

AGENDA

Council on Postsecondary Education
Executive Committee

November 3, 2004
2:30 p.m. (ET)
CPE Meeting Room A, Frankfort, KY

1. Roll Call
2. 2004-05 Strategic Planning Progress
3. Comprehensive Funding Model Review
4. Other Business
5. Next meeting – November 7, 2004
6. Adjournment

2004-05 Strategic Planning Process Progress Report

Earlier this year, the Council began a process for updating the public agenda and related action plans for Kentucky's system of postsecondary and adult education. This progress report highlights activities that have taken place over the last few months and lays out a preliminary set of policy issues for discussion with the Council, the presidents, and other partners as we begin development of a revised agenda to guide our work over the coming years.

What We've Been Doing

Current Assessment—Council staff completed a comprehensive analysis of demographic, economic, and education data as background to the strategic planning process. The analysis included:

- A review of regional and statewide data from 1997 to the present, which culminated in a statewide data book and regional profiles that were shared at the regional forums.
- Results from *Measuring Up 2004*—the national report card on postsecondary education—which provided valuable information on Kentucky's recent progress and continued challenges in relation to the top performing states.

The National Center for Higher Education Management Systems, the Kentucky Long-Term Policy Research Center, and Council staff are wrapping up work on projections of enrollment, retention, and graduation rates needed for Kentucky to reach the national average by 2020.

Trusteeship Conference—The Governor's Conference on Trusteeship served as the official kick-off event for the planning process. Peter Ewell, a leading accountability expert from the National Center for Higher Education Management Systems, presented Kentucky's *Measuring Up 2004* results for members of SCOPE and conference participants. Steve Kay, a professional facilitator, guided breakout discussions mirroring the format of the regional forums.

Regional Forums—Nine regional forums were held between September 29 and October 27 to solicit public input:

September 29, Covington
October 4, Louisville
October 12, Prestonsburg
October 13, Manchester
October 14, Lexington
October 19, Ashland

October 25, Paducah
October 26, Madisonville
October 27, Glasgow

Attendance at the forums ranged from 25-125. Steve Kay, a consultant with the Lexington firm Roberts and Kay, facilitated the meetings. Governor Ernie Fletcher attended the forum in Glasgow.

On-line Survey—To complement the regional forum discussions, we have posted an on-line survey to solicit additional advice and comment. Forum participants, invitees who were unable to attend the forums, and other interested individuals are welcome to share their ideas.

Meetings with Editorial Boards and Others—While touring the state to conduct the regional forums in September and October, Council President Tom Layzell, individual Council members, and staff took the opportunity to meet with editorial boards, rotary clubs, and other local groups to discuss the planning process.

What We're Learning

Our review of data about Kentucky's standings and system performance, our conversations with governing board members and state and campus leaders, our regional forum discussions with individuals across the Commonwealth, our daily interactions with colleagues and partners—all of these sources suggest we have made tremendous progress in addressing many of the issues identified in our current public agenda. Nevertheless, most of these issues still need our sustained attention and commitment. Furthermore, there may be a need to direct greater emphases and resources toward challenges that have recently arisen or that Kentucky postsecondary education has not systematically addressed in the early phases of reform.

Examples of continuing challenges:

- Not enough high school graduates and adult learners are prepared for postsecondary study.
- Too many people in Kentucky think that college isn't for them or within reach.
- Kentucky is losing ground in its efforts to keep college affordable for all students.
- There is still too much "leakage" in the system (i.e., students are dropping out before obtaining a postsecondary credential).
- Low educational attainment of Kentucky's populace continues to plague the Commonwealth.

Examples of challenges where even greater attention may be needed:

- There are wide achievement gaps among subgroups—by race and ethnicity, gender, region, and income.
- Current teaching, learning, and support systems are not adequately meeting the needs of all students.
- Regional occupational outlooks suggest that, without intervention, most of the new jobs created will not require college degrees.
- Promotion of life-long learning and certificate and degree completion is an overarching concern.

- The state lacks a sufficient research base to address growing health concerns, help create good jobs that build a robust economy, and support community growth, vitality, and other issues facing regions across the Commonwealth.

Appendix A, entitled “What We’re Learning,” is a more comprehensive discussion outline that describes the recent progress, current challenges, and policy issues for postsecondary education.

Five Questions: The Sequel

In the early phases of reform, the postsecondary community focused its energy, attention, and resources on these five questions:

1. Are more Kentuckians ready for postsecondary education?
2. Are more students enrolling?
3. Are more students advancing through the system?
4. Are we preparing Kentuckians for life and work?
5. Are Kentucky’s communities and economy benefiting?

At this juncture in the planning process, our analyses and discussions confirm that the policy directives embedded in these five questions are as relevant moving forward as they were seven years ago; these were the right five questions at the time reform began. However, the Council staff believes the addition of a sixth question and some minor refinements to the existing questions would best capture the essence of the work that lies ahead. The Six Questions that might best represent the policy issues described in the attached “What We’re Learning” discussion outline are:

1. Are Kentuckians of all ages prepared for postsecondary education?
2. Is Kentucky postsecondary education affordable for students?
3. Are more students enrolling and advancing through the system?
4. Are more students earning certificates and degrees?
5. Are we preparing graduates for life and work in Kentucky?
6. Are Kentucky’s communities and economy benefiting?

What’s Next

The discussion outline in Appendix A, along with the advice and comments of Council members, presidents, and others in early November will guide the development of a draft public agenda and statewide action plan. These companion documents are described below:

The Public Agenda...

- *Communicates the critical set of state issues and challenges requiring the sustained attention and capacity of Kentucky’s postsecondary education system.*
- *Demonstrates the ongoing commitment to improving the lives of Kentuckians and the economic prosperity of the state.*
- *Transcends terms of office, political divisions, and institutional loyalties.*
- *Engages all Kentucky colleges and universities.*

- *Builds on current statewide efforts for education reform and on current adult and postsecondary education initiatives directed by the current public agenda.*

The Statewide Action Plan...

