Kentucky's Postsecondary Education Performance Funding Model

Kentucky Council on Postsecondary Education

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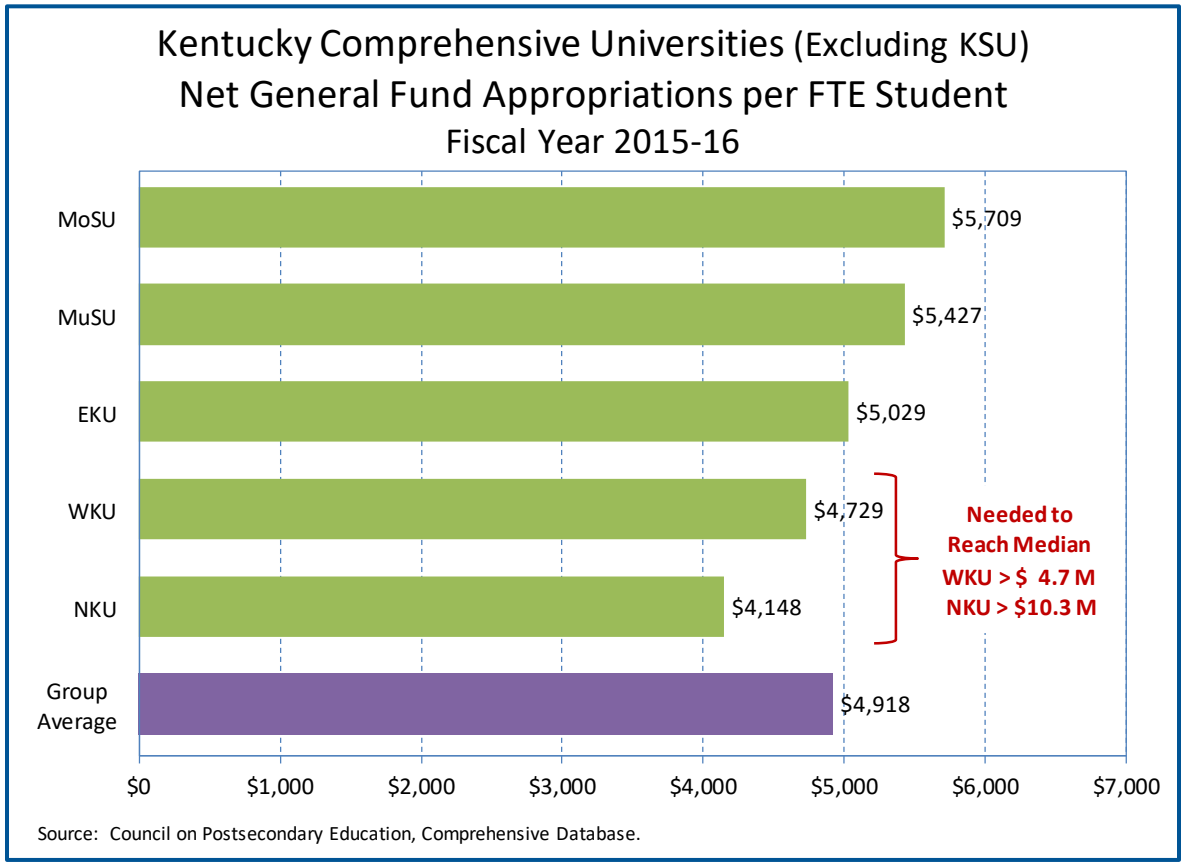
CPE Higher Education Matters

HIGHER EDUCATION Matters

Why was the model initiated?

- In response to a legislative mandate (2016 HB 303) to convene a working group and develop the model
- To accelerate progress toward attainment of state goals for postsecondary education
- To address shortcomings of the previous method (base +, base -)
- To rectify funding disparities that had developed over time



Statutory Goals for the Model

- Increase retention and progression of students toward timely completion
- Increase the number of degrees and credentials earned by all students
- Produce more degrees and credentials in fields that garner higher wages upon completion (STEM+H, high-demand, and targeted industries)
- Close achievement gaps by growing degrees and credentials earned by underrepresented and low-income students

Participant Roles and Responsibilities

- The primary stakeholders involved in the development, review, and modification of Kentucky's performance funding models are the General Assembly, working groups, and CPE staff

Stakeholder	Role or Responsibility
General Assembly	• Pass legislation calling for postsecondary education working group to be convened and funding models to be developed (HB 303, 16 RS) • Codify recommendations of the working group in statute (KRS 164.092) • Pass legislation directing changes in the models (SB 191, 24 RS)
Postsecondary Education Working Groups	• Consider funding model approaches, make decisions regarding components, metrics, and weightings, and make recommendations to create the models • Reconvene every three years, or in the interim as directed by the General Assembly, to review the models and make recommendations for adjustments
Council on Postsecondary Education (CPE) Staff	• Convene working groups as directed, facilitate meetings, conduct analyses, and run funding model scenarios as requested • Run funding model to determine annual performance fund distributions • Draft and file administrative regulations specifying detailed aspects of models

Working Groups

Working Groups

- 2016
  - Developed university and KCTCS funding models
  - Made major decisions and recommended model approach, components, metrics, and allocation percentages
- 2020
  - Conducted a detailed review to determine if models were operating as expected, recommended changes
- 2023
  - Conducted a detailed review to determine if models were operating as expected, recommended changes
- 2024
  - Convened for purpose of defining “underrepresented students” in university and KCTCS models

2016 Working Group

- The 2016 budget bill (HB 303) directed the Council to establish a working group comprised of:
  - The Governor or designee
  - President of Senate or designee
  - Speaker of the House or designee
  - President of each public university and KCTCS
  - Council president
- It charged the group to develop a model for allocating state funds that included enrollment, mission, and performance, as well as any other components as determined through the process

