

1 AN ACT relating to performance funding for postsecondary institutions.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 164.092 is amended to read as follows:

4 (1) For purposes of this section:

- 5 (a) "Category I and Category II square feet" means square footage that falls under  
6 space categories as defined by the Postsecondary Education Facilities  
7 Inventory and Classification Manual published by the United States  
8 Department of Education;
- 9 (b) "Comprehensive university" has the same meaning as in KRS 164.001;
- 10 (c) "Council" means the Council on Postsecondary Education;
- 11 (d) "Equilibrium" means a condition in which every institution has an  
12 appropriately proportionate level of resources as determined by the  
13 performance funding model established in this section given each institution's  
14 level of productivity in achieving student success outcomes, course  
15 completion outcomes, and other components included in the model;
- 16 (e) "Formula base amount" means an institution's general fund appropriation  
17 amount from the previous fiscal year net of debt service on bonds,  
18 appropriations for mandated programs as determined by the council, and any  
19 adjustments reflecting the previous fiscal year's performance distribution;
- 20 (f) "Hold-harmless provision" means a provision included in the funding  
21 formulas as described in subsection (9) of this section that prevents a  
22 reduction of a designated portion of funding for an institution through  
23 operation of the funding formula;
- 24 (g) "Institution" means a college in the Kentucky Community and Technical  
25 College System or a public university;
- 26 (h) "KCTCS" means the Kentucky Community and Technical College System;
- 27 (i) "KCTCS institution allocable resources" means the formula base amount net

1 of any equity adjustment as described in subsection (7)(b) of this section, any  
2 amount protected by a hold-harmless provision, and any applicable increase or  
3 decrease in general fund appropriations;

4 (j) "Research universities" means the University of Kentucky and the University  
5 of Louisville;

6 (k) "Stop-loss provision" means a provision included in the funding formulas as  
7 described in subsection (9) of this section to limit reduction of an institution's  
8 funding amount to a predetermined percentage, notwithstanding the amounts  
9 calculated by operation of the formula; and

10 (l) "University allocable resources" means the formula base amount net of any  
11 small school adjustment as described in subsection (5)(c) of this section, any  
12 amount protected by a hold-harmless provision, and any applicable increase or  
13 decrease in general fund appropriations.

14 (2) The General Assembly hereby finds that improving opportunity for the  
15 Commonwealth's citizens and building a stronger economy can be achieved by its  
16 public college and university system focusing its efforts and resources on the goals  
17 of:

18 (a) Increasing the retention and progression of students toward timely credential  
19 or degree completion;

20 (b) Increasing the number and types of credentials and degrees earned by all types  
21 of students;

22 (c) Increasing the number of credentials and degrees that garner higher salaries  
23 upon graduation, such as science, technology, engineering, math, and health,  
24 and in areas of industry demand;

25 (d) Closing achievement gaps by increasing the number of credentials and degrees  
26 earned by low-income students, underprepared students, and underrepresented  
27 minority students; and

- 1 (e) Facilitating credit hour accumulation and transfer of students from KCTCS to  
2 four (4) year postsecondary institutions.
- 3 (3) The General Assembly hereby declares these goals can best be accomplished by  
4 implementing a comprehensive funding model for the allocation of state general  
5 fund appropriations for postsecondary institution operations that aligns the  
6 Commonwealth's investments in postsecondary education with the  
7 Commonwealth's postsecondary education policy goals and objectives.
- 8 (4) This section establishes a comprehensive funding model for the public  
9 postsecondary education system to be implemented by the Council on  
10 Postsecondary Education. The funding model shall include a public university  
11 sector formula and a KCTCS sector formula.
- 12 (5) The funding formula for the public university sector shall:
- 13 (a) Recognize differences in missions and cost structures between research  
14 universities and comprehensive universities to ensure that neither are  
15 advantaged or disadvantaged during the first full year of implementation;
- 16 (b) Distribute one hundred percent (100%) of the university allocable resources  
17 for all universities in the sector, based on rational criteria, including student  
18 success, course completion, and operational support components, regardless  
19 of whether state funding for postsecondary institution operations increases,  
20 decreases, or remains stable;
- 21 (c) Include an adjustment to minimize impact on smaller campuses as determined  
22 by the council; and
- 23 (d) Be constructed to achieve equilibrium, at which point the funding formula  
24 rewards rates of improvement above the sector average rate.
- 25 (6) Funding for the public university sector shall be distributed as follows:
- 26 (a) Thirty-five percent (35%) of total university allocable resources shall be  
27 distributed based on each university's share of total student success outcomes