- *Outlines recent progress and the challenges ahead.*
- *Provides broad policy direction for advancing the public agenda over the next four years.*
- *Has easily understood key indicators and benchmarks to gauge progress.*
- *Encourages a collaborative approach within the system and with reform partners across the Commonwealth.*

The Council's Executive Committee and the presidents will review a first draft at their respective December 1 meetings. Changes resulting from those conversations will be made quickly so that by early December, we will have a discussion draft for wide distribution to all major constituents, including:

- Strategic Committee on Postsecondary Education
- Other key executive and legislative branch members and their staffs
- Institutional board members and campus leaders including administrators, faculty, staff, and students
- Regional forum participants and invitees, including business, labor, government, and community leaders

The Council staff also will post the discussion draft to the Council Website for easy access to the postsecondary community, policy makers, and the general public.

To complement these state-level documents, the Council staff is in the process of developing a summary of regional issues for each of the "Can We Talk?" forums, based on the staff's data assessments and the forum discussions. These summaries, which will be broadly distributed in early 2005 for review, will help guide the development of institutional action plans in the next planning phase, which will take place from March through July 2005. Draft guidelines for this phase of the process will be shared with Council members and presidents in December or January.

Appendix B includes the planning process timelines outlined several months ago and distributed at the September Council meeting. We are on course to meet these deadlines.

Staff preparation by Sue Hodges Moore and Melissa McGinley

**“What We’re Learning”
Developing a Public Agenda and Statewide Action Plan
for Kentucky Postsecondary Education**

PREPARATION FOR POSTSECONDARY EDUCATION

PROGRESS

Reform efforts to date show that:

- Adult education enrollment has increased 135 percent in four years.
- Kentucky had the highest increase in the nation in the percent of adults with a high school credential from 1990-2000.
- More 8th graders are scoring well on national assessments than a decade ago.
- More high school students are taking the right courses for college; since 1998, the number of dual enrollment courses taken in high school nearly tripled, and the number of AP courses almost doubled.

CHALLENGES

Data analyses and planning discussions suggest that:

- Minority and low-income students are not taking challenging courses in high school or scoring as well on standardized tests.
- Adult education enrollment represents only 12 percent of adults at lowest literacy levels.
- Too many high school graduates entering college are not adequately prepared; 30 percent score 18 or less on the ACT, compared to 26 percent nationally.
- Only 62 percent of 7th – 12th graders are taught by qualified teachers, compared to 81 percent in top-performing states (as reported in *Measuring Up 2004*).
- Compared to top performing states, middle and high school students are performing poorly on national assessments, including the National Assessment of Education Progress, Advanced Placement exams, and the ACT.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- Greater participation in adult education programs and increased production of GED graduates.
- More explicit information from the postsecondary community about what it takes to succeed in college.
- Smoother transition from high school and GED programs to college through closer alignment of the secondary, adult, and postsecondary systems.
- Postsecondary involvement in high school restructuring efforts.
- Broader availability of Advanced Placement and dual enrollment/credit opportunities.
- Increased access to programs and services that help students perform well on college entrance examinations.
- Strengthened teacher and educational leader preparation and professional development programs at all education levels, from early childhood to adult education.
- Expanded efforts to recruit a diverse teaching force and to keep good teachers working and living in Kentucky.
- More concerted effort to close the achievement gap and increase college-going among all subpopulations of students.
- Strengthened K-12 guidance counseling to provide early college awareness and planning.

AFFORDABILITY

PROGRESS

Reform efforts to date show that:

- Kentucky ranks 14th among states in providing affordable postsecondary education opportunities, according to *Measuring Up 2004*.
- Average tuition and fees at Kentucky institutions in 2003-04 were 25 percent below the national average.
- Cost of public postsecondary education as a percent of family income is unchanged from a decade ago.

CHALLENGES

Data analyses and planning discussions suggest that:

- While college in Kentucky remains affordable compared to other states, it is losing ground. The state's ranking in overall affordability slipped from 8 to 14 from 2002 to 2004.
- Tuition and fees have increased on average 7.5 percent per year over the last decade.
- 83 percent of GED examinees make less than \$10,000 a year.
- Financial aid is not available for students enrolled part-time, a barrier for adults in the workforce.
- Better information is needed about net college costs and affordability to make good policy decisions.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- More integrated and aligned policies governing financial aid, tuition, and state appropriations aimed at reducing financial barriers for students and increasing institutional capacity to meet the educational needs of the state.
- Mutually supporting efforts among the policy-making bodies that have responsibilities in the area of student affordability.
- Improved communications with prospective students and their families about financial aid opportunities and net college costs to dispel common misperceptions about higher education affordability.
- Expanded grant programs and low-interest/forgivable student loans that address workforce demands and the needs of underserved populations.
- Incentives for students to take a rigorous high school curriculum.
- Better access to financial aid for GED graduates and part-time and transfer students.

PARTICIPATION AND PROGRESSION

PROGRESS

Reform efforts to date show that:

- Since 1998, total enrollment in postsecondary education increased 25 percent.
- The number of adult education students transitioning to college increased from 12 percent in 1998 to 22 percent in 2003.
- For the first time, the college-going rate of 9th graders exceeds the national average, up from 34 to 38 percent over the last decade.
- The proportion of Kentucky resident African Americans in the student body has increased at both the undergraduate and graduate levels from 1995 to 2003.
- During that same period, the college participation rate of minority ethnic students rose from 15 to 32 percent.

