

MEMO OF RECORD

Kentucky Council on Postsecondary Education

Meeting: Postsecondary Education Working Group on Performance Funding

Date: September 6, 2023

Time: 1:00 p.m. ET

Location: Virtual meeting via ZOOM Webinar

CALL TO ORDER

The Postsecondary Education Working Group on Performance Funding met Wednesday, September 6, 2023, at 1:00 p.m., ET. The meeting occurred virtually via ZOOM webinar.

Chair Aaron Thompson presided.

ATTENDANCE

Working Group Members in attendance:

- Dr. Aaron Thompson, President of the Kentucky Council on Postsecondary Education
- Secretary John Hicks, Executive Cabinet Secretary and State Budget Director
- Representative James Tipton
- Dr. David McFaddin, President of Eastern Kentucky University
- Dr. Koffi Akakpo, President of Kentucky State University
- Dr. Jay Morgan, President of Morehead State University
- Dr. Robert Jackson, President of Murray State University
- Dr. Bonita Brown, Interim President of Northern Kentucky University
- Dr. Eli Capilouto, President of the University of Kentucky
- Dr. Kim Schatzel, President of the University of Louisville
- Dr. Tim Caboni, President of Western Kentucky University

Working group members not in attendance:

- Senate President Pro Tempore David Givens
- Dr. Larry Ferguson, Interim President of the Kentucky Community and Technical College System

Presenting CPE staff members in attendance: Dr. Bill Payne, Vice President for Finance and Administration, and Mr. Shaun McKiernan, Executive Director of Finance and Budget.

Heather Faesy, CPE Senior Associate, served as recorder of the memo of record.

OVERVIEW

Dr. Aaron Thompson provided welcoming remarks and Dr. Bill Payne provided an overview of the meeting agenda for September 6, 2023.

2024-2026 OPERATING FUNDS REQUEST

Dr. Payne reviewed the 2024-26 Operating Funds request and discussed various components including the increase in fire and tornado insurance premiums. He discussed with the work group their levels of support on a request that includes both inflation adjustment and earned performance funds components.

PROPOSED ADJUSTMENTS TO UNIVERSITY MODEL

CPE staff reviewed the key takeaways from the working group's review.

- Overall, campus officials indicated that the funding models are functioning as expected and the models' goals, components, and metrics are well aligned with campus priorities.
- The models have contributed to progress toward the state's 60x30 college attainment goal, which the state is on track to meet.
- The funding model has addressed shortcomings of the previous funding method by recognizing changes in enrollment, program mix, and performance.
- Historical funding disparities among institutions are being rectified.
- Kentucky is making great strides in most areas of degree production, including numbers of bachelor's degrees awarded in total (+8%), to students enrolled in STEM+H fields (+28%), and to underrepresented minority students (38%).
- One area where the level of degree production did not meet expectations was the number of bachelor's degrees awarded to low-income students (-1.4%).
- This could stem from the fact that the premium provided per low-income degree produced was the lowest of any degree type.
- The funding models currently do not include metrics or incentives that encourage enrollment, progression, or completion of adult learners.
- The state will not be able to achieve its 60x30 college attainment goal unless institutions expand efforts to target the adult learner population.
- Increasing small school adjustments at KSU and MoSU by the amount of their respective 2023-24 hold harmless allocations would bring those institutions to funding parity with peers and allow them to compete more effectively in the model.
- Over time, changes in formula share of resources have been gradual and incremental (i.e., drastic shifts in resources among institutions were avoided).
- In the KCTCS model, overlapping degree metrics (i.e., STEM+H, high-wage high-demand, targeted industries) created confusion since some degrees were counted several times.

- Reallocating the equity adjustment in the KCTCS model using a Community Needs Index would allow community colleges located in economically challenged regions an increased opportunity to earn performance funds.

Work group members ultimately agreed to recommend a limited number of changes to both the university and KCTCS funding models. These changes are intended to build on successes of the current models and bring about incremental but constructive change going forward. On December 1, 2023, Council staff sent a letter to the Governor and legislative leaders reporting results of the review and working group recommendations regarding university and KCTCS funding models.