1 produced, including but not limited to:

- 2 1. Bachelor's degree production;
- 3 2. Bachelor's degrees awarded per one hundred (100) undergraduate full-  
4 time equivalent students;
- 5 3. Numbers of students progressing beyond thirty (30), sixty (60), and  
6 ninety (90) credit hour thresholds;
- 7 4. Science, technology, engineering, math, and health bachelor's degree  
8 production; and
- 9 5. Bachelor's degrees earned by low-income students and underrepresented  
10 minority students;

11 (b) Thirty-five percent (35%) of total university allocable resources shall be  
12 distributed based on each university's share of sector total student credit hours  
13 earned, excluding dual credit enrollment, weighted to account for cost  
14 differences by academic discipline and course level, such as lower and upper  
15 division baccalaureate, master's, doctoral research, and doctoral professional;  
16 and

17 (c) Thirty percent (30%) of total university allocable resources shall be distributed  
18 in support of vital campus operations as follows:

- 19 1. Ten percent (10%) shall be distributed based on each university's share  
20 of Category I and Category II square feet, net of research, nonclass  
21 laboratory, and open laboratory space, to support maintenance and  
22 operation of campus facilities and may include a space utilization factor  
23 as determined by the council in collaboration with the working group  
24 established in subsection (11) of this section;
- 25 2. Ten percent (10%) shall be distributed based on each university's share  
26 of total instruction and student services spending, net of maintenance  
27 and operation, to support campus administrative functions; and

1           3. Ten percent (10%) shall be distributed based on each university's share  
2           of total full-time equivalent student enrollment to support academic  
3           support services such as libraries and academic computing.

4 (7) The funding formula for the KCTCS sector:

5           (a) Shall distribute one hundred percent (100%) of KCTCS institution allocable  
6           resources for all KCTCS colleges based on rational criteria, including student  
7           success, course completion, and operational support components, regardless  
8           of whether state funding for postsecondary institution operations increases,  
9           decreases, or remains stable;

10          (b) May include an adjustment to account for declining enrollment in some  
11          regions of the Commonwealth as determined by the council; and

12          (c) Shall be constructed to achieve equilibrium, at which point the funding  
13          formula rewards rates of improvement above the sector average rate.

14 (8) Funding for the KCTCS sector shall be distributed as follows:

15          (a) Thirty-five percent (35%) of total KCTCS institution allocable resources shall  
16          be distributed based on each college's share of total student success outcomes  
17          produced, including but not limited to:

18           1. Certificate, diploma, and associate degree production;

19           2. Numbers of students progressing beyond fifteen (15), thirty (30), and  
20           forty-five (45) credit hour thresholds;

21           3. Science, technology, engineering, math, and health credentials  
22           production;

23           4. Production of high-wage, high-demand, industry credentials as  
24           determined using occupational outlook data and employment statistics  
25           wage data provided by the Kentucky Office of Employment and  
26           Training;

27           5. Production of industry credentials designated as targeted industries by

- 1                   the Education and Workforce Development Cabinet;
- 2           6.    Credentials earned by low-income students, underprepared students, and
- 3                   underrepresented minority students; and
- 4           7.    Transfers to four (4) year institutions;
- 5           (b)  Thirty-five percent (35%) of total KCTCS institution allocable resources shall
- 6                   be distributed based on each college's share of total student credit hours
- 7                   earned, weighted to account for cost differences by academic discipline; and
- 8           (c)  Thirty percent (30%) of total KCTCS institution allocable resources shall be
- 9                   distributed in support of vital campus operations as follows:
- 10           1.   Ten percent (10%) shall be distributed based on each college's share of
- 11                   Category I and Category II square feet, net of research, nonclass
- 12                   laboratory, and open laboratory space, to support maintenance and
- 13                   operation of campus facilities and may include a space utilization factor
- 14                   as determined by the council in collaboration with the postsecondary
- 15                   education working group established in subsection (11) of this section;
- 16           2.   Ten percent (10%) shall be distributed based on each college's share of
- 17                   total instruction and student services spending, net of maintenance and
- 18                   operation, to support campus administrative functions; and
- 19           3.   Ten percent (10%) shall be distributed based on each college's share of
- 20                   total full-time equivalent student enrollment to support academic
- 21                   support services such as libraries and academic computing.
- 22           (9)  (a)  The funding formula for both sectors shall include:
- 23                   1.   A hold-harmless provision for fiscal year 2018-2019 preventing a
- 24                   reduction in an institution's funding amount based solely on the formula
- 25                   calculation, and allowing a hold-harmless amount determined by the
- 26                   formula in fiscal year 2018-2019 to be deducted from an institution's
- 27                   formula base amount in whole or in part in fiscal years 2019-2020 and

