



National Landscape of Higher Education Funding Formulas

Kentucky Performance Funding
Workgroup meeting

August 25, 2026

Overview

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2. National Landscape of Performance Funding
3. State Examples of Approaches to Higher Education Funding
 - Core Costs
 - Enrollment
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 - Mission Differentiation
4. Other Topics for Consideration

Introductions



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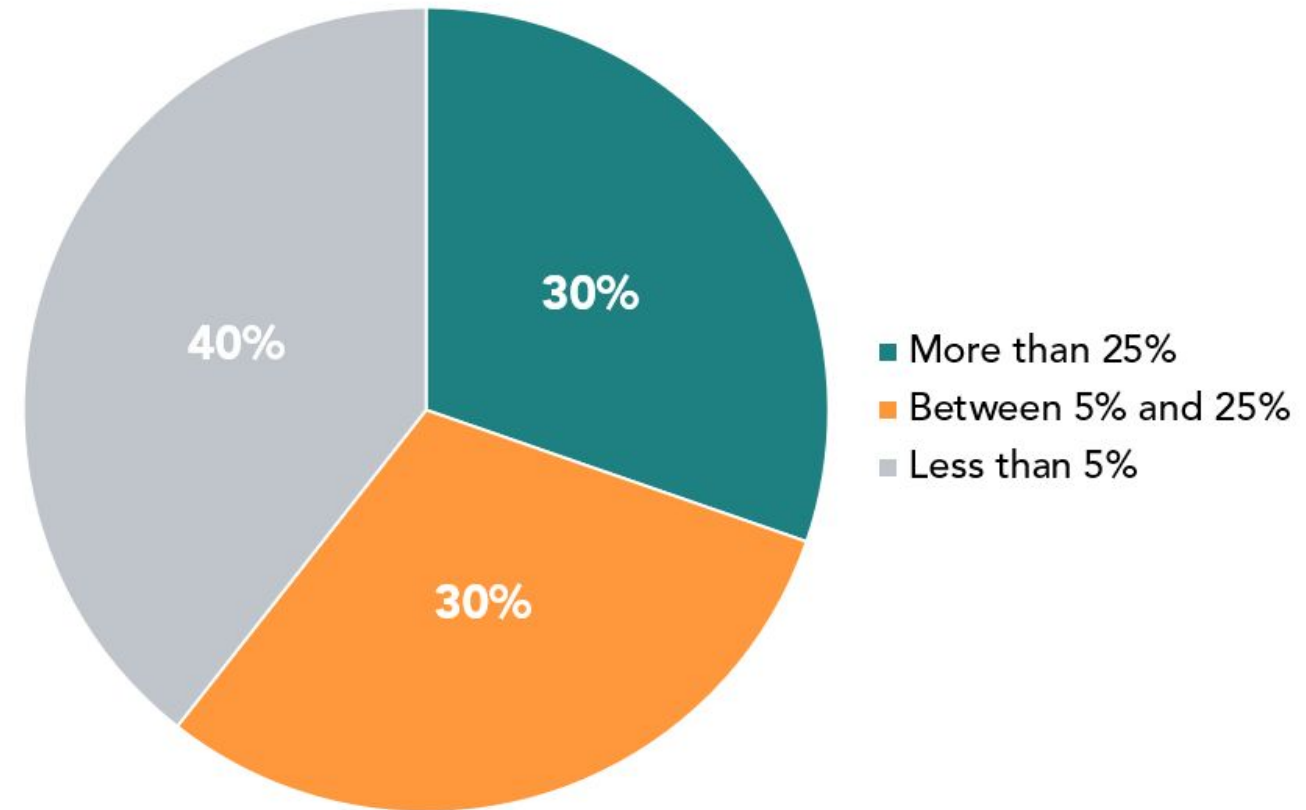


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National Landscape of Performance Funding

- 35 states with performance funding formulas.
- 24 states with performance funding in both the two- and four-year sectors.
- Wide variation in metrics, weights, and size of components.
- About 40% states allocate less than 5% of total funding based on outcomes.

Share of States by Percentage of Funding Formula Allocated to Performance Metrics (2025)

