



Kentucky Council on Postsecondary Education

Matthew G. Bevin
Governor

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Robert L. King
President

December 1, 2016

The Honorable Matt Bevin, Governor, Commonwealth of Kentucky
The Honorable Robert Stivers, President, Kentucky State Senate
The Honorable Greg Stumbo, Speaker, Kentucky House of Representatives
The Honorable Jeff Hoover, Speaker-elect, Kentucky House of Representatives
The Honorable Mike Wilson, Co-Chair, Interim Joint Committee on Education
The Honorable Derrick Graham, Co-Chair, Interim Joint Committee on Education

Gentlemen:

In the enacted 2016-18 budget (HB 303), the General Assembly established a Postsecondary Education Working Group to develop a comprehensive funding model that incorporates elements of campus performance, mission, and enrollment, and to provide a report setting forth its recommendations to the Governor and Interim Joint Committee on Education no later than December 1, 2016. The attached report describes the process and the recommendations from the Working Group.

To achieve such a model, we needed to recognize that each of the public universities, and each of the colleges within KCTCS, have distinct and often significantly different missions that are tied to statutory directives, degree and program offerings, geography and the population of students being served. Despite these differences, each campus leader was willing to agree to certain components in the model that required them to accept compromises from what any of them might find ideal. We sought, and believe we have achieved, consensus among the public institutional leaders.

This proposed model for distributing Kentucky's postsecondary investment will provide clear guidance to our elected officials about how to fairly and strategically invest public dollars, and provide to our campuses incentives designed to stimulate the achievement of state goals. However, this model will not, by itself, meet the growing needs of our state and our students to develop and support the workforce Kentucky needs to be a competitive economy in the 21st century. We believe that over time, additional investment in higher education will be necessary. In this regard, the model also can help define and measure those needs as future budget requests are developed.

We have prepared for consideration by our elected leaders two models; one for the four-year institutions, and a similar (although slightly different) model for KCTCS. Each has three basic components:

Student Success: 35% of the model ties the distribution of allocable funding directly to degree production and progression toward a degree or credential;

Course Completion: 35% of the model ties the distribution of resources to the number of credit hours awarded at each campus;

Operational Support: 30% of the model ties the distribution of resources to campus services and infrastructure that support student learning and success.

The **Student Success** component awards credit both for the production of bachelor's degrees (a volume metric), and the number of degrees awarded per 100 full time equivalent students (an efficiency metric). In addition, premiums are provided for students who earn STEM or healthcare related degrees, and for degrees earned by low-income and underrepresented minority students. The progression element awards increasing credit for each student who reaches critical milestones on the path to a bachelor's degree—specifically at the 30, 60 and 90 credit hour thresholds. KCTCS uses a similar format, appropriate to their institutions, for degree and credential production and student progression. The KCTCS model also awards premiums for transfers to four-year universities and for credentials earned in fields supporting high-wage, high-demand industries.

The **Course Completion** component recognizes enrollment and course completion. It recognizes cost differentials by course level (undergraduate, graduate and professional), and by discipline. The KCTCS model mirrors this component for their array of programs.

The **Operational Support** component recognizes critical expenses related to the maintenance and operation (M&O) of buildings dedicated to student learning (classrooms and teaching labs, libraries, etc.), the cost of instruction and student services (net of M&O), and the operational support of libraries, academic computing, etc. The KCTCS model mirrors this component as well.

The report recommends a phased-in process that includes the distribution of the five percent of base funding identified in HB 303. The pace of the phase-in can be managed through several different mechanisms. As mentioned earlier, the model is designed in such a way that it can be applied to any proportion of base funding, from the five percent in 2017-18 up to and including 100% of allocable funds. A mechanism that can be used in conjunction with the portion of the base being distributed is a “hold harmless” provision. An additional mechanism, which can be used with either or both of the other mechanisms, is a “stop loss” provision. We believe the recommended approach in the report will smooth the phase-in of the model and preclude large, destabilizing shifts in funds between and among campuses.

The report recommends that the models for universities and KCTCS be reviewed periodically to assess their impact on each of the campuses and to consider modifications if circumstances warrant. The models contemplate that individual campuses should eventually receive funding in proportion to the calculations in the formula, a status we describe as “equilibrium.” Once equilibrium is achieved, rates of improvement, rather than sheer volume, drive the flow of funds. This allows the smaller campuses to compete more effectively and fairly with the larger campuses. While “equilibrium” can be reached over a long period of time through the regular operation of the models, the fastest way to achieve this state is through the infusion of new funds that could be directed to campuses pursuant to the models.

Finally, we want to thank each of our campus presidents for their thoughtful advocacy on behalf of their institutions, and their willingness to make helpful compromises. We also need to thank our participating legislators and the Governor's representatives for their insightful comments, patience and support of this complex undertaking.

