POSTSECONDARY EDUCATION WORKING GROUP
PERFORMANCE FUNDING MODEL REVIEW

December 2, 2020 - 9:00 AM, EST
ZOOM teleconferencing for Working Group members
Livestream video for public: https://youtu.be/AZVyqZOZ9cA

I. **Call to Order and Roll Call**

II. **General Fund Floor Proposal**

III. **Next Steps**

IV. **Adjournment**

Postsecondary Education Working Group
Application of Funding Models Going Forward

At the November 20, 2020 meeting of the Postsecondary Education Working Group, members discussed and were in general agreement regarding the following proposal:

- A General Fund appropriation floor ("Floor 21") will be established for each public postsecondary institution that equals each institution's adjusted net General Fund appropriation for fiscal year 2020-21 (FY21).
- The FY21 adjusted net General Fund is defined as each institution's FY21 regular appropriation plus each institution's respective FY21 distribution from the Postsecondary Education Performance Fund (PEPF) less FY21 debt service and less FY21 Mandated Programs. (This way the "Floor 21" number will remain the same even as the General Assembly makes changes to the mandated programs.)
- The postsecondary institutions will provide no stop loss contributions to the PEPF; therefore all funding in the PEPF will be appropriations provided by the General Assembly.
- CPE will utilize the existing performance funding model, with no changes, to distribute any new funding appropriated to the PEPF.
- Performance funds distributed will be non-recurring to the base of the institutions that earn these funds, so that the funds will be recurring to the PEPF in subsequent years.
- CPE will reconvene the working group in 2022 and submit a report with recommendations by December 1, 2023.

Other Considerations:

- It is unlikely that institutions with relatively large hold harmless allocations in 2020-21 (e.g., KSU and MoSU) would receive any of the nonrecurring distributions from the performance fund; however, those institutions would receive their General Fund floor unless there is a budget reduction.

- Mandated program appropriations should continue to be line-itemed in appropriations bills and are subject to increase or decrease as determined by the General Assembly.
- The General Assembly is in no way constrained by the proposed General Fund floor for each institution in the event that a budget reduction is necessary, but the General Assembly should prioritize maintaining each institution's General Fund floor over providing performance fund appropriations. If a budget reduction were to affect the institutions' General Fund appropriations, then new dollars in subsequent years would first be dedicated to restore universities to their General Fund floors ("Floor 21") before new funds are appropriated to the PEPF.
- There will be no redistribution of base funding among institutions.
- Institutions should invest all funds in high ROI student success strategies. This is especially true with performance monies as the funds are distributed on a nonrecurring basis.

Observations and Comments

- Addresses the "fiscal cliff" at three universities and six community and technical colleges for the next three years.
- Reductions to the PEPF could be perceived differently than a budget cut, since the PEPF appropriation is not tied specifically to an institution.
- Over time, institutions that earn performance distributions may come to rely on these appropriations.
- Simply maintaining a General Fund floor over time does not help to support inflationary cost increases or growth in student success outcomes.

POSSIBLE MODIFICATION:

- Goal: to maintain one of the performance funding model goals of moving toward funding equity among the institutions, while improving the opportunity for all institutions to benefit from improved performance. The current formula freezes out or limits certain institutions' ability to benefit from the performance funding pool.
- Rather than having all performance earnings returned to the PEPF, develop an adjustment that would allow a portion of the General Fund earned by institutions with lower General Fund per FTE to be retained by those institutions on a recurring basis.

- This modification would help close the equity gap between these institutions and their peers.
- Details of the mathematics required to implement this modification are yet to be fully developed.

Regular Appropriation [1] (A)

Institution	2021-22	2022-23	2023-24	2024-25
University of Kentucky	$265,230,800	$265,230,800	$265,230,800	$265,230,800
University of Louisville	127,056,800	127,056,800	127,056,800	127,056,800
Eastern Kentucky University	65,414,200	65,414,200	65,414,200	65,414,200
Kentucky State University	25,384,300	25,384,300	25,384,300	25,384,300
Morehead State University	38,332,900	38,332,900	38,332,900	38,332,900
Murray State University	43,753,800	43,753,800	43,753,800	43,753,800
Northern Kentucky University	52,247,500	52,247,500	52,247,500	52,247,500
Western Kentucky University	73,354,100	73,354,100	73,354,100	73,354,100
KCTCS	174,581,000	174,581,000	174,581,000	174,581,000
Total	$865,355,400	$865,355,400	$865,355,400	$865,355,400

Performance Funds [2] (B)

Category	2021-22	2022-23	2023-24	2024-25
Recurring From Prior Year	$0	$0	$20,000,000	$60,000,000
New Funding	0	20,000,000	40,000,000	0
Total	$0	$20,000,000	$60,000,000	$60,000,000

		2021-22	2022-23	2023-24	2024-25
Grand Total	(A + B)	$865,355,400	$885,355,400	$925,355,400	$925,355,400