Specifically, the work group recommended five changes to the university funding model:

- 1) **Increase Low-Income Degree Premium.** The university model previously allocated 3% of available resources for bachelor's degrees awarded to low-income students. The work group recommended an increase in this metric (to 8%) and a concomitant decrease in earned-credit-hour component (i.e., from 35% to 30%).
- 2) **Add Adult Learner Metric.** The working group recommended that a new adult learner metric be added to the model by incorporating a new category of students (i.e., nontraditional, resident undergraduate students ages 25+) into the earned credit hour component and assigning a weighting of 1.0 for hours earned by those students (i.e., in addition to existing resident, nonresident, reciprocity categories).
- 3) **Eliminate Degree Efficiency Index Weighting.** The funding model previously used an efficiency index to weight the number of bachelor's degrees produced at each institution. The intent was to provide an incentive for efficient bachelor's degree production, but the index did not operate as intended due to declining enrollment at most institutions. The work group recommended eliminating the degree efficiency index in the university model.
- 4) **Increase Small School Adjustments at KSU and MoSU.** Since the model's first full year of implementation, KSU and MoSU have had negative hold harmless allocations and have not received a share of any performance distribution. Work group members agreed that adding current year hold harmless amounts to the small school adjustments at KSU and MoSU would help bring these institutions to funding parity with peers and allow them to compete more effectively in the model.
- 5) **Increase Nonresident Credit Hour Weighting.** The university model includes an earned credit hour component that assigns different weightings based on student residency status. Credit hours earned by resident and reciprocity students are assigned a weighting of 1.00 and (prior to 2024-25) hours earned by nonresident students were weighted at 0.50. The working group recommended increasing the weighting for nonresident students to 0.75, which will help institutions maintain or grow enrollment and is better aligned with CPE's tuition policy.

All members stated they would like to keep the three-year review window.

MOTION: President Robert Jackson moved to accept proposed adjustments. President Tim Caboni seconded the motion.

VOTE: In a roll call vote, the motion passed unanimously.

PROPOSED ADJUSTMENTS TO KCTCS MODEL

Mr. Brendan Lehane, KCTCS Director of Budget & Financial Planning, reviewed for approval the following proposed adjustments for the two-year institutions funding model. The changes were endorsed by all KCTCS college presidents:

- 1) **Add Adult Learner Metric.** KCTCS officials supported, and work group members recommended, that a new adult learner credential metric, comprising 4% of allocable resources, be added to the KCTCS funding model. In order for Kentucky to achieve its 60x30 college attainment goal, it is essential for KCTCS to increase the number of adult learners earning credentials.
- 2) **Reallocate Equity Adjustment Using Community Needs Index.** Previously, 10% of KCTCS's system total adjusted net General Fund was distributed equally among 16 community and technical colleges as an equity adjustment. As proposed by KCTCS, the work group recommended that a Community Needs Index, which considers a service region's level of poverty, unemployment, and labor participation rate, be used to allocate these funds.
- 3) **Increase Weightings for Targeted Student Populations.** KCTCS supported, and the work group recommended, increasing the weightings for credentials earned by URM, underprepared, and low-income students, and increasing the weighting for transfer students. Previously, each of these metrics was assigned a weighting of 2%. KCTCS and work group members recommended increasing the weightings to 4% for each metric.
- 4) **Reduce Weighting of Progression Metrics.** KCTCS proposed, and the working group recommended, reducing the weightings of progression metrics in the model from a total of 12% to 7%. This change will free resources and help accommodate recommended increases in weightings for special populations (see #3 above).
- 5) **Merge Overlapping Credential Metrics.** The KCTCS model previously included several categories of credentials that were assigned different allocation percentages (i.e., weighted credentials and STEM+H, high-wage high-demand, and targeted industry credentials). Some of the credentials were counted multiple times in separate categories (i.e., they overlapped), which clouded incentives and caused confusion. KCTCS requested, and the working group recommended, that these overlapping metrics be merged into a single credential metric tied to the economy

and that the total weighting be reduced from 15% to 8%. This change will also accommodate increases in weightings for special populations.

6) Use Three-Year Rolling Average Data. The university model has used three-year rolling averages of metric data since the inception of performance funding. This practice smooths out year-to-year changes in the data and makes funding outcomes more predictable. To achieve increased predictability and stability in the two-year college model, KCTCS officials supported, and work group members recommended, that the KCTCS model be modified to allow use of three-year rolling averages of data for all metrics, except square feet.

MOTION: President Jay Morgan moved to accept the proposed adjustments. President David McFaddin seconded the motion.

VOTE: In a roll call vote, the motion passed unanimously.

NEXT STEPS

The work group members agreed to cancel the final scheduled meeting.

ADJOURNMENT

The working group adjourned at 2:45 p.m., ET.