MSU -- The Source -- Wayne D. Andrews-- Performance Funding Report -- Dec 2, 2016

Campus Community:

For several years, we have been anticipating the implementation of an outcomes-based performance-funding model that would impact the distribution of state funds appropriated to support Kentucky postsecondary education. It now appears that anticipation will become reality starting in the 2017-18 fiscal year.

In the 2016 legislative session, the General Assembly determined that there was a need for the development of a comprehensive funding model for the nine public postsecondary education institutions that aligned the Commonwealth's investments in postsecondary education with state policy goals and objectives. In the enacted 2016-18 budget (HB 303), the General Assembly established a Postsecondary Education Working Group comprised of the president of the Council on Postsecondary Education, the president of each public postsecondary institution or his/her representative, the Governor or his representative, the Speaker of the House or his representative, and the President of the Senate or his representative. The bill directed the group to complete its work and provide a report setting forth its recommendations to the Governor and Interim Joint Committee on Education no later than December 1, 2016.

The enacted 2016-18 budget (HB 303) transferred $42,944,400 from campus operating budgets to a newly created Postsecondary Education Performance Fund in fiscal year 2017-18, representing 5.0% of the fiscal 2017-18 General Fund appropriations for the public four-year universities (excluding Kentucky State University) and KCTCS. The Performance Fund will be distributed to participating institutions based on achievement of performance goals and metrics enacted by the General Assembly, as recommended by the Postsecondary Education Working Group.

The Postsecondary Education Working Group met multiple times throughout the summer and fall to identify the recommendations that would be included in the final report. The work group members debated many of the recommendations at length. Multiple compromises were necessary to reach general consensus on the final report.

Below are the criteria identified for the four-year university model:

- The funding model should include all public research and comprehensive universities in a four-year sector performance pool, but contain safeguards to ensure that neither the research, nor comprehensive sector is advantaged or disadvantaged during the first full year of implementation.
- It should be capable of distributing any level of state appropriations, up to and including 100% of allocable resources, among the public universities based on rational criteria, including student success, course completion, and operational support components.
- Allocable resources are defined as state General Fund appropriations net of mandated programs and a small school adjustment.
- At least 35% of allocable resources should be distributed among universities based on each institution's share of sector total student success outcomes produced.
- Student success outcomes should include bachelor's degree production, degrees per 100 undergraduate full-time equivalent (FTE) students, numbers of students progressing beyond 30, 60, and 90 credit hour thresholds, STEM+H degree production, and degrees earned by low income and underrepresented minority students.
- Another 35% of allocable resources should be distributed among universities based on each institution's share of sector total student credit hours earned, weighted to account for cost differences by degree level (i.e., lower division and upper division baccalaureate, master's, doctoral research, and doctoral professional) and academic discipline.
- The remaining 30% of allocable resources should be distributed among the universities in support of vital campus operations, such as maintenance and operation of facilities, institutional support, and academic support. Specifically:

Ð To support maintenance and operation (M&O) of campus facilities, 10% of allocable resources should be distributed among universities based on each institution's share of Category I and Category II square feet, net of research, non-class laboratory, and open laboratory space.

Ð To support campus administrative functions, 10% of allocable resources should be distributed based on share of sector total instruction and student services spending, net of M&O.

Ð To support academic support services such as libraries and academic computing, 10% of allocable resources should be distributed based on each institution's share of sector total FTE student enrollment.

- The funding model should include a small school adjustment to minimize impact on smaller campuses.

- Implementation of the funding model should make use of hold harmless and stop loss provisions in early years of implementation in a manner that continues to provide incentives to produce desired state outcomes.
- Hold harmless is a term used to indicate that existing base funding for a given institution or for an entire sector of institutions will not be subject to transfer to other institutions for a specified period of time, even though formula totals in the funding model would call for such transfers.
- A stop loss provision would allow for the transfer of existing base funding from one institution to another, but the amount eligible for transfer would be limited to some predetermined ceiling, typically expressed as a percent of an institution's state General Fund appropriation.
- It is recommended that every effort be made to achieve equilibrium in the four-year university model as soon as possible, which can best be accomplished through a combination of new funding for postsecondary education and application of a hold harmless provision in the first full year of implementation.
- Equilibrium is defined as a condition in which every institution has an appropriately proportionate level of resources given its level of productivity in achieving student success and course completion outcomes. Once equilibrium is achieved, the funding model rewards rates of improvement above the sector average rate, which allows smaller campuses to compete more effectively and fairly with larger ones.
- Going forward, it is recommended that the Council on Postsecondary Education conduct annual assessments of four-year university net General Fund appropriations and tuition and fee revenue per full-time equivalent student by residency status and the proportion of educational costs paid by out-of-state students and share results of those analyses with the postsecondary institution presidents.
- The Postsecondary Education Working Group should be reconvened every three years to determine if the elements (e.g., the structure of the four-year sector; weighting for nonresident students; etc.) and overall model for the four-year is universities are functioning as expected, and to identify any potential unintended consequences. It is anticipated that the group, upon reaching consensus to do so, will be able to recommend changes in statute to the Governor and General Assembly as warranted recommend changes to the model either through the regulatory process by CPE, or through statutory amendment.

The Postsecondary Education Working Group recommended the following criteria be used for phase in of the new model:

- In fiscal 2017-18, each sector should use its respective funding model to distribute its share of $42.9 million housed in appropriated to the Postsecondary Education Performance Fund.
- Given that the dollar amounts transferred to the Performance Fund represent only 5.0% of each participating institution's state appropriation, it is recommended that these funds be distributed among institutions without using hold harmless or stop loss provisions.
- That same year, the funding models could be used to inform the Council's 2018-20 biennial budget recommendation, which is submitted to the Governor and General Assembly in November 2017.
- In fiscal 2018-19, the funding models should be fully implemented within each sector, but hold harmless provisions should be applied to prevent reduction of any institution's General Fund base in the first full year of implementation.
- In fiscal 2019-20, the funding models should continue to be fully implemented, but transition from using hold harmless provisions to 1.0% stop loss provisions.
- In fiscal 2020-21, each sector should transition from using 1.0% stop loss provisions to 2.0% stop loss provisions and the Postsecondary Education Working Group should reconvene to evaluate the model and discuss potential changes.

We anticipate that the report from the Postsecondary Education Work Group will be used to advise the process of drafting legislation for consideration by the General Assembly in the upcoming 2017 General Session. At that point, we will begin to learn the final specifics of the outcomes-based performance-funding model including the timeline for implementation and other details that will identify the potential impact on our budget. In the meantime, it is important that each of us remain focused on the work we do each day to help our students succeed in achieving their academic, personal and professional goals.

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President