CHALLENGES

Data analyses and planning discussions suggest that:

- Too many people in Kentucky think college is out of reach or irrelevant.
- The college participation rate of both young and working-age adults is low compared to the top-performing states; minority and low-income students are much less likely to go to college than white, affluent students.
- The proportion of degree-seeking freshmen returning their second year is relatively unchanged over the last six years.
- The number of students transferring from two-year to four-year institutions was lower in 2003 than in 1998.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- Expanded outreach efforts at the state and grassroots level that focus on underserved regions and populations to increase the number of Kentuckians who value and pursue postsecondary education.
- Accelerated efforts to help more GED graduates transition to postsecondary education.
- Expanded capacity to serve more students more effectively and with fewer resources through course redesign and new instructional models.
- Better coordination of distance education programs, technologies, and faculty support services.
- Creative use of alternative methods of program delivery—such as weekend and evening courses, competency-based instruction, and institutional collaboration—that meet regional needs and lead to certifications and degrees.
- Concentrated efforts across the postsecondary system to strengthen the guidance and support provided to on-campus and distance education students.
- Incentives and encouragement for students to transfer from a two-year to a four-year institution.

DEGREE AND CERTIFICATE PRODUCTION

PROGRESS

Reform efforts to date show that:

- At the state's public universities, the systemwide six-year graduation rate rose from 36.7 percent in 1998 to 45.3 percent in 2003.
- Kentucky is among the fastest improving states on the proportion of students completing certificates and degrees relative to the number enrolled.
- The proportion of degrees conferred in 2003 to Kentucky resident African Americans was 5.8 percent, up from 4.4 percent in 1995.

CHALLENGES

Data analyses and planning discussions suggest that:

- More baccalaureate degrees are needed to reach the national average in educational attainment by 2020 (number to be determined).
- For every 100 9th graders, only 15 complete a degree.
- Kentucky's graduation rate remains well below the national rate: 45.3 percent of first-time, full-time college students complete a degree within six years, compared to 54.3 percent nationally.
- Kentucky ranks 47th in the nation in the percent of the adult population with a four-year degree or higher.
- Most growth in credentials awarded is at the certificate level.
- More graduate and professional degree production is needed to spur economic development, sustain vital communities, and provide professional services to Kentucky's people.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- Expanded capacity of the system to produce more certificate and degree holders in Kentucky.
- More collaboration with state and local partners to address workforce shortages in targeted regions and in degree areas (undergraduate and graduate) that support economic development.
- Institutional financial incentives and rewards linked to timely graduation and degree completion.

PREPARATION FOR LIFE AND WORK

PROGRESS

Reform efforts to date show that:

- College graduates perform well on licensure and teacher certification exams.
- Two-year college students score at or above the national average on Work Keys assessments.
- Results from the 2003 National Survey of Student Engagement show public universities have made progress on measures of undergraduate student experience, especially “enriching educational experience” and “interactions with faculty members.”

CHALLENGES

Data analyses and planning discussions suggest that:

- Four-year college students score below the national average on assessments of student learning.
- Compared to 2001, the 2003 National Survey of Student Engagement shows a decline in the proportion of college students who vote, volunteer, and give to charity.
- Kentuckians do not score well on graduate entrance examinations.
- There is a lack of information in Kentucky and nationally about the contributions of our colleges and universities to the educational capital of the state and nation.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- Improved undergraduate student learning so that more graduates are prepared for careers and graduate and professional programs.
- Integration of civic literacy into the curriculum and the overall college experience so that students become engaged citizens and leaders.
- Statewide accountability measures for student learning to track the postsecondary system’s contribution to the educational capital of the state and make comparisons against national benchmarks and performance of other states.

COMMUNITY AND ECONOMIC DEVELOPMENT

PROGRESS

Reform efforts to date show that:

- Federal research and development spending per capita increased 92 percent since 1996.
- The Bucks for Brains program has dedicated \$700 million to support research and academic programs at the public universities; the number of endowed chairs is up from 55 in 1997 to 170 in 2003; professorships rose from 53 to 237.
- Since 2001, nearly 128,000 employees upgraded their skills through workforce education funded by Kentucky Adult Education and its partnership with the Workforce Alliance.
- From 1990 to 2000, Kentucky's per capita income increased from 79.3 percent to 81.8 percent of the U.S. average, the 10th highest rate of increase in the nation.

CHALLENGES

Data analyses and planning discussions suggest that:

- Kentucky currently ranks 42nd in the nation in the amount of federal research and development dollars generated.
- Kentucky's per capita income is only 81.8 percent of the national average.
- Services and support provided by faculty to communities, businesses, and schools is not always measured or rewarded.

SUGGESTED POLICY ISSUES

Current and projected challenges point to a need for:

- Stronger partnerships with economic development partners to develop, attract, and keep jobs that will make Kentucky competitive in the global economy.
- Expanded research capacity directed at the state's priority research and economic development areas.
- Greater efforts to attract more research dollars to Kentucky.
- Transfer of research and technology to applications that lead to economic growth, job creation, and improved quality of life.
- Greater emphasis on the role of postsecondary institutions as "stewards of place" that partner with business, civic, and K-12 communities to solve local, regional, and state problems.
- Better alignment of postsecondary workforce training activities with initiatives in other cabinets and agencies.
- Greater commitment from the postsecondary community to entrepreneurship and leadership development as key strategies for economic development.