We believe the proposed model and recommendations presented in this report constitute the fairest method we have been able to develop to achieve the objectives set forth in HB 303, while recognizing, through compromise and collaboration with each of the universities and KCTCS, the differing needs and demands of each of our institutions.

Respectfully submitted,



Gary Ransdell,
Chair, Postsecondary Education Working Group
President, Western Kentucky University



Robert L. King, President
President, Council on Postsecondary Education

cc: Additional Members of the Postsecondary Education Working Group
John Chilton, State Budget Director
Andrew McNeill, Deputy State Budget Director
David Givens, Kentucky State Senate
Arnold Simpson, Kentucky House of Representatives
Michael Benson, President, Eastern Kentucky University
Jay Box, President, Kentucky Community and Technical College System
Aaron Thompson, Interim President, Kentucky State University
Wayne Andrews, President, Morehead State University
Robert Davies, President, Murray State University
Geoffrey Mearns, President, Northern Kentucky University
Eli Capilouto, President, University of Kentucky
Neville Pinto, Interim President, University of Louisville

The Honorable Chris McDaniel, Co-Chair, Interim Joint Committee on Appropriations & Revenue
The Honorable Rick Rand, Co-Chair, Interim Joint Committee on Appropriations & Revenue
Glenn Denton, Chair, Council on Postsecondary Education
David Byerman, Director, Legislative Research Commission

**Report of the Postsecondary Education Working Group
To the Governor and Interim Joint Committee on Education**

December 1, 2016

Postsecondary Education Working Group Participant List

GOVERNOR’S OFFICE REPRESENTATIVE(S)

John Chilton, State Budget Director (OSBD)

Andrew McNeill, Deputy State Budget Director (OSBD)

SENATE PRESIDENT REPRESENTATIVE

Senator David Givens (appointed by President Stivers)

SPEAKER OF THE HOUSE REPRESENTATIVE

Representative Arnold Simpson (appointed by Speaker Stumbo)

PUBLIC INSTITUTION PRESIDENTS

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

COUNCIL ON POSTSECONDARY EDUCATION

Robert King, President

Introduction

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 or 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 purpose of the Working Group was to develop a:

comprehensive funding model for the allocation of state General Fund appropriations for postsecondary institution operations... that incorporated elements of campus performance, mission, and enrollment, as well as, any other components as determined through the process (HB 303, pages 112, lines 14-17).

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 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.

Desired State Goals

On June 3, 2016, the Council on Postsecondary Education voted to adopt *Stronger by Degrees: A Plan to Create a More Educated and Prosperous Kentucky*, 2016-2021 Strategic Agenda for Postsecondary and Adult Education (see Appendix A). At the heart of the Strategic Agenda is a goal to raise Kentucky's educational attainment level to 58 percent by the year 2025, up from its current level of 45 percent. Achieving this goal is critical if the Commonwealth hopes to accelerate job creation, grow the economy, and expand its tax base through the contributions of a more highly skilled and productive workforce.

The Strategic Agenda identifies postsecondary education success as one of three urgent priorities for 2016 through 2021. It espouses the belief that Kentucky's future depends on more people advancing through the postsecondary education system and graduating in less time. It highlights a moral and social imperative to close achievement gaps for low-income and underrepresented minority students. These obligations are captured in objectives 6 and 7 of the Strategic Agenda:

Objective 6: Increase persistence and timely completion for all students at all levels, particularly for low-income and underrepresented minority students (Strategic Agenda, Objective 6, p. 13).

Objective 7: Increase the number of KCTCS students who complete career-oriented certificates and associate degree programs and successfully transfer to four-year institutions (Strategic Agenda, Objective 7, p. 13).

One of the key strategies for achieving these objectives is to “[i]mplement a new funding model with an outcomes-based component to reward institutions for increases in completion and other key metrics” (Strategic Agenda, Strategy 6.6, p. 13). The funding models recommended in this report are well aligned with strategies and objectives of the Strategic Agenda and, through the metrics contained therein, clearly identify desired state goals for postsecondary education.

The Commonwealth wants its public four-year universities to:

- Increase retention and progression of students toward timely bachelor’s degree completion;
- Increase the number of bachelor’s degrees earned by all types of students;
- Grow the number of bachelor’s degrees produced in fields that garner higher salaries upon graduation (i.e., STEM+H fields, or science, technology, engineering, and math plus health); and
- Close achievement gaps by increasing the number of bachelor’s degrees earned by low income and underrepresented minority students.

