-mix that is mandated in statute. There are various scenarios being discussed including one that might pay universities for producing degrees in certain disciplines, but not others! It would be hard not to see this kind of thing as an attack on the liberal arts.

[ii] Although not at all reflective of our current capital infrastructure costs, EKU gets 'credit' for $13M worth of O&M square footage and institutional costs out of the $60M at risk.

[iii] According to the *Concise Encyclopedia of Economics*, a consumption tax is a tax on what people spend instead of what they earn...(S)tates and localities raise a large share of their revenue through sales taxes, which are taxes on consumption. The federal government also has a smattering of consumption taxes, such as the excise tax on gasoline...(The) principal objection (to consumption taxes) is that the greatest direct benefits of a consumption tax would go to high-income individuals. (http://www.econlib.org/library/Enc/ConsumptionTax.html)

[iv] Kansas is said to be the rumored model for Kentucky. This from the right-leaning *Forbes*: http://www.forbes.com/sites/rexsinquefield/2016/05/10/with-income-tax-eliminated-85-million-flows-into-kansas/#4655a8134b77

Governor Bevin told WKYT that tax reform "will happen" in 2017, but said it is unrealistic to think the legislature can get it done in a 30-day session that begins in January. Bevin did not say what the new tax code would look like, but said he is open to eliminating the income tax. From WKYT:http://www.wkyt.com/content/news/With-new-majority-Bevin-vows-tax-reform-in-2017-400547121.html