**Strategic Planning Process & Comprehensive Funding Model Review
CPE Oversight, Consultation with Presidents, SCOPE, & CEO
Detailed Timeline**

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
May-04	(5/23): Overview of planning process & comprehensive funding model review (see agenda items)					
Jun-04						Update/advice from CPE chair and vice chair on planning process
Jul-04	(7/19): Discuss revised planning process and timeline (see agenda item); update on funding model review	(7/1): Discuss planning process, timeline, regional forums; discuss funding model review process, objectives, principles				
Aug-04			(8/4): Discuss revised timeline, regional forums, trusteeship conference			(8/15-16) CPE Retreat: Discuss revised planning timeline, forums, trusteeship conference, data analysis/2020 projections, planning issues; discuss status of funding model review
Sep-04	(9/19): Measuring Up 2004 presentation; 2020 projections; update on funding model review		(9/13): Discuss trusteeship conference; preliminary discussion on development of mission parameters; regional forums; update on funding model review	(9/19-20): Planning discussion at trusteeship conference		(9/19-20) Trusteeship Conference: Planning kickoff - discussions with SCOPE members, board members, presidents, CPE members (9/29): Regional forum in Covington

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
Oct-04			(10/6): Planning update; update on funding model review		(10/18-19): Update on planning; information on regional forums	(10/4-27): Regional forums in Louisville, Prestonsburg, Manchester, Lexington, Ashland, Paducah, Madisonville, Glasgow
Nov-04	(11/7-8): Discuss forum results, draft public agenda, statewide action agenda, regional priorities	(11/3): Review regional forums results & discuss draft public agenda; update on funding model review	(11/3): Review regional forum results & discuss draft public agenda; update on funding model review			
Dec-04		(12/1): Discuss draft public agenda, statewide action agenda, regional priorities, key indicators; discuss mission parameters, action plan guidelines; update on funding model review	(12/6): Discuss draft public agenda, statewide action agenda, regional priorities, key indicators; discuss mission parameters, action plan guidelines; update on funding model review	(12/6 tentative): Discuss draft public agenda, statewide action agenda, key indicators, regional priorities; discuss preliminary proposal for funding model		

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
Jan-05	<p>(dates and locations tbd): Regional Campus Forums</p> <p>(1/31): Discuss mission parameters, guidelines for campus and Council action plan development; approve new funding model</p>	<p>(1/12): Continue discussion of draft public agenda, statewide action agenda, regional priorities, key indicators; discuss mission parameters, guidelines for development of campus and Council action plans; update on funding model review</p>	<p>(1/5): Continue discussion of draft public agenda, statewide action agenda, regional priorities, key indicators; discuss mission parameters, guidelines for development of campus and Council action plans; update on funding model review</p>			
Feb-05	<p>(dates and locations tbd): Regional Campus Forums</p>		<p>(2/2): Update on draft public agenda, statewide action agenda, regional priorities, key indicators; discuss mission parameters, guidelines for development of campus and Council actin plans</p>		<p>(tbd): Update on planning</p>	

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
Mar-05	(3/21): Approve public agenda, statewide action agenda, regional priorities, key indicators; approve mission parameters; issue guidelines for campus and Council action plan development; update on 2006-08 budget process	(3/2): Discuss results of regional campus forums	(3/2): Continue discussion of draft public agenda, statewide action agenda, regional priorities, key indicators; update on campus and Council action plans & mission parameters; update on 2006-08 budget process	(tbd): Continue discussion of draft public agenda, statewide action agenda, regional priorities, key indicators; update on campus action plans & mission parameters; discuss funding model		
Apr-05		(4/13): Advice on Council action plan; update on campus action plan development	(4/6): Update on Council action plan and discuss campus action plan development		(tbd): Update on planning	
May-05	(5/22): Discuss draft Council action plan; update on campus action plan development; update on 2006-08 budget process		(5/4): Update campus action plan development; discuss IEG spring board development seminar; update on 2006-08 budget process			(5/22-23 IEG Spring Board Development Seminar): Discuss action plans/mission parameters (response to public agenda, action agenda, regional priorities); overview of new funding model

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
Jun-05		(6/5): Update/advice on planning process & budget development	(6/1): Update on planning process & budget development	(tbd): Update/advice on planning process & budget development	(tbd): Update on planning	(6/5-6 CPE Retreat): Discuss planning process, trusteeship conference
Jul-05	(7/18): Approve campus and Council action plans; preliminary discussion of budget priorities, other budget matters		(7/6): Finalize campus action plans; preliminary discussion of budget priorities, other budget matters			
Aug-05		(8/3): Discuss budget development process; discuss trusteeship conference	(8/3): Discuss budget development process; discuss trusteeship conference	(tbd): Update/advice on planning & budget priorities	(tbd): Update on planning	
Sep-05	(9/18): Final endorsement of planning package; discuss 2006-08 funding priorities based on public and statewide action agendas, institutional action plans		(9/7): Discuss trusteeship conference; update on planning; discuss 2006-08 funding priorities based on public and statewide action agendas, institutional action plans			(9/18-19 Trusteeship Conference): Distribution of strategic plan package; discuss implementation (what's it gonna take?)

Month	CPE Study Session & Mtg	Executive Committee Mtg	Presidents' Mtg	SCOPE Mtg	Committee on Equal Opportunities Mtg	Other
Oct-05		(10/5): Continued discussion of funding priorities based on public and statewide action agendas, campus and Council action plans	(10/5): Update on planning & budget priorities	(tbd): Update on planning and budget priorities	(tbd): Update on planning	
Nov-05	(11/7): Approval of 2006-08 biennial budget recommendation		(11/2): Discuss 2006-08 biennial budget recommendation			

CPE and Executive Committee meeting dates are tentative.

Council on Postsecondary Education
Executive Committee Meeting
November 3, 2004

Comprehensive Funding Model Review Progress Report

The Comprehensive Funding Review began in May 2004 and will conclude with the FY 2006-08 budget recommendation in November 2005. This agenda item presents for discussion a progress report regarding the development of recommendations regarding the benchmark funding model, the funding distribution methodology, capital, and trust funds.

The Comprehensive Funding Model Review began in May 2004 based on specific objectives and principles. The Council adopted these objectives and principles in July 2004 (see Attachment A).