Major Decisions

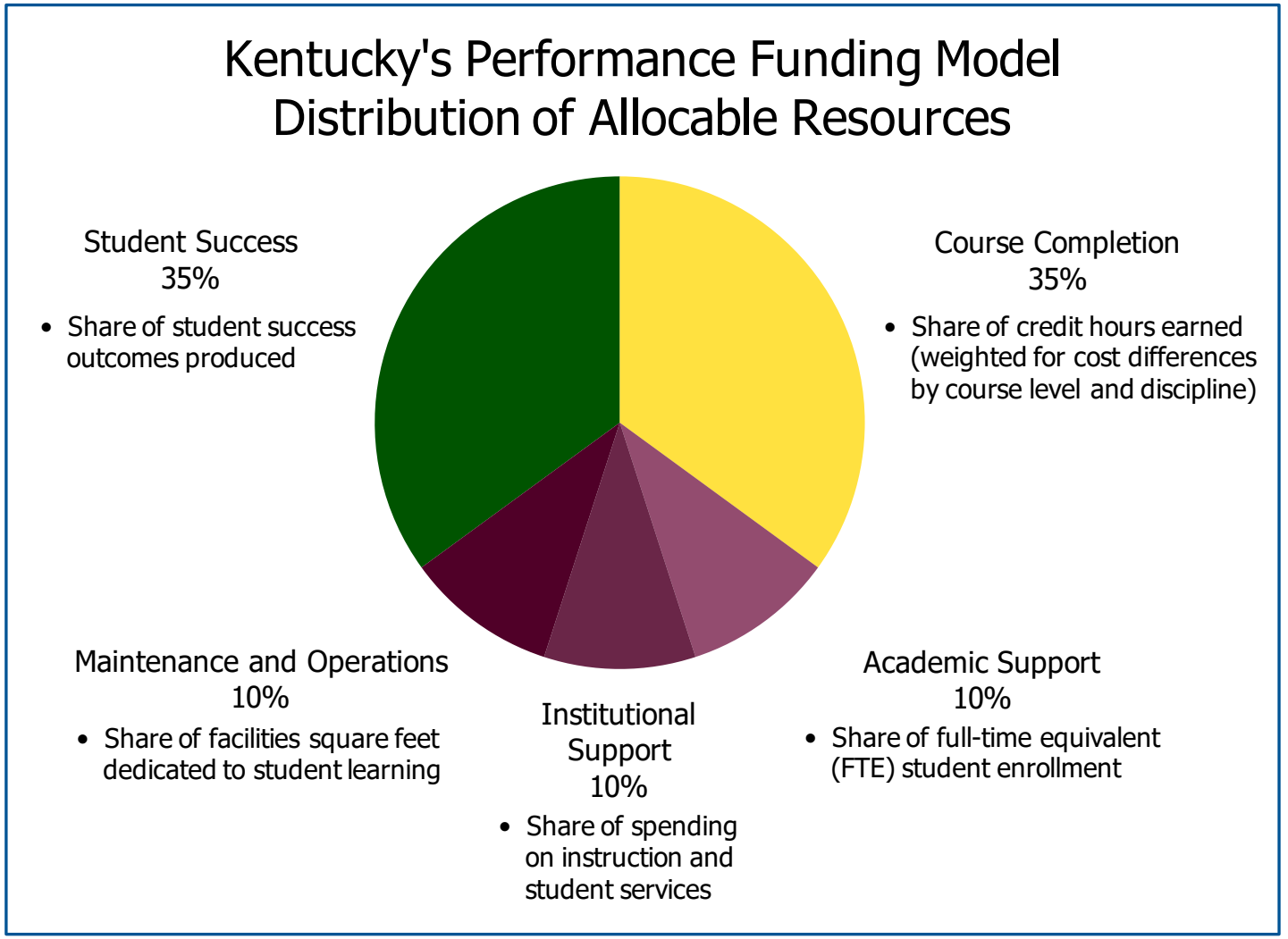
The 2016 working group reached consensus on many critical decision points, including:

- The type of model (targets and goals or outcomes-based)
- Whether to include all universities in one sector
- The model's main components and the overall weight of each component
- The specific metrics within each component
- The types of degrees to include in the model
- How to increase outcomes of lower income and other underrepresented students.
- How to treat non-resident students

2016 Working Group Recommendations

The 2016 working group recommended five main components for the model:

- Student Success
- Course Completion
- M&O
- Institutional Support
- Academic Support

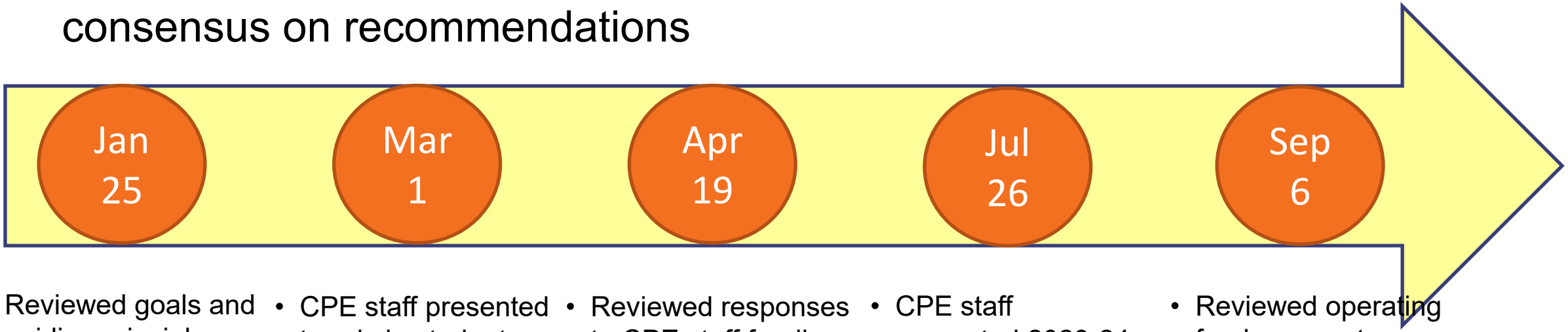


2020 Working Group Recommendations

- Establish a general fund floor, or base level of state support, for each postsecondary institution (a.k.a., the Funding Floor 2020-21)
- Discontinue stop-loss carve outs made by the institutions to the performance fund each year
  - *This meant that going forward, any funds appropriated to the performance fund would be provided by the General Assembly*
  - *Distributions from the fund would be determined using existing models and be non-recurring to the institutions*
  - *Thus, appropriations for performance would be recurring to the performance fund, not the institutions*

2023 Working Group Review Process

- The 2023 working group met five times between January and September
- The group reviewed trends in student outcomes data, financial impact information, and responses to funding model surveys before reaching consensus on recommendations



Jan 25
- Reviewed goals and guiding principles
- Reviewed model components and metrics, financial impact information

Mar 1
- CPE staff presented trends in student outcomes data
- Reviewed responses to campus funding model surveys