Performance Distributions

Institution	2021-22	2022-23	2023-24	2024-25
University of Kentucky	$0	$5,643,100	$16,459,600	$16,459,600
University of Louisville	0	3,830,600	11,173,600	11,173,600
Eastern Kentucky University	0	1,898,000	5,536,000	5,536,000
Kentucky State University	0	0	0	0
Morehead State University	0	0	0	0
Murray State University	0	516,500	2,802,000	2,802,000
Northern Kentucky University	0	1,564,200	4,562,300	4,562,300
Western Kentucky University	0	2,125,800	6,201,000	6,201,000
KCTCS	0	4,421,800	13,265,500	13,265,500
	$0	$20,000,000	$60,000,000	$60,000,000

Revised Net General Fund

Institution	2021-22	2022-23	2023-24	2024-25
University of Kentucky	$265,230,800	$270,873,900	$281,690,400	$281,690,400
University of Louisville	127,056,800	130,887,400	138,230,400	138,230,400
Eastern Kentucky University	65,414,200	67,312,200	70,950,200	70,950,200
Kentucky State University	25,384,300	25,384,300	25,384,300	25,384,300
Morehead State University	38,332,900	38,332,900	38,332,900	38,332,900
Murray State University	43,753,800	44,270,300	46,555,800	46,555,800
Northern Kentucky University	52,247,500	53,811,700	56,809,800	56,809,800
Western Kentucky University	73,354,100	75,479,900	79,555,100	79,555,100
KCTCS	174,581,000	179,002,800	187,846,500	187,846,500
	$865,355,400	$885,355,400	$925,355,400	$925,355,400

[1] Each institution's fiscal year 2020-21 General Fund floor (i.e., "Floor 21"), plus mandated program appropriations.

[2] Hypothetical General Fund appropriations to the Performance Fund provided by the General Assembly.

Hypothetical Performance Distributions Assuming General Fund Floor

Fiscal Years 2021-22 Through 2024-25

December 2, 2020

Assumptions:

- A funding floor for the public postsecondary institutions will be established beginning in fiscal year 2021-22 that equals each institution's adjusted net General Fund appropriation for fiscal year 2020-21 (i.e., the "Floor 21").
- That floor will be maintained each year for the next four years (i.e., fiscal years 2021-22, 2022-23, 2023-24, and 2024-25).
- For the next four years, there will be no funding carved out of postsecondary institution base appropriations to be placed in the Postsecondary Education Performance Fund (PEPF). In other words, the institutions will not provide stop-loss contributions to the fund during this period; therefore, all funding in the PEPF will be appropriations provided by the General Assembly.
- For the purposes of this scenario, relative to the fiscal year 2020-21 level of funding, it is assumed that the General Assembly will appropriate $0 in fiscal year 2021-22, $20 million in fiscal year 2022-23, $60 million in fiscal year 2023-24 (i.e., the recurring $20 million from the prior year, plus an additional new $40 million), and $60 in fiscal year 2024-25 (i.e., the recurring $60 million from the prior year) to the Postsecondary Education Performance Fund.
- CPE staff will apply the public university funding model, and KCTCS officials will apply the two-year college model, as currently defined in statute (KRS 164.092) with no changes to either model over the next four years.
- In any given year, the distribution of performance funds among institutions will not be recurring to the institutions that earned those funds, but the funds would be recurring to the PEPF (e.g., as is the assumed $20 million recurring in the fund from the prior year in 2023-24 and the $60 million recurring in the fund from the prior year in 2024-25).
- The scenario assumes no change in the three-year rolling average of performance data or mandated program appropriations that were used during the current year iteration of the performance funding model (i.e., fiscal year 2020-21).

KCTCS Detail:

Institution	Base Allocation 2021-22	Performance Distribution 2022-23	Performance Distribution 2023-24	Performance Distribution 2024-25
Ashland	$8,599,200	$0	$0	$0
Big Sandy	9,735,900	0	0	0
Bluegrass	18,096,700	1,086,800	2,896,200	2,896,200
Elizabethtown	11,444,800	371,500	1,182,500	1,182,500
Gateway	8,924,600	464,900	1,263,600	1,263,600
Hazard	11,049,500	0	0	0
Henderson	4,231,400	0	0	0
Hopkinsville	6,014,700	355,300	921,600	921,600
Jefferson	20,833,700	225,300	1,284,700	1,284,700
Madisonville	7,898,500	0	0	0
Maysville	7,970,100	467,700	1,229,200	1,229,200
Owensboro	8,168,200	527,000	1,356,300	1,356,300
Somerset	12,459,300	340,600	1,163,400	1,163,400
Southcentral	9,259,200	464,600	1,277,100	1,277,100
Southeast	9,248,600	0	0	0
West Kentucky	11,827,200	118,100	690,800	690,800
	$165,761,600	$4,421,800	$13,265,400	$13,265,400

Assumptions:

- Each institution's 2020-21 base allocation was used for model scenarios, with no changes to recurring allocations.
- Fiscal year 2020-21 funding model calculations were used for model scenarios (i.e., 2018-19 metrics).