The process over the past six months has included the Chief Budget Officers, the presidents of the institutions, the Chief Academic Officers of the institutions, staff of the Office of the State Budget Director, staff of the Education Cabinet, staff of the Legislative Research Commission, and the Council on Postsecondary Education. In addition, five workgroups with diverse representation were established to facilitate the review and the development of the recommendations. The workgroups include the following: (1) Base Funding Model; (2) Performance/Accountability; (3) Funding Distribution Methodology; (4) Capital; and (5) Trust Funds.

Based on the principles and objectives adopted by the Council in July 2004 and on continuous input from each of the above-mentioned groups, the Council staff presents the following discussion documents to report progress regarding the development of recommendations regarding the funding policies of the Council:

ATTACHMENT B — Executive Summary:

Preliminary progress report on the development of
Comprehensive Funding Review Recommendations.

ATTACHMENT C — Timeline for continued review and development of the
FY 2006-08 budget recommendation.

Staff preparation by Sandra Woodley

Objectives and Principles for Comprehensive Funding Review

Principles:

1. **Inclusivity and Objectivity:** The process for the review will be inclusive of all groups impacted by recommended changes and sufficient opportunities will be available to fully discuss and debate alternatives in an objective manner. There will be a deliberate focus to ensure complete understanding regarding the details of all recommendations resulting from the review process.
2. **Simplicity:** Where possible all models should be concise and easy to explain. This simplicity also should be balanced with the need to be sufficiently complex in order to address valid differentiation.
3. **Temporary Until Final:** During the review process, all agreements are tentative until the final recommendations are presented to the Council for action.
4. **Benchmarks Remain:** Benchmarking will not be abolished, but its role may be modified.
5. **Mission:** The review will incorporate institutional missions and will focus on advancement of the system of higher education and how individual missions of the institutions contribute to statewide goals.

Objectives:

1. **POLICY COORDINATION:** To ensure that funding policies of the Council are coordinated with strategic planning, Key Indicators of Progress, equal opportunity planning, financial aid policies, and tuition policies.

ACTIONS:

- a. Synchronize funding policies with strategic planning review, affordability review, equal opportunity planning and, to the extent appropriate, incorporate recommendations (institutional missions, tuition policies, financial aid policies, diversity policies, etc.).
 2. **ADEQUACY and EQUITY:** To address adequacy and equity concerns.
- #### ACTIONS:
- a. Determine if current funding policies appropriately address funding adequacy.
 - b. Ensure that benchmark selections are objective, define purpose and use, and determine if other methodologies should be used to determine funding objectives.
 - c. Determine if equity adjustments are appropriate and, if so, how to incorporate.
 - d. Determine if funding distribution methodology needs revision.
 - e. Determine appropriate method for accounting for nonresident students and mandated programs.
3. **ACCOUNTABILITY:** To address accountability concerns.

ACTIONS:

- a. Determine appropriateness and use of expenditure analysis (not just revenue side).
- b. Determine appropriateness and use of performance measures either directly or indirectly.
- c. Address concerns expressed by elected leadership (PRIC report, etc.).

Executive Summary of Progress Regarding Development of Draft Recommendations Comprehensive Funding Review

<i>Major Issue</i>	<i>Preliminary Decisions</i>	<i>Questions Remaining</i>
Benchmarks	<ul style="list-style-type: none"> ▪ Funding adequacy should be determined by a benchmark model. ▪ A revision of the model is necessary. ▪ Tighter constraints should be applied to benchmark selection. 	<ul style="list-style-type: none"> ▪ What are the appropriate selection criteria and specification of model? ▪ How should the Carnegie classification constraint be factored? ▪ How should UK's & UofL's research missions be handled in the model? ▪ Should the statistical model alone determine benchmarks?
Tuition Deduction	<ul style="list-style-type: none"> ▪ Model should be more accurately specified based on tuition deduction. ▪ Deduction should address adequacy and equity. 	<ul style="list-style-type: none"> ▪ Should there be a standard deduction or actual? ▪ Should the deduction reflect policy on state's share vs. student share? ▪ Relationship between tuition deduction policy, tuition setting policy, and other affordability policies.
Small Institution Adjustment	<ul style="list-style-type: none"> ▪ Benchmark model does not accurately reflect need when institutions are very small because of diseconomies of scale. ▪ An adjustment should be made for institutions under 4,000 headcount. 	<ul style="list-style-type: none"> ▪ How should the adjustment be factored into the request and how should it be factored into the Funding Distribution Methodology? ▪ Should some portion be considered a base adjustment and, if so, what portion?
Performance Component	<ul style="list-style-type: none"> ▪ There should be a performance component in the model. ▪ The performance indicators should be consistent with the state strategic agenda and the institutional action plans. 	<ul style="list-style-type: none"> ▪ What performance indicators are appropriate? ▪ How should performance be rewarded in the model? ▪ How should performance related to benchmarks be linked to performance related to the statewide key indicator progress toward goals?
Funding Distribution Methodology	<ul style="list-style-type: none"> ▪ Revision of the equity index should be based on nominal gap. ▪ Revision of priorities for distribution. 	<ul style="list-style-type: none"> ▪ When should the new model be effective? ▪ Should priority be given M&O on new facilities under the new model?
Capital	<ul style="list-style-type: none"> ▪ Institutions should still be required to match a portion of new research buildings but should not have to match instructional space. ▪ Council should pursue additional agency bond flexibility. ▪ Institutions should still be required to match capital renewal funds but should receive reward for best performance. 	<ul style="list-style-type: none"> ▪ What is the appropriate match rate for research buildings and should the institutional match be weighted lower on the front end and heavier on the back end of bond payment schedules? ▪ What is appropriate timeline for working on agency bond flexibility?

