

TITLE: Performance Funding Model Review Update

DESCRIPTION: Staff provided an update on the 2023 Performance Funding Model Review process. It will not be covered in detail during the June 9, 2023, board meeting.

PRESENTER: Eric Farris, Committee Chair

COMMITTEE'S REVIEW

The Finance Committee received this information report at its June 6, 2023, meeting. It will not be covered or presented in detail at the June 9 board meeting; however, staff will be available for questions.

FUNDING MODEL REVIEW

On April 19, 2023, the Postsecondary Education Working Group held its third meeting of the year to continue comprehensive reviews of Kentucky's public university and KCTCS performance funding models (KRS 164.092). The meeting was conducted in three parts so that CPE staff and KCTCS officials could share information and facilitate discussion relevant to the university and two-year models, respectively. A copy of the agenda for the meeting can be found in Attachment A.

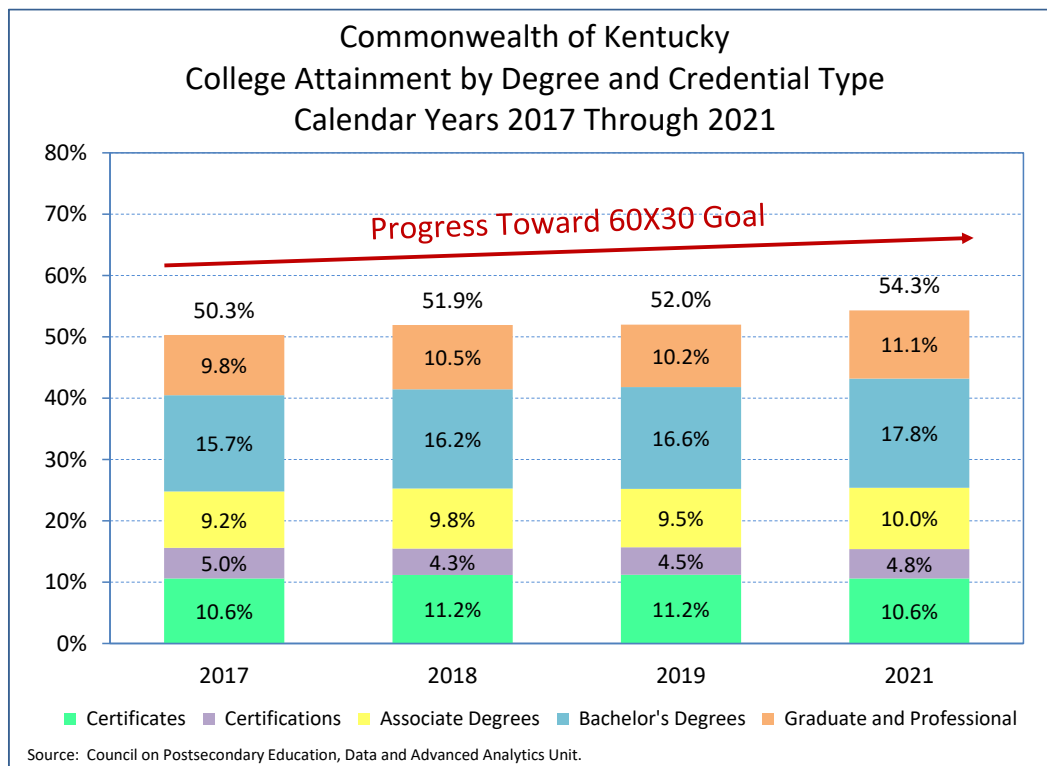
CPE Survey Responses

During the first part of the meeting, CPE staff shared its responses to the Performance Funding Survey with work group members. This was the same survey that was given to campus officials, the results of which were presented at the March 1, 2023 meeting. Survey questions included:

- What outcomes did policymakers expect to achieve from adopting the funding model?
- In what ways has the model functioned as expected? Were there any unexpected outcomes?
- Have there been any unintended consequences of the model?
- What adjustments to the model are recommended?

Expected Outcomes. In response to question one, staff determined that the funding model was expected to address shortcomings of the previous funding method, rectify funding disparities that had developed over time, and accelerate progress toward attainment of state goals. See Attachment B, slides 5 through 9 for more detail regarding specific outcomes the model was intended to achieve.