The Commonwealth wants KCTCS institutions to:

- Increase retention and progression of students toward timely certificate, diploma, and associate degree completion;
- Increase the number of certificates, diplomas, and associate degrees earned by all types of students;
- Grow the number of credentials produced in fields that garner higher salaries upon graduation (i.e., STEM+H fields; high-wage, high-demand fields);
- Increase the number of credentials produced in areas of pressing state need or opportunity (i.e., targeted industry fields);
- Close achievement gaps by increasing the number of credentials earned by low income, underprepared, and underrepresented minority students; and
- Facilitate credit hour accumulation and transfer of students to four-year institutions.

Guiding Principles

During a previous iteration of funding model development and in conjunction with preparation of the Council on Postsecondary Education’s 2016-18 biennial budget recommendation, a Funding Strategy Steering Committee comprised of Council members, the president of the

Council on Postsecondary Education, and nine postsecondary institution presidents developed and achieved near consensus on a goal and set of guiding principles that would direct development of a new funding distribution mechanism, which would form the basis for the Council's 2016-18 and subsequent institutional operating requests. That goal and guiding set of principles was shared with the Postsecondary Education Working Group at their July 19, 2016 meeting for review and discussion, along with a request from CPE staff for any suggested changes.

No changes were proposed by Working Group members at either the July 19 meeting or the September 7 meeting, and the goal and guiding principles document served as a framework that guided the funding model development process. Listed below are several principles that influenced model construction.

- **Mission Sensitive** – The distribution mechanism will be based on shared recognition that dissimilar institutional missions require different levels of funding.
- **Outcomes Based** – The distribution mechanism will provide incentives for improved institutional and student performance by establishing an explicit link between the attainment of desired state outcomes (e.g., increased degree production, closing achievement gaps, reduced time to degree, research productivity) and allocation of available resources.
- **Completion Driven** – The impact of differing levels of earned credit hours, variations in program mix, residency status, and dissimilarities in disciplines and course offerings across institutions will be considered in the development of the distribution mechanism.
- **Sustainable** – The distribution mechanism will continue to provide incentives for improved institutional and student performance, regardless of whether state appropriations for postsecondary education increase, decrease, or remain stable.
- **Reasonably Stable** – The distribution mechanism will not permit large, annual shifts in funding to occur.
- **Allow Appropriate Exclusions** – The distribution mechanism will exclude mandated public service, medical, agriculture, and research programs, which are not student credit hour generating, as well as, other programs that the Council may deem as appropriate for exclusion, from the allocable resources that will be distributed by the funding mechanism.

See Appendix B for a complete rendition of the goal and guiding principles document.

Model Development

Members of the Postsecondary Education Working Group met five times between July 19, 2016 and November 28, 2016. A brief synopsis of each of these meetings is provided below. Copies of meeting agendas and meeting minutes can be found in Appendix C and Appendix D of this report, respectively.

First Meeting

The first meeting of the Working Group was held on July 19 at the Council on Postsecondary Education in Frankfort, Kentucky. At that meeting, Western Kentucky University president Gary Ransdell was chosen to serve as Chair of the Working Group. The group discussed funding models that had been developed and recommended by the Council over several biennia, including a model developed for the 2016-18 biennium and a model that had been developed by legislative leaders during the session. Council staff presented information on the 2016-2021 Strategic Agenda for Postsecondary and Adult Education and goals for Kentucky's higher education system were discussed.

CPE staff presented several sample models, including a targets and goals approach, a relative improvement model, and an outcomes-based funding model. Chair Ransdell called for a vote on these models and a majority of Working Group members agreed that an outcomes-based model, which included elements of relative improvement among institutions, would be the best approach. Chair Ransdell recapped meeting discussions, noting the following areas of general agreement:

- Performance funding should be phased in;
- Kentucky State University should be held harmless in early years of implementation;
- Mandated programs should be excluded from allocable funds distributed by the model;
- Once implemented, the model should be reevaluated in the 2018-2020 timeframe;
- The ratio of course completion to student success outcomes in the model should be 50/50; and
- The Working Group should review 50/50 models that group all public institutions together and those that retain three separate sectors.

Next steps included deciding on the percentage of allocable funding that would be distributed using the model, appropriate metrics, and the level of sector differentiation.

Second Meeting

The second meeting of the Working Group was held on September 7 at the Kentucky Chamber of Commerce in Frankfort. At that meeting, University of Kentucky president Eli Capilouto presented a proposal for a model that would distribute performance funds based solely on degree production. The proposal called for a relative improvement approach that included all degree levels (bachelor's, master's, doctoral, first professional) with no differential weighting by degree level in the first year of implementation.

Northern Kentucky University president Geoffrey Mearns presented a plan, calling for a comprehensive funding model that would distribute 100% of allocable funds, which could be phased-in over several years and would make appropriate use of stop-loss provisions. Kentucky State University president Aaron Thompson proposed that a small-school adjustment be included regardless of the approach selected.