- 1                   2020-2021, as determined by the council; and
- 2                   2. A stop-loss provision for fiscal ~~years~~[year] 2019-2020, 2020-2021,
- 3                   2021-2022, and 2022-2023 limiting the reduction in funding to any
- 4                   institution to one percent (1%) of that institution's formula base
- 5                   amount[; and
- 6                   ~~3. A stop-loss provision for fiscal year 2020-2021 limiting the reduction in~~
- 7                   ~~funding to any institution to two percent (2%) of that institution's~~
- 8                   ~~formula base amount].~~
- 9                   (b) 1. For fiscal year 2021-2022 and thereafter, hold-harmless[~~and stop-loss~~]
- 10                   provisions shall not be included in the funding formulas except by
- 11                   enactment of the General Assembly.
- 12                   2. For fiscal year 2023-2024 and thereafter, stop-loss provisions shall not
- 13                   be included in the funding formulas except by enactment of the
- 14                   General Assembly.
- 15                   (c) Paragraph (a) of this subsection shall not be construed to limit the level of a
- 16                   budget reduction that may be enacted by the General Assembly or
- 17                   implemented by the Governor.
- 18                   (10) (a) By April 1, 2017, and each April 1 thereafter, the council shall certify to the
- 19                   Office of the State Budget Director the amount to be distributed to each of the
- 20                   public universities and KCTCS as determined by the comprehensive funding
- 21                   model created in this section, not to exceed the available balance in the
- 22                   postsecondary education performance fund created in subsection (13) of this
- 23                   section.
- 24                   (b) The Office of the State Budget Director shall distribute the appropriations in
- 25                   the postsecondary education performance fund for that fiscal year to the
- 26                   institutions in the amounts the council has certified. The adjusted
- 27                   appropriations to each institution shall be allotted as provided in KRS 48.600,

1 48.605, 48.610, 48.620, and 48.630.

2 (c) For fiscal year 2017-2018, the Office of the State Budget Director shall  
3 distribute to the public postsecondary education institutions, except for  
4 Kentucky State University, those funds appropriated to the postsecondary  
5 education performance fund by the General Assembly in 2016 Ky. Acts ch.  
6 149, Part I, K., 12., in accordance with the comprehensive funding model  
7 created in this section.

8 (11) (a) The Council on Postsecondary Education is hereby directed to establish a  
9 postsecondary education working group composed of the following:

- 10 1. The president of the council;
- 11 2. The president or designee of each public postsecondary institution,  
12 including the president of KCTCS;
- 13 3. The Governor or designee;
- 14 4. The Speaker of the House or designee; and
- 15 5. The President of the Senate or designee.

16 (b) Beginning in fiscal year 2020-2021 and every three (3) fiscal years thereafter,  
17 the postsecondary education working group shall convene to determine if the  
18 comprehensive funding model is functioning as expected, identify any  
19 unintended consequences of the model, and recommend any adjustments to  
20 the model.

21 (c) The results of the review and recommendations of the working group shall be  
22 reported by the council to the Governor, the Interim Joint Committee on  
23 Appropriations and Revenue, and the Interim Joint Committee on Education.

24 (12) The council shall promulgate administrative regulations under KRS Chapter 13A to  
25 implement the provisions of this section.

26 (13) (a) The postsecondary education performance fund is hereby established as an  
27 appropriation unit to support improvement in the operations of the public

1 postsecondary institutions and achievement of the Commonwealth's education  
2 policy goals and workforce development priorities. General fund moneys may  
3 be appropriated by the General Assembly to this fund for distribution to the  
4 public postsecondary institutions in amounts determined through the  
5 comprehensive funding model created in this section.

6 (b) Any balance in the postsecondary education performance fund at the close of  
7 any fiscal year shall not lapse but shall be carried forward to the next fiscal  
8 year and be continuously appropriated for the purposes specified in this  
9 section. A general statement that all continuing appropriations are repealed,  
10 discontinued, or suspended shall not operate to repeal, discontinue, or suspend  
11 this fund or to repeal this action.