Base Funding Model and Performance Component

Comparison of Possible Recommended Benchmark Model Changes and Rationale

Description of Change	Rationale for Change/Public Policy	Current Model	Possible Changes
Benchmark Selection	<ul style="list-style-type: none"> To link model to strategic planning process. To provide a more objective and equitable process. To incorporate performance component. To incorporate adequate differentiation among institutions. 	<ul style="list-style-type: none"> Cluster analysis based on 20 measures. Not constrained by Carnegie classification. Significant differences between benchmark lists and measure of similarity among institutions. No performance component. 	<ul style="list-style-type: none"> Cluster analyses: based on program mix and size and differentiation factors. Most similar institutions based on model. Constrained within two Carnegie classifications. Controlled for measure of similarity.
Performance Incentive	<ul style="list-style-type: none"> To reward performance. To link funding model to strategic planning initiatives. 	<ul style="list-style-type: none"> No performance component in base model. Performance component in current model relates to incentive funding. 	<ul style="list-style-type: none"> Increase funding higher than standard level based on performance relative to benchmark institutions. Performance metrics consistent with strategic plan, key indicators, and institutional action agendas.
Tuition Deduction	<ul style="list-style-type: none"> To equitably and more accurately account for revenue available for student funding. To determine appropriate policy position regarding state responsibility vs. student's responsibility. To provide incentive to minimize tuition and fee increases. 	<ul style="list-style-type: none"> Uses standard deduction, so tuition and fee revenue higher than standard percentage is ignored in the model - inflating funding gap by ignoring revenue. 	<ul style="list-style-type: none"> Possible transition from standard deduction to actual deduction. Accounting for state share vs. student share and link to public policy on state share or affordability.
Measure of Central Tendency (Standard Funding Level)	<ul style="list-style-type: none"> To make the measurement more statistically sound (too few benchmark institutions for percentile calculation). To use the data from more than a few of the benchmark institutions in the calculation of funding objective. 	<ul style="list-style-type: none"> Average of the 50th, 55th, and 60th percentile out of 19 benchmark institutions. 	<ul style="list-style-type: none"> Revised and labeled "standard funding level." Funding level based on funding levels of benchmark peer institutions. Determined prior to the FY 2006-08 recommendation.
Mandated Program Deduction	<ul style="list-style-type: none"> Deduction for various mandated programs is biased and collections are incomplete and difficult to verify. Except for land grant and agriculture, benchmark institutions have little incentive to report on legislatively mandated programs (they have no reason to separately track these programs). Since the model identifies similar institutions, it is reasonable to assume that these institutions have similar mandated programs. To the extent that the data are biased, this component artificially inflates the funding objective. 	<ul style="list-style-type: none"> Manual survey goes out to each benchmark institution requesting data on legislatively mandated programs. These data are subtracted from all institutions. Mandated programs must meet certain criteria to be included on the list. 	<ul style="list-style-type: none"> Deduction limited to Land grant, health science centers, and debt service.
Small Institution Adjustment	<ul style="list-style-type: none"> To address the issue of diseconomies of scale facing smaller institutions with disproportionately small headcount enrollments. 	<ul style="list-style-type: none"> No fixed cost adjustment. 	<ul style="list-style-type: none"> Headcount enrollment X fixed cost factor (for enrollments under 4,000). The lower the enrollment level band, the higher the fixed costs factor. Determine appropriate portion as a base adjustment and remaining portion as benchmark funds, but subject to cap.

Funding Distribution Model (FDM)

Comparison of Possible Funding Distribution Methodology (FDM) Changes and Rationale

<i>Description of Change</i>	<i>Rationale for Change</i>	<i>Current Model</i>	<i>Possible Changes</i>
Equity Index	<ul style="list-style-type: none"> • Current index inappropriately weights the base appropriation level. • Index does not fully address benchmark equity. • Proposed change addresses adequately both the funding gap and the magnitude of students at each institution and does not inappropriately overstate the base appropriation level. 	<ul style="list-style-type: none"> • Per student gap (ratio of current funding level to benchmark funding level per student) is multiplied by the net appropriation level. 	<ul style="list-style-type: none"> • Nominal gap, or the difference between the actual appropriation level and the benchmark model generated funding level.
M&O	<ul style="list-style-type: none"> • At full benchmark funding levels, M&O for new facilities would theoretically already be included since the benchmark model is a revenue model and no expenditure items except for debt service and some mandated programs are backed out of the calculations. • However, M&O is an important enough priority to be considered separately for the following reasons: <ul style="list-style-type: none"> ○ If not treated separately insufficient funds would be available because the benchmark objective has not been fully funded in the past. ○ Until recently, it has been the state's practice to treat M&O separately given that decisions on new facilities are sometimes out of the control of the institution (inflexible fixed cost). • M&O should continue to be a priority for funding, but should be a lower priority than is the current case. 	<ul style="list-style-type: none"> • Funds M&O as a base adjustment. • Funding for M&O is 1st priority of funding along with debt service and UofL hospital contract. 	<ul style="list-style-type: none"> • Distinguish M&O for new facilities as separate from base adjustments and set the priority lower than other base adjustments, proportional, and benchmark funding.
Priorities	<ul style="list-style-type: none"> • Current model makes M&O for new facilities and proportional increases too high of a priority. • Funding would have to reach too high a level before even one dollar is distributed to benchmark equity. 	<ul style="list-style-type: none"> • Priority 1 - fully fund base adjustments including M&O on new facilities. • Priority 2 - proportional increase of 1 or 2% depending on funding levels and current services percentage. • Priority 3 - Benchmark Equity. 	<ul style="list-style-type: none"> • Priority 1 - Base adjustments. • Priority 2 - 50%/50% proportional/benchmark equity up to current services increase of net base funding level. • Priority 3 - fully fund M&O. • Priority 4 - same as Priority 2 except proportional capped at current services.
Equity Adjustment	<ul style="list-style-type: none"> • To ensure that an institution's recommended appropriation level does not fall disproportionately below the average percent benchmark funding of most institutions. 	<ul style="list-style-type: none"> • No equity adjustment. 	<ul style="list-style-type: none"> • Institutions qualify with at least a 20 percentage point gap from the average percent funded of most institutions. • Adjustment is dollar value of actual funding level to the average funding level of most institutions. • Equity adjustment will be made in the equity index.
Small Institution Adjustment	<ul style="list-style-type: none"> • To provide an adjustment for small institutions based on diseconomies of scale. 	<ul style="list-style-type: none"> • No adjustment. 	<ul style="list-style-type: none"> • Half of the adjustment as a first priority base adjustment and the remaining portion in the equity index.