Apr 19
- Reviewed responses to CPE staff funding model survey
- Discussed proposed adjustments and scenario impacts

Jul 26
- CPE staff presented 2023-24 funding model distribution
- Discussed biennial budget options and model scenarios

Sep 6
- Reviewed operating funds request
- Discussed proposed model adjustments
- Reached consensus on recommendations

2023 Working Group Recommendations

The working group recommended five changes to the university funding model:

1) increase premium provided for bachelor's degrees awarded to low-income students (increase pool allocation from 3% to 8%)
2) add a new adult learner metric to the model
3) eliminate degree efficiency weighting (from bachelor's metric)
4) increase the small school adjustments for KSU and MoSU
5) increase nonresident credit hour weighting (from 0.50 to 0.75)

2023 Working Group Recommendations (continued)

Working group members recommended six changes to the KCTCS funding model:

1) add a new adult learner metric to the model
2) allocate equity adjustment using a Community Needs Index
3) reduce weighting of progression metrics (from 12% to 7%)
4) merge overlapping metrics into one credential metric tied to the economy (merge STEM+H, high-wage-demand, targeted)
5) reduce credential metric weighting (from 15% to 8%); increase weighting for URM, underprepared, low income, and transfer
6) use three-year average data for all metrics except square feet

SB 191 (24 RS)

- Codified changes recommended by the 2023 working group
- Directed the working group to convene during the 2024 interim to determine how to define "underrepresented students" in the model

2024 Working Group Recommendations for University Model

- Define “underrepresented students” as first-generation college students
- Assign 3.0% of available allocable resources to bachelor’s degrees earned by such students
- Apply a differential sector weighting to the first-generation bachelor’s degree metric, calculated at the midpoint between no weighting and full weighting

2024 Working Group Recommendations for KCTCS Model

- Adopt first-generation college student credentials as the "underrepresented students" metric
- Align allocation percentages at 4.0% each for:
  - first-generation college student
  - low-income student
  - underprepared student
  - nontraditional age (25+) student credentials

Model Mechanics

Model Mechanics

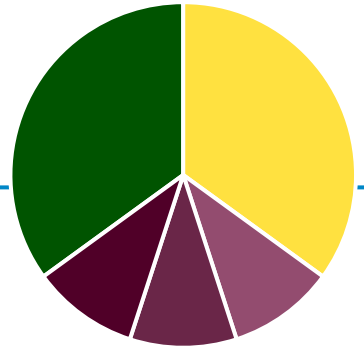
STEP 1 – calculate the *allocable resources* that will be assigned to each institution

Allocable resources *are funds for each institution, and in total for the sector, which will be run through the model*

The ***small school adjustment*** *is a fixed amount of operating funds that is set aside for each institution and not run through the model*

Model Mechanics

STEP 2 – Allocate Funds to *Component Pools*

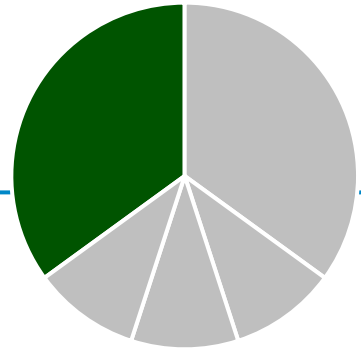


Kentucky Performance Funding Model
Major Components, Allocation Percentages, and Funding Pools
Fiscal 2018-19 (Dollars in Millions)

Model Component	Allocation Percentages	Component Funding Pools	Distribution Method
Student Success	35%	$181.9	Share of student success outcomes produced
Course Completion	35%	181.9	Share of weighted student credit hours earned
Maintenance and Operations	10%	52.0	Share of facilities square feet dedicated to student learning
Institutional Support	10%	52.0	Share of spending on instruction and student services
Academic Support	10%	52.0	Share of FTE student enrollment
Total Allocable Resources	100%	$519.8	

Model Mechanics

STEP 3 – Allocate Funds to *Metric Pools*

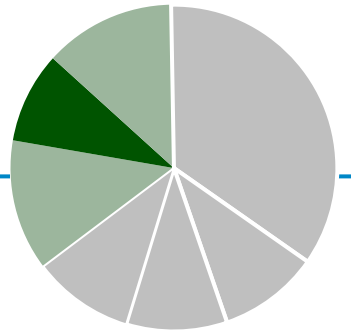


Kentucky Performance Funding Model
Success Metrics, Allocation Percentages, and Funding Pools
Fiscal 2018-19 (Dollars in Millions)

Student Success Metric	Allocation Percentages	Student Success Pool
Progression @ 30 Hours	3%	$15.6
Progression @ 60 Hours	5%	26.0
Progression @ 90 Hours	7%	36.4
Bachelor's Degrees	9%	46.8
STEM+H Degrees	5%	26.0
URM Bachelor's Degrees	3%	15.6
Low Income Bachelor's Degrees	3%	15.6
Total Student Success Allocable Resources	35%	$181.9

Model Mechanics

STEP 4 – Distribute Pools Based on *Outcomes*



Kentucky Performance Funding Model
Distribution of Bachelor's Degree Component Funds
Fiscal Year 2018-19

Bachelor's Degree Pool $46,784,400

Institution	Weighted Bachelor's Degrees [1]	Degree Share	Funding Distribution
University of Kentucky	7,286	31.7%	$14,836,200
University of Louisville	4,843	21.1%	9,861,800
Eastern Kentucky University	2,651	11.5%	5,397,400
Kentucky State University	307	1.3%	626,100
Morehead State University	1,188	5.2%	2,418,800
Murray State University	1,694	7.4%	3,449,100
Northern Kentucky University	2,285	9.9%	4,653,900
Western Kentucky University	2,721	11.8%	5,541,100
Total	22,975	100.0%	$46,784,400

[1] Three-year rolling average of bachelor's degrees produced, weighted to promote efficient degree production through use of a degrees per 100 FTE student index and to account for cost and mission differences between the research and comprehensive sectors.