Functioned as Expected. An examination of outcomes achieved over six years of operation revealed that the university model has functioned as expected. Specifically, the model has addressed shortcomings of the previous base plus, base minus funding approach. Most funding disparities among institutions have been rectified. As expected, Kentucky is making great strides in degree production. For example, since 2014, bachelor’s degrees awarded have grown by 8% in total, 28% in STEM+H fields, and 38% among URM students. Kentucky is closing achievement gaps by expanding opportunity and access and growing degrees earned by URM students. Finally, the state is on track to achieve its 60X30 attainment goal. As can be seen in the chart below, between 2017 and 2021, college attainment in Kentucky grew by 4.0 percentage points, primarily the result of growth in bachelor’s degrees, graduate and professional degrees, and associate degrees.



For more information about ways the funding model is functioning as expected, see Attachment B, slides 10 through 14.

Unexpected Outcomes. There were two areas where the university funding model did not operate as intended. First, the number of students that reached or surpassed 30-credit-hour and 60-credit-hour progression thresholds did not increase. Between 2014 and 2021, the number of students that earned 30 credit hours decreased by 2,376 or 17 percent and the number that reached the 60-credit-hour mark fell by 1,249 or 9 percent. Second, the number of bachelor’s degrees awarded to low-income students did not increase as expected. Between 2014 and 2021, bachelor’s degrees awarded to low-income students decreased by 106 or 1 percent. See Attachment B, slides 15 through 17 for more information about ways the model did not operate as expected.

Unintended Consequences. CPE staff identified two instances where operation of the funding model resulted in unintended outcomes, mainly due to external circumstances. First, lack of funding during the early years of implementation resulted in redistribution of base funds among institutions and slowed progress toward funding parity. Between 2018 and 2021, the model was applied with no new funding from the state. In 2022 and 2023, the General Assembly appropriated \$17.3 million and \$97.3 million in new dollars to the performance fund, respectively. Second, using a degree efficiency index (i.e., bachelor's degrees per 100 FTE indexed to the sector average) to weight the number of bachelor's degrees produced did not operate as intended due to declining enrollment at most institutions. In fact, the index rewarded institutions that had decreasing enrollment and penalized those with increasing enrollment, which runs counter to growth-oriented goals of the model. For more information about unintended consequences of the funding model, see Attachment B, slides 18 through 20.

Recommended Adjustments. Staff recommended a number of changes to the model, including increasing the premium for low-income bachelor's degrees, adding a new adult learner metric, eliminating the efficiency weighting in the bachelor's degree metric, and providing a larger small school adjustment for KSU and MoSU. In addition to proposing changes to the model itself, staff also recommended a change in how the model is applied. Specifically, staff proposed that funds earned by an institution as part of the 2023-24 performance distribution be made recurring to the base in the upcoming biennium. This action would not only reward institutions that grew enrollment, student progression, and degree production at rates above the sector average over the past few years, it would also move institutions toward funding parity, which would result in more institutions receiving a distribution when the model is run for fiscal year 2024-25. A list of staff's proposed adjustments to the model can be found in Attachment B, slide 21.

University Model Recommended Adjustments

During the second part of the meeting, staff shared a comprehensive list of proposed changes to the university model that had been submitted by both campus officials and CPE staff. That list and the institution or agency that recommended a given adjustment can be found in Attachment B, slides 23 through 28. In addition to presenting the list of proposed changes, staff shared five funding model scenarios and facilitated discussion among work group members regarding three questions:

- 1) Is there consensus among working group members to recommend that earned performance funds be made recurring to institutions?
- 2) Do work group members support the idea of using a portion of performance funds to provide base allocations outside the model?
- 3) Do work group members support the proposal to use formula share percentages to distribute a portion of or all performance funds?

The discussion items and funding scenarios can be found in Attachment B, slides 29 through 39.

KCTCS Recommended Adjustments

Toward the end of the meeting, KCTCS officials presented several slides containing proposed changes to the two-year funding model. The recommended changes included:

- Using a three-year rolling average of data for all metrics (except square footage)
- Allowing earned funds to become recurring
- Accounting for regional differences among colleges
- Reducing the weighting of progression metrics (from 12% to 7%)
- Merging STEM+H, High-Wage High Demand, and Targeted Industry credentials
- Reducing the weighting of the credential metric (from 15% to 8%)
- Adding an adult learner metric

A copy of the information provided by KCTCS officials can be found in Attachment B, slides 41 through 43.

Next Steps

In terms of next steps, CPE staff indicated that they would run the 2023-24 iteration of the university funding model, complete the validation process, and notify institutions and the Office of the State Budget Director of the resulting distribution. In addition, staff said they would analyze the results and share them with the working group at their next meeting. Finally, staff will run additional scenarios as needed and continue to facilitate discussion of the university model, so the working group can reach consensus on proposed changes.

In similar fashion, KCTCS staff will run scenarios and facilitate discussion pertaining to the two-year college model. The next meeting of the Postsecondary Education Working Group is scheduled to take place on July 26, 2023.