Capital

Comparison of Possible Capital Changes and Rationale

<i>Description of Change</i>	<i>Rationale for Change</i>	<i>Current Process</i>	<i>Possible Changes</i>
Condition and Fit-for-use of Existing Space	<ul style="list-style-type: none"> Facilitates the need to continue to include space condition as a factor in the capital projects evaluation and recommendation process. 	<ul style="list-style-type: none"> Evaluation of space or its fit-for continued use as a part of the biennial capital projects review and recommendation process. CPE issue an RFP and select independent consultant. Cost of consultant paid by CPE. To continue to incorporate the quality of the space in the evaluation process. 	<ul style="list-style-type: none"> Continue the evaluation of space or its fit-for continued use as a part of the biennial capital projects review and recommendation process. That CPE issue an RFP to determine the cost. Funding would be shared among the institutions and CPE.
Match to Construct Research Space	<ul style="list-style-type: none"> Institutions have a revenue stream available to share debt service. There are limited funds available from the state for capital construction. To recognize changing grant funds environment and ability of institutions to fund the match. Research space in the 22 UK/UofL benchmark states experiences a range of support from a low 0 percent to 100 percent institution support for construction. Most states fall into the 40 to 100 percent category of institutional support to construct research space (average above 50 percent). 	<ul style="list-style-type: none"> Institutions are asked to share the responsibility for construction of research space (40 cents on the dollar). Recognition of available revenue stream that can be dedicated to the capitalized cost of providing research space. Since 1997 research space has been requested by CPE and the Governor, and funded by the GA as a shared responsibility. In the 2004-06 budget process the CPE recommended 60/40, the Governor requested 50/50, but the GA did not pass a budget. 	<ul style="list-style-type: none"> Continue the practice of a shared responsibility between the state and the institution to construct research space requiring an institutional match, but examine appropriate level of match and evaluate other financing options. Allow instructional space to be excluded from the match calculation. Allow the use of internal and external fund sources to count as a match against total project cost.
Institutional Match to Access State Funds in Capital Renewal and Maintenance Pools	<ul style="list-style-type: none"> Recognizes institutional performance in addressing ongoing major maintenance of E&G facilities. Recognizes the shared responsibility between the state and the institution for facilities maintenance. Recognizes and encourages institutions to budget for ongoing major maintenance of E&G facilities. 	<ul style="list-style-type: none"> Practice is that institutions should share the responsibility for deferred maintenance, capital renewal and maintenance of facilities (match range is \$0.75 to \$1 per each \$1 of state funds). Does not recognize efforts by institutions to budget for the ongoing major maintenance of E&G facilities. Allows use of eligible expenditures on completed projects from CRM list as a credit against institutional share of the pool to access funds to complete other projects. 	<ul style="list-style-type: none"> Continue the current practice to require an institutional match to access state funds in capital renewal pool. Reduce match ranges to \$0.60 - \$1 per each \$1 of state funds based on performance. Strengthen the evaluation of institutional performance on postsecondary education maintenance standard.
Establish Statewide Capital Project Priorities	<ul style="list-style-type: none"> Implements the policy adopted by CPE in July 2001. The priorities establish categories/project priorities for planning purposes only. The planning priorities may change when a capital projects recommendation is made to the Governor in November of odd-numbered years. CPE adopt a process at its May 2005 meeting. 	<ul style="list-style-type: none"> The Council typically provides capital priority categories to the Capital Planning Advisory Board. Projects recommended by the CPE in the prior biennial recommendation not authorized by the GA are typically identified as the priorities for the upcoming biennium. 	<ul style="list-style-type: none"> Submit capital project priorities for inclusion in the Statewide Capital Plan to the Capital Planning Advisory Board in July 2005. The workgroup continue beyond the November 2004 CPE meeting. Develop first draft by March 2005 and a final recommendation for CPE action at its May 2005 meeting. Use the advice of a professional consultant to inform the workgroups' deliberations and development of a recommendation.