Model Mechanics
FINAL STEPS

STEP 5 – Sum all metric pool distributions to determine a formula total for each institution

- *A formula total is the amount of funding the model calculates an institution should have based on its share of outcomes produced*

STEP 6 – The model then calculates the difference between the amount of funding an institution actually has (i.e., its allocable resources) and the amount the model determines that it should have based on outcomes produced (i.e., its formula total)

STEP 7 –Finally, the model distributes available performance funds to rectify identified funding differences across institutions

Weightings Between Sectors

Weightings Background

- HB 303 (16 RS) charged the 2016 working group to develop a model for allocating state funds that included elements of enrollment, mission, and performance
- Among the major decisions made by the original working group was whether to include the research and comprehensive universities in the same funding pool, or assign the sectors to separate funding pools
- Once the decision was made to include all universities in one pool, a companion question was how to account for cost and mission differences between the two sectors within the university model

Weightings Between Sectors (continued)

- In 2016, the work group reached consensus to adopt differential metric weights by sector
- SB 191 (24 RS) replaced the URM metric with first-generation and low-income degree metrics
- The 2024 work group voted to define underrepresented students as first-generation students and apply the metric at half weight
- The weights shown to the right have been defined in regulation and will be applied in 2025-26

Council on Postsecondary Education
Funding Model for the Public Universities

Weights as of Fiscal 2025-26

Metric Weighting Chart

Funding Model Metrics	Research Universities	Comprehensive Universities
Bachelor's Degrees (Normalized)	1.67345	1.00000
STEM+H Bachelor's Degrees	1.54105	1.00000
First Generation Bachelor's Degrees	1.67301	1.00000
Low Income Bachelor's Degrees	2.35120	1.00000
Student Progression (@ 30 Credit Hours)	1.49386	1.00000
Student Progression (@ 60 Credit Hours)	1.45320	1.00000
Student Progression (@ 90 Credit Hours)	1.56076	1.00000
Student Credit Hours Earned (Weighted)	1.14208	1.00000
Facilities Square Feet	1.36134	1.00000
Instruction and Student Services Costs	0.90251	1.00000
FTE Student Enrollment	1.34278	1.00000

Weightings Between Sectors (continued)

The working group's rationale for adopting sector weightings:

- Account for cost and mission differences between the research and comprehensive sectors
- Compensate for the **exclusion** of a graduate degree metric that would reward growth in master's and doctoral degrees
- Compensate for the **exclusion** of a research metric that would reward growth in research dollars generated
- Calibrate the metrics included in the model to achieve funding parity between the two sectors in the first year of implementation

Weightings to Account for Cost And Mission Differences

- Research and comprehensive universities differ in terms of their basic missions, faculty roles and responsibilities, and cost structures
- Research universities tend to focus more on research activities and graduate education; their faculty are expected to engage in research alongside teaching, and students may be involved in research
- Comprehensive universities focus more on undergraduate teaching and student learning; their faculty are centered more on teaching and mentoring students and may serve more underrepresented students

Calibrate Metrics to Achieve Parity

- This table shows how metric weights were calculated to maintain funding parity between sectors in the model's first year
- After year one, institutions could increase their share of funding for a given metric by achieving growth rates above the sector average
- Absent differential weights, in 2018-19, the model would have called for $28.6 million shift in funds between sectors

Council on Postsecondary Education — June 6, 2017

Funding Model for the Public Universities

Academic Support Metric (Share of FTE Student Enrollment)

Institution	Allocable Resources	Contributed Percent	Contributed Amount		FTE Students		Sector Subsidy	Weight Factors
UK	$163,067,600	10.0%	$16,306,760		28,475.4			
UofL	118,814,800	10.0%	11,881,480		18,611.6		A	(A ÷ B)
Research	$281,882,400		$28,188,240	÷	47,087.0	=	$598.64	1.34278
EKU	$57,914,000	10.0%	$5,791,400		13,052.7			
KSU	15,262,400	10.0%	1,526,240		1,624.0			
MoSU	33,831,400	10.0%	3,383,140		7,012.6			
MuSU	38,583,500	10.0%	3,858,350		8,622.8			
NKU	45,566,000	10.0%	4,556,600		11,676.2			
WKU	64,328,000	10.0%	6,432,800		15,318.2		B	(B ÷ B)
Comps	$255,485,300		$25,548,530	÷	57,306.5	=	$445.82	1.00000
Four-Year	$537,367,700		$53,736,770		104,393.5			
Contribution Percentage:		10.0%						

Fiscal Impact

Fiscal Impact – Performance Fund Appropriations

- For four years, models were applied with no new funding
- Lack of state support resulted in a redistribution of the General Fund base among institutions
- In March 2021, KRS 164.092 was amended to eliminate stop loss carve outs and establish a funding floor (2020-21)
- Beginning in 2021-22, the General Assembly began appropriating new operating funds to the performance fund

Funding Models for the Universities and KCTCS Institutions Implementation Schedule and Funding Sources
(Dollars in Millions)

Timeline	Fiscal Year	Institution Contribution	New State Funding	Total Funding [1]
Year 0	2017-18	$42.9	$0.0	$42.9
Year 1	2018-19	31.0	0.0	31.0
Year 2	2019-20	38.7	0.0	38.7
Year 3	2020-21	14.9	0.0	14.9
Year 4	2021-22	$0.0	$17.3	$17.3
Year 5	2022-23	0.0	97.3	97.3
Year 6	2023-24	0.0	97.3	97.3
Year 7	2024-25	0.0	105.0	105.0

[1] State appropriations, stop-loss contributions, and other campus carve outs added to the Performance Fund and distributed based on outcomes produced.

Unit of Measure

The CPE uses the State Funds for Educating Students metric to make funding comparisons across institutions and to track trends in funding over time

State Funds for Educating Students (*a tale of two time periods*)

During the first four years, lack of new funding and campus carve outs resulted in negative dollar and percent change numbers at 6 of 9 institutions

Change in State Funds for Educating Students
Between Fiscal Years 2016-17 and 2020-21

(Nominal Dollars in Millions)

Institution	2016-17 State Funds	2020-21 State Funds	Dollar Change	Percent Change
UK	$181.1	$184.7	$3.5	2.0%
UofL	132.1	126.2	(5.9)	-4.4%
EKU	62.6	60.8	(1.7)	-2.8%
KSU	20.0	18.2	(1.8)	-8.8%
MoSU	38.9	34.9	(4.0)	-10.2%
MuSU	43.4	40.6	(2.8)	-6.5%
NKU	45.0	50.9	5.9	13.1%
WKU	66.4	67.6	1.2	1.8%
KCTCS	169.5	165.8	(3.7)	-2.2%
	$759.0	$749.7	($9.3)	-1.2%

Removal of stop loss and adoption of funding floor 2020-21, infusion of new dollars, and inflation funds in 2024-25 resulted in all positive numbers