Chair Ransdell asked CPE staff to construct a hybrid model that would contain elements of each proposal and run the model using actual numbers from the prior year. The Working Group discussed ways in which a model could be implemented, including distributing the \$42.9 million in the Postsecondary Education Performance Fund in 2017-18 on the basis of degree production only, and increasing the percentage distributed based on performance in subsequent years and adding additional components and metrics as a basis for distribution. Chair Ransdell asked CPE staff to work on a model that would keep the sector shares in place, as well as, a model that would allow funding to move between sectors.

Third Meeting

On November 2, the Working Group met again at the Kentucky Chamber of Commerce in Frankfort, Kentucky. At that meeting, Chair Ransdell explained that since the last meeting, CPE staff had met individually with officials at each campus to review a comprehensive model that combined elements of approaches proposed by several Working Group members at the September 7 meeting and that, from his perspective, the hybrid model addressed many of the concerns raised by some institutions at the last meeting. He reiterated that the shared hope was that the group could achieve consensus, if not full unanimity, on a funding model that ultimately would be incorporated into statute.

CPE staff presented its proposed approach and a discussion ensued. The proposed model distributes 100% of allocable resources based on rational criteria, with 70% of those resources distributed based on performance. Half of the 70% would be distributed based on student success outcomes (i.e., bachelor's degree production and student progression) and the other half distributed based on earned credit hours. The remaining 30 percent of allocable resources would be distributed in support of vital campus operations, such as maintenance and operation of facilities, institutional support, and academic support, or what has been called in the past "open the doors" money.

This proposal would put all four-year institutions in a common sector. Weightings for each metric are used to ensure that neither the research sector institutions, nor the comprehensive sector institutions are either advantaged or disadvantaged by being in the same performance pool in the first full year of implementation. Funding would shift, however, in future years from institutions having less growth than the system average to institutions recording more growth, regardless of sector. The model contains a small school adjustment and can be used in conjunction with hold harmless and stop-loss provisions. Finally, the model could be used to generate a funding request and to distribute any new funding.

KCTCS president, Dr. Jay Box, presented a model for distributing funds among its sixteen community and technical colleges. CPE and KCTCS staffs collaborated on developing a model for the two-year sector and the features of the resulting model are very similar to the four-year sector version.

An additional meeting was requested and agreed to for November 15 at the Council on Postsecondary Education in Frankfort. CPE staff was charged with looking at the effects of

several changes (i.e., looking at unrestricted funds, removing depreciation and interest expenses, changing three-year averages used in the model to four-year averages, etc.) President King also asked for staff to find ways to address the challenges faced by institutions serving low income students.

Fourth Meeting

The fourth meeting of the Postsecondary Education Working Group was held on November 15 at the Council on Postsecondary Education in Frankfort. At that meeting, the Working Group reviewed the details of the KCTCS model, which would be shared with community and technical college presidents the following day. There was some discussion about the size of a potential funding request generated by the KCTCS model. President Ransdell suggested that any requests for new funding derived from either the four-year sector model or the two-year sector model be proportionate to the current shares of funding in each sector.

President King indicated that the spreadsheets shared by CPE and KCTCS staffs showing how the sample models could be used to formulate budget requests were for illustrative purposes and that the Working Group should focus its efforts on achieving consensus regarding the conceptual framework of the model, not on producing budget requests. He did acknowledge that at an appropriate time the proposed models can provide a rational basis for generating future budget requests. Chair Ransdell and others noted that it made sense to have separate models for the universities and community colleges, given their distinctly different missions.

The Working Group discussed an email that had been circulated by Morehead State University president Wayne Andrews. The email recommended that the model be phased in, maintain differentiation between the research and comprehensive sectors, better address access and affordability, include a larger small school adjustment, better define metrics and weights, and not include a funding request.

Chair Ransdell asked president King and CPE staff to prepare a consensus document for the November 28 meeting, based on the model before the Working Group. He expressed hope that most, if not all, university presidents and president King would sign the document.

Fifth Meeting

The fifth meeting of the Working Group was held on November 28 at the Council on Postsecondary Education. Chair Ransdell reminded the group that this would be the final meeting and that the main objectives for the meeting would be to reach consensus on the model and the report. He stated that distribution of \$42.9 million appropriated to the Postsecondary Education Performance Fund in 2017-18 would be contingent on reaching agreement on the model and that legislators would use the report to draft bill language for the 2017 session, thus codifying the funding model's framework in statute.

President King advised the group that final data for some metrics would not be available until early February 2017 and that Council staff was still evaluating mandated program requests received from two campuses (i.e., ECU and UofL). CPE staff presented an updated version of the