Description of Change	Rationale for Change	Current Process	Possible Changes
Institutional Flexibility to Issue Agency Bonds	<ul style="list-style-type: none"> Allow more institutional flexibility in terms of timing, project identification, and management of funds to address capital needs. Relieve the Commonwealth of an implied moral obligation to assume liability in case of default. Remove such debt from the official state debt pool. 	<ul style="list-style-type: none"> CPE requests a pool of bond authority to be distributed among the institutions to address capital issues related to non-education and general space needs. 	<ul style="list-style-type: none"> Establish a joint (LRC/CPE/ Executive Branch/ Institutions) committee to develop possible language and guidelines to establish an approach to flexibility in time for consideration by the 2005 or 2006 session of the General Assembly. Institutions should continue to seek flexibility to issue debt that is supported by institutional (agency) revenue for non-educational and general facilities.
Reporting and use of Room Utilization Data	<ul style="list-style-type: none"> Implements a policy of maximum utilization of available space. Encourages proper reporting of information. Encourages management flexibility and collaboration among departments. 	<ul style="list-style-type: none"> The Council typically reports room utilization but does not actively use the utilization report to inform the evaluation or recommendation of capital projects. 	<ul style="list-style-type: none"> Retain the current reporting of room and station utilization and use it to inform the evaluation of capital projects when the institution's performance is more than 10 points below the adopted standard for weekly scheduling of rooms or more than 10 points below the student station occupancy standard.
Teaching Lab Guidelines for Combined Community and Technical College	<ul style="list-style-type: none"> KCTCS has combined the community and technical colleges into districts under a single management system. The combined community and technical college space guidelines recognize the change in management and measure need based on the combined resources of the district. When the current guidelines were adopted the consultant recommended that the guidelines for the technical colleges be reviewed and updated. 	<ul style="list-style-type: none"> Have separate space guidelines for community colleges and technical colleges. Current teaching lab guidelines specify 8 asf per fte student for community colleges and 24 asf per fte for technical colleges. Current teaching lab guidelines specify 8 asf per fte student for research institutions and 10 asf per fte for comprehensive institutions. 	<ul style="list-style-type: none"> Create combined space guidelines for community and technical colleges that provide 30 asf per fte for teaching labs. Identify the need for additional teaching lab space by combining the calculation of the separate colleges to the district level. Retain the current teaching lab guidelines for research and comprehensive institutions.

Trust Funds

Recommended Trust Funds Review Changes and Rationale

<i>Description of Issues</i>	<i>Rationale for Review</i>	<i>Current/Previous Process</i>	<i>Proposed/Adopted Process</i>
Endowment Match Program Guidelines <ul style="list-style-type: none"> • Uses of Funds • Applied Research • Program Diversity 	<ul style="list-style-type: none"> • UK officials requested a change in the guidelines so that program funds could be used to support the research and salary expenses of nontenured medical school faculty. • The guidelines stipulate that 50% of comprehensive university funds be used to support Programs of Distinction or “applied research programs.” Campus officials asked CPE to define applied research. • The 2003 budget bill (HB 269) directs the universities to develop plans to achieve reasonable gender and ethnic diversity among match program faculty and financial aid recipients. 	<ul style="list-style-type: none"> • The existing guidelines did not allow program funds to be used to support faculty who were not named chairs or professors. • The existing guidelines did not provide an adequate definition of “applied research programs” in the comprehensive university 50% requirement. • The existing guidelines did not include a statement about gender or ethnic diversity. 	<ul style="list-style-type: none"> • A “Research Scholars” category was added to the guidelines, allowing support for a limited number of nontenured, medical school faculty for a maximum of six years. • An addendum specifying criteria for applied research program eligibility was added to the guidelines. • A statement incorporating the diversity provisions of HB 269 was added to the guidelines.
Endowment Match Program Reporting Procedures <ul style="list-style-type: none"> • Outcomes Measures • Web-Based Reporting • Pledge Payment Schedule • Detailed Reports 	<ul style="list-style-type: none"> • The General Assembly is asking for outcomes-based information with increasing frequency. • Descriptive data about program faculty is difficult to compile and quickly becomes obsolete. • Campus officials asked CPE staff to find ways to simplify the match program-reporting process. • Campus officials asked CPE staff to find ways to reduce the match program-reporting burden. 	<ul style="list-style-type: none"> • Current reporting procedures deferred outcomes-based information until program maturity. • Once a year, the universities submit detailed reports containing data about program faculty. • Once a year, the universities report dates and amounts of payments received and payments anticipated for each donor. • Once a year, the universities submit hundreds of pages of detailed descriptive data. 	<ul style="list-style-type: none"> • Add agreed upon outcomes measures to comprehensive database reports. • Report descriptive information about program faculty on university Websites. • Add a new pledge payment schedule to the annual summary report showing the dollar amount and percent paid for each endowment account. • Eliminate detailed endowment reports from match program reporting requirements.

Timeline of Discussion Items and Action Items for CPE meetings
Comprehensive Funding Review and Budget Development

Nov 8	Jan 31	Mar 21	May 22	July 8	Sept 18	Nov 7
DISCUSSION:	DISCUSSION:	DISCUSSION:	DISCUSSION:	DISCUSSION:	DISCUSSION:	DISCUSSION:
Comprehensive funding review progress report as follows: <ul style="list-style-type: none"> • Base Model • Performance component • Funding Distribution Methodology • Capital • Trust Funds 	<ul style="list-style-type: none"> • Trust Fund Guidelines • Preliminary Trust Fund Priorities • Performance component concept 	<ul style="list-style-type: none"> • Trust Fund Guidelines • Preliminary Trust Fund Priorities • Performance Component concept • Six-Year Capital Plan • Capital budget planning priority methodology 	<ul style="list-style-type: none"> • 2006-08 operating and capital budget development process • Special initiative request: guidelines and evaluation criteria 	<ul style="list-style-type: none"> • Incentive Trust Funds priorities • Performance methodology and indicators for model 	<ul style="list-style-type: none"> • Operating budget request: benchmark funding model results • Capital request • Institutional report on tuition rates and revenues • Submitted special requests 	
ACTION:	ACTION:	ACTION:	ACTION:	ACTION:	ACTION:	ACTION:
	<ul style="list-style-type: none"> • Base Model • Performance concept • Funding Distribution Methodology • (FDM) • Capital • Trust Funds 	<ul style="list-style-type: none"> • Revisions if necessary of components of comprehensive funding recommendations 	<ul style="list-style-type: none"> • Trust Fund Guidelines • CPE six-year capital plan • Capital Budget planning priorities 	<ul style="list-style-type: none"> • Benchmark Selection • Special initiative request: guidelines and evaluation criteria 	<ul style="list-style-type: none"> • Performance methodology and indicators for model • Standard funding level • Tuition deduction calculations 	<ul style="list-style-type: none"> • Operating budget recommendation for FY 2006-08 • Capital budget recommendation for FY 2006-08