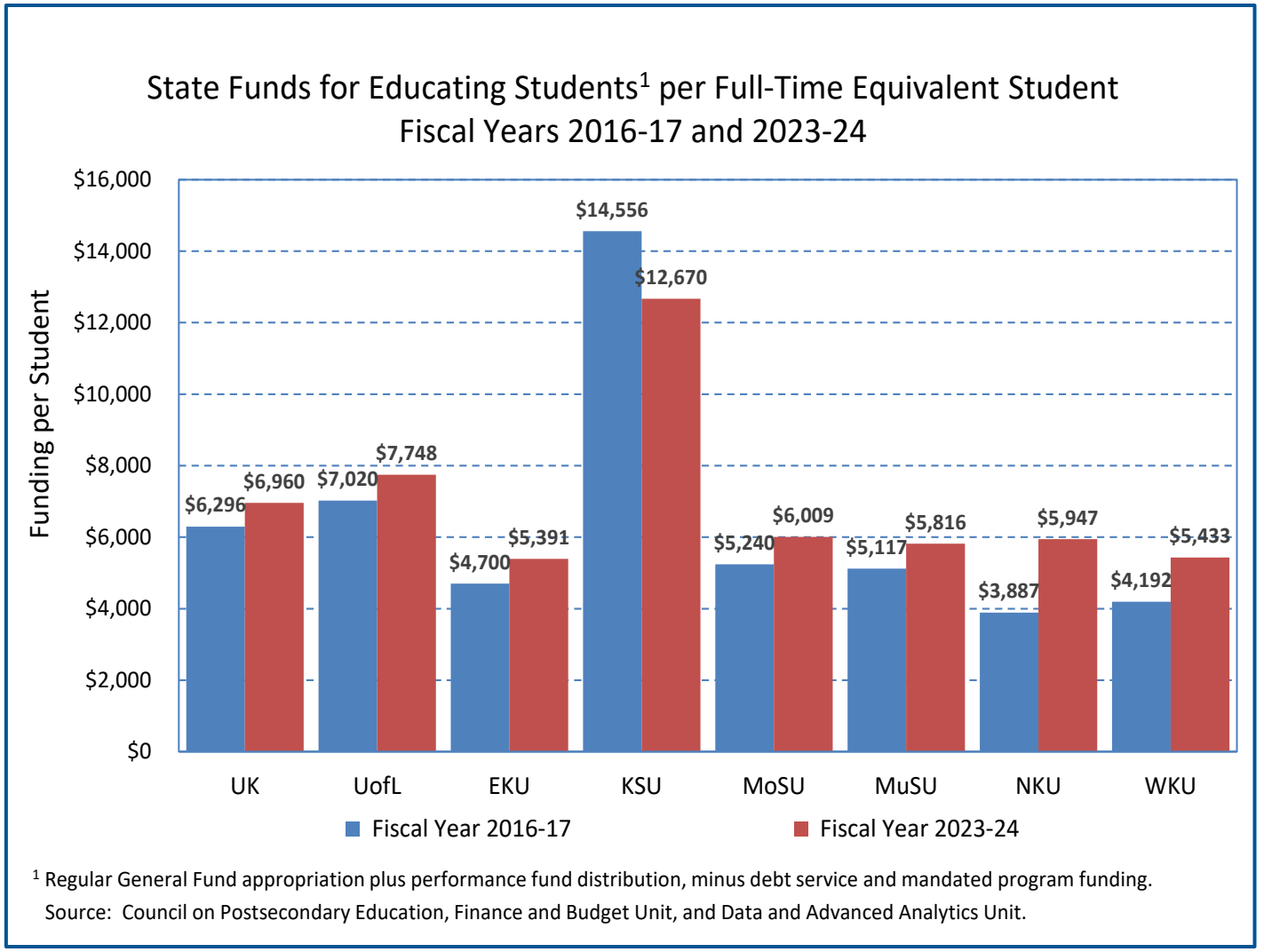
Change in State Funds for Educating Students
Between Fiscal Years 2020-21 and 2024-25

(Nominal Dollars in Millions)

Institution	2020-21 State Funds	2024-25 State Funds	Dollar Change	Percent Change
UK	$184.7	$230.5	$45.8	24.8%
UofL	126.2	150.1	23.9	18.9%
EKU	60.8	68.5	7.6	12.5%
KSU	18.2	19.3	1.1	6.1%
MoSU	34.9	36.9	1.9	5.6%
MuSU	40.6	47.2	6.6	16.4%
NKU	50.9	66.2	15.3	30.1%
WKU	67.6	76.2	8.5	12.6%
KCTCS	165.8	195.8	30.0	18.1%
	$749.7	$890.6	$140.8	18.8%

State Funds Per Full-Time Equivalent (FTE) Student

- This chart shows the amount of state funding per FTE student at every university in 2017 and 2024
- As can be seen in the chart, funding disparities in the comprehensive sector have lessened over time
- Between 2017 and 2024, the gap in funding between MoSU and NKU decreased from $1,353 per student to $62 per student
- In 2025, funding parity was achieved at 7 out of 8 universities



[1] Regular General Fund appropriation plus performance fund distribution, minus debt service and mandated program funding.

Source: Council on Postsecondary Education, Finance and Budget Unit, and Data and Advanced Analytics Unit.

Funding Determinants

The Importance of Above Average Growth Rates

- For any given metric, if an institution achieves a growth rate in activity volume above the sector average growth rate, then its share of funding for that metric will increase
- The more metrics (out of 11 total) in which an institution achieves above average growth rates, the better chance it has of increasing its overall share of funding
- The magnitude of growth above the average (i.e., 3.0 ppts above is better than 1.0 ppt) and the size of the funding pool matters

Funding Determinants & the Importance of Above Average Growth Rates

There is a direct relationship between number of metrics with growth rates above the sector average and funding

Funding Models for the Universities and KCTCS
Change in Performance Fund Distributions
Between Fiscal Years 2022-23 and 2023-24

Institution	2022-23 Distribution	2023-24 Distribution	Difference
UK	$30,904,300	$33,338,500	$2,434,200
UofL	17,523,600	17,594,600	71,000
EKU	4,927,900	3,222,900	(1,705,000)
KSU	0	0	0
MoSU	0	0	0
MuSU	3,296,800	3,095,000	(201,800)
NKU	11,363,500	12,683,900	1,320,400
WKU	7,777,200	5,858,400	(1,918,800)
Subtotal	$75,793,300	$75,793,300	$0
KCTCS	21,513,800	21,513,800	0
Total	$97,307,100	$97,307,100	$0

Performance Funding Model for the Public Universities
Metrics Where Rates of Growth Exceeded Sector Average
Between Fiscal Years 2022-23 and 2023-24

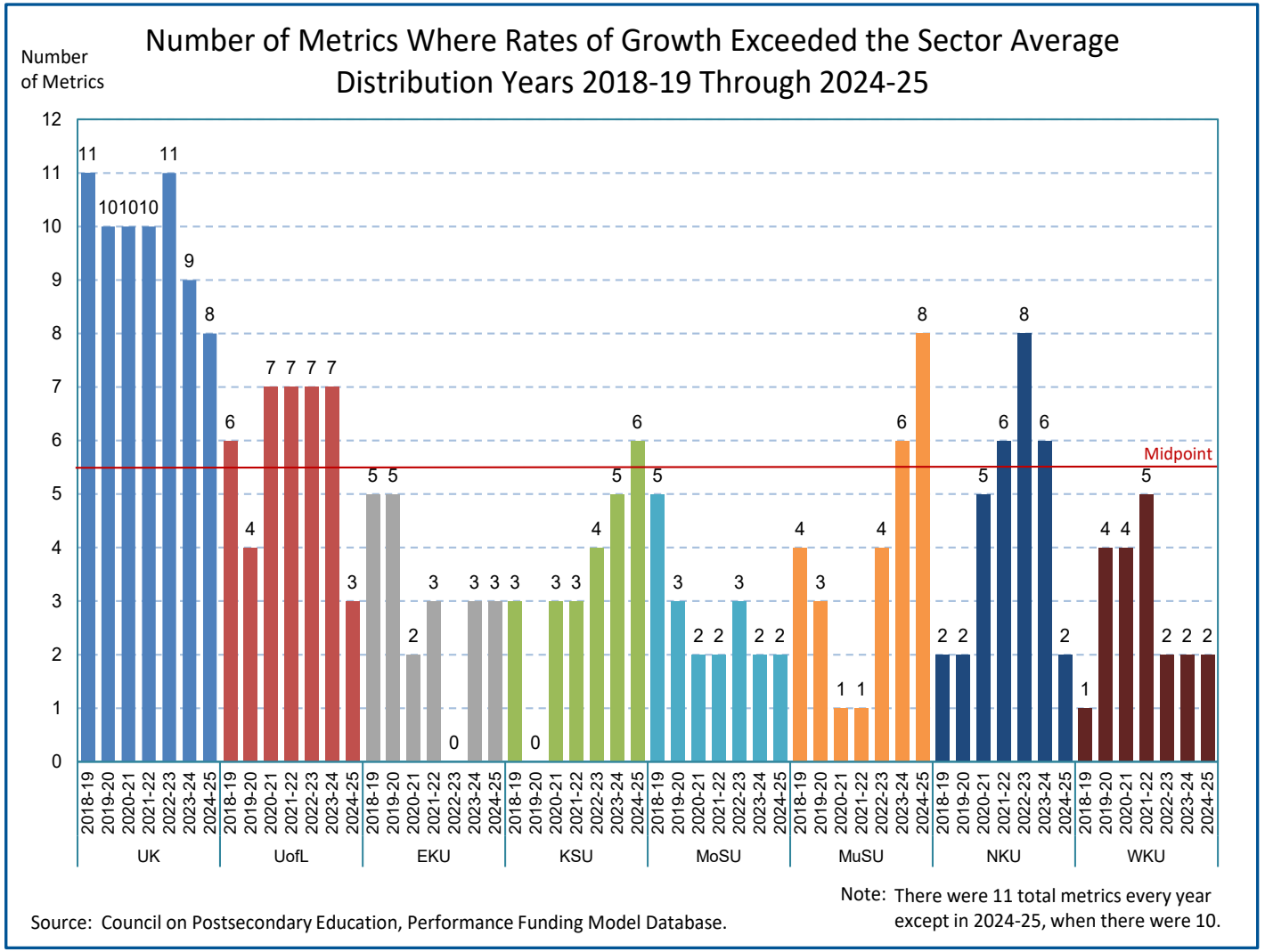
Performance Metric	UK	UofL	EKU	KSU	MoSU	MuSU	NKU	WKU	Pool Size (In Millions)
Student Success Outcomes									
Bachelor's Degrees	☑	☐	☐	☐	☐	☐	☑	☐	$53.6
STEM+H Bachelor's Degrees	☑	☑	☐	☐	☐	☐	☑	☐	29.8
URM Bachelor's Degrees	☐	☑	☑	☐	☑	☑	☑	☐	17.9
Low Income Bachelor's Degrees	☑	☑	☐	☐	☐	☑	☐	☐	17.9
Student Progression @ 30 Hours	☐	☑	☑	☑	☐	☑	☐	☑	17.9
Student Progression @ 60 Hours	☑	☐	☐	☑	☐	☑	☐	☐	29.8
Student Progression @ 90 Hours	☑	☑	☐	☑	☐	☐	☐	☐	41.7
Earned Credit Hours	☑	☑	☐	☐	☐	☐	☑	☐	208.5
Operational Support Activity									
Instructional Square Feet	☑	☐	☐	☐	☐	☐	☐	☑	59.6
Direct Cost of Instruction	☑	☐	☑	☑	☑	☑	☑	☐	59.6
FTE Students	☑	☑	☐	☑	☐	☑	☑	☐	59.6
Metrics Above Sector Average	9	7	3	5	2	6	6	2	

- Combined the Earned Credit Hours and FTE Students funding pools accounted for 45 percent of total allocable resources in 2023-24.

Total Allocable Resources: $595.7

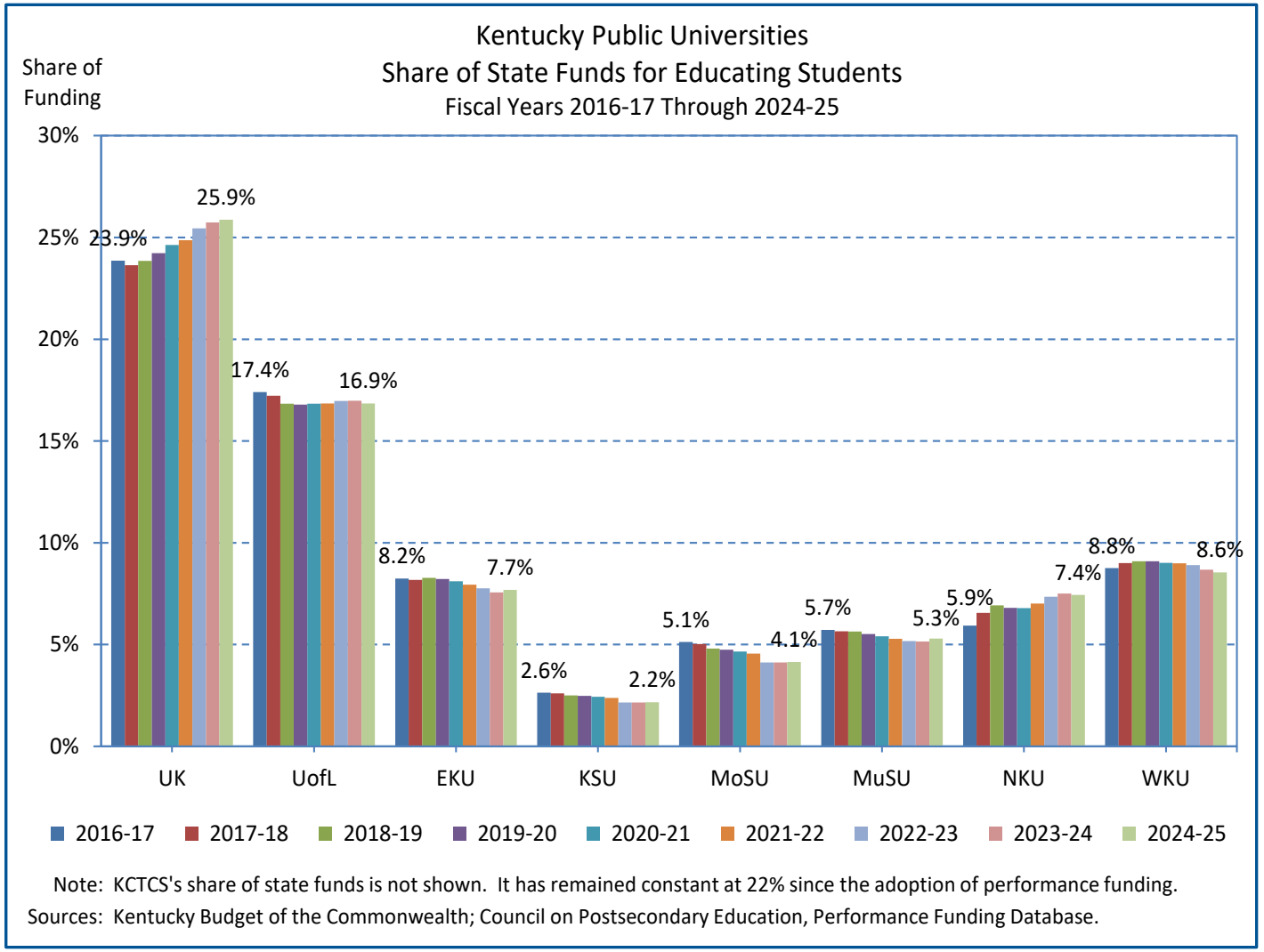
Campus Performance Over Time

- This chart shows the number of metrics at each university with growth rates above the sector average from 2019 through 2025
- UK, UofL, and NKU had more metrics with above average growth in more years than others
- These are the same institutions that increased or maintained their share of funding this period
- Metric counts at MuSU and KSU are trending upward



Change in Share of State Funds

- This chart shows the change in each institution's share of state funds for educating students
- Between 2017 and 2025, two institutions UK (+2.0 ppt) and NKU (+1.5 ppt) increased their share of state funds
- The largest declines occurred at MoSU (-1.0 ppt), EKU (-0.6 ppt) and UofL (-0.6 ppt)
- Annual changes in the share of state funds have been gradual



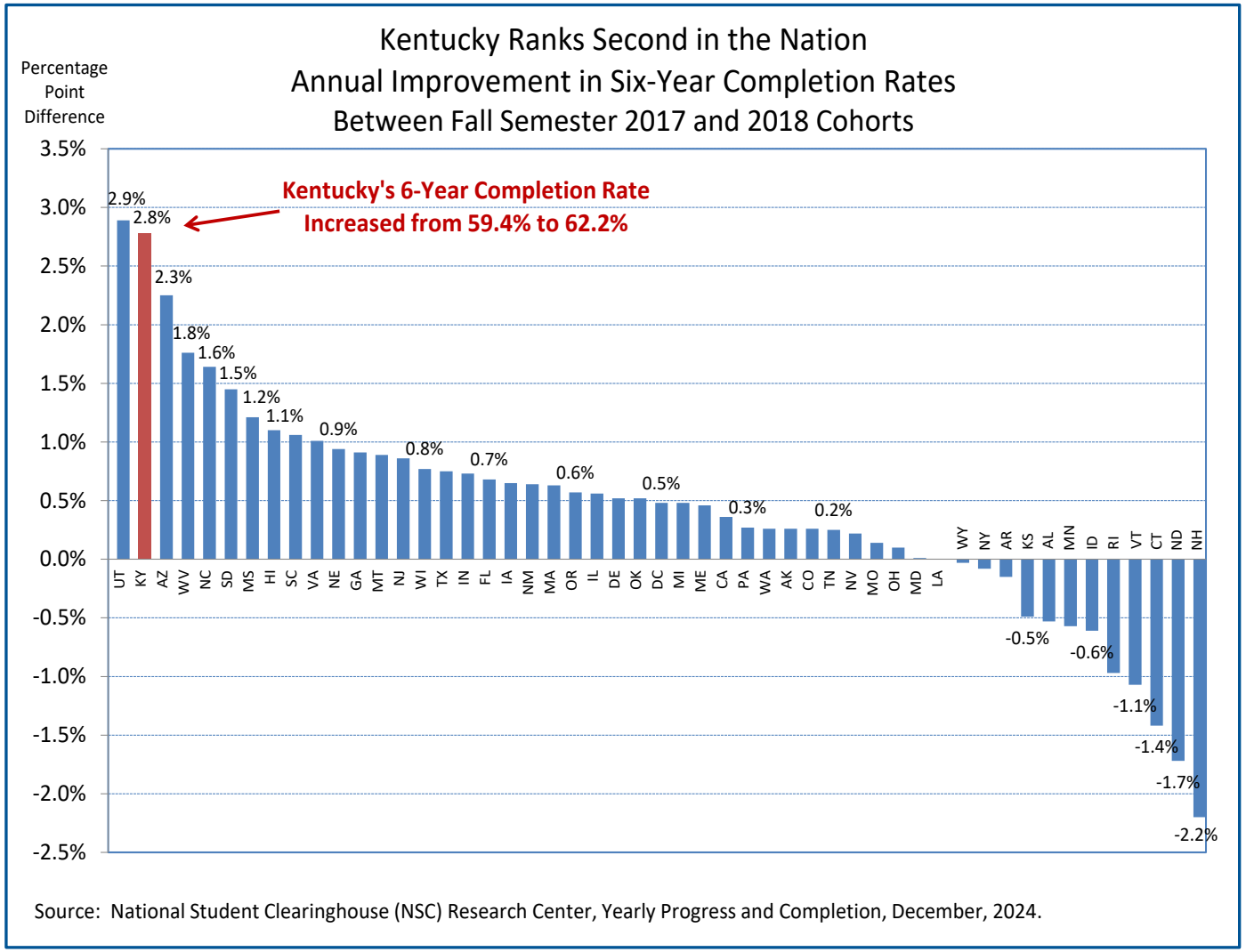
Student Outcomes

Degree and Credential Production

- In 2023-2024, Kentucky public and private institutions increased degrees and credentials earned by 6.4% over the previous year
- These gains were driven by substantial increases in undergraduate certificates and graduate degrees, up 9.9% and 9.4%, respectively
- Undergraduate degrees and credentials awarded to low-income students were up 4.1%, while undergraduate awards to minority students were up 7.9%

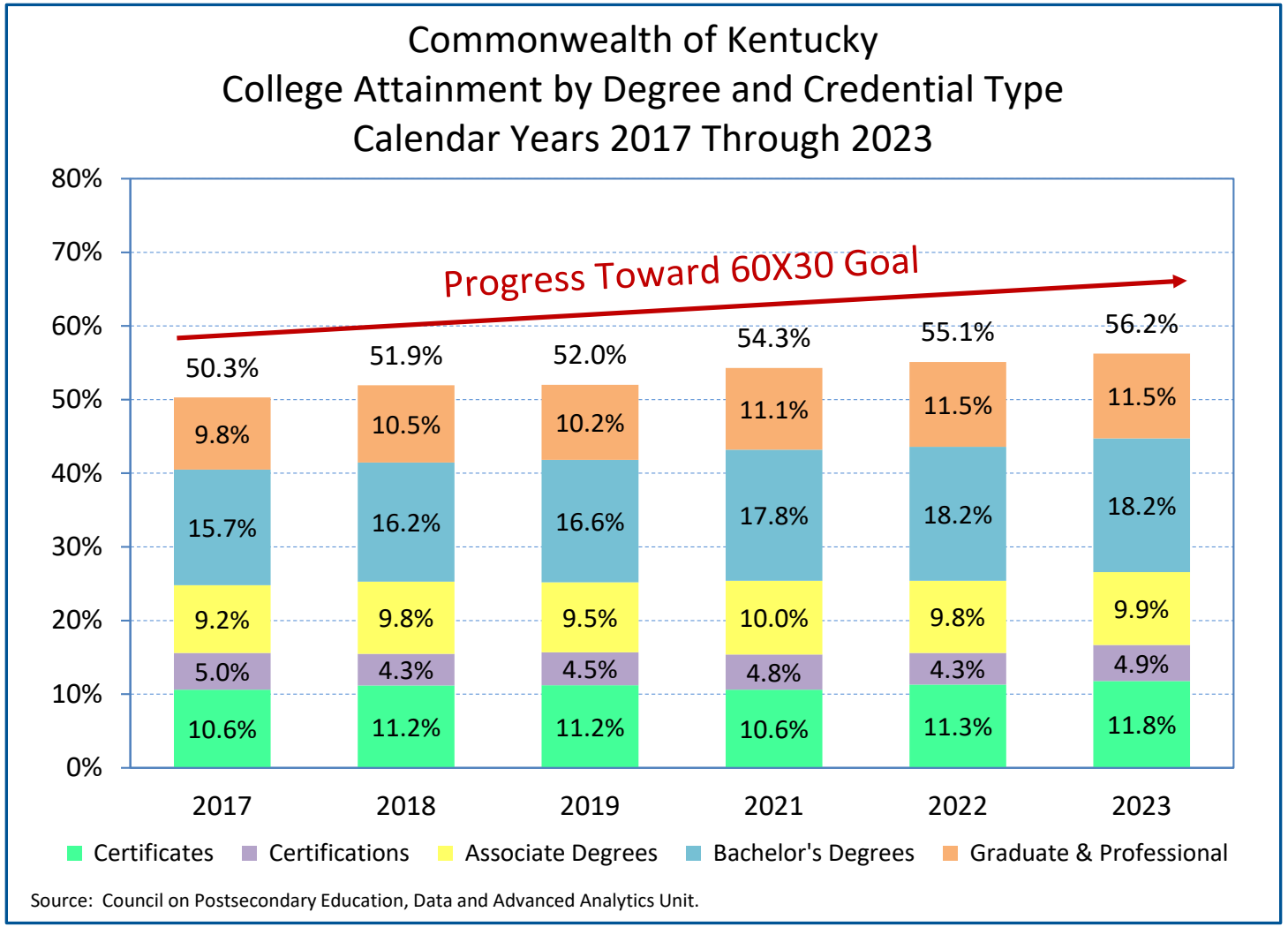
Completion Rate Improvement

- This chart shows the percentage point change in completion rates by state between fall semester 2017 and 2018 student cohorts
- From 2023 to 2024, Kentucky increased its six-year completion rate by 2.8 percentage points, from 59.4% to 62.2%
- This rate of improvement ranked KY 2nd highest in the nation, only a tenth of a point behind Utah
- With this gain, KY surpassed the national completion rate of 61.1%



Progress Toward College Attainment Goal

- Kentucky is continuing to make progress toward its 60x30 attainment goal
- Between 2017 and 2023, college attainment grew by 5.9 percentage points (or by about 1.0 ppt per year)
- Growth has occurred across all degree and credential types, except certifications
- The state is on track to reach its attainment goal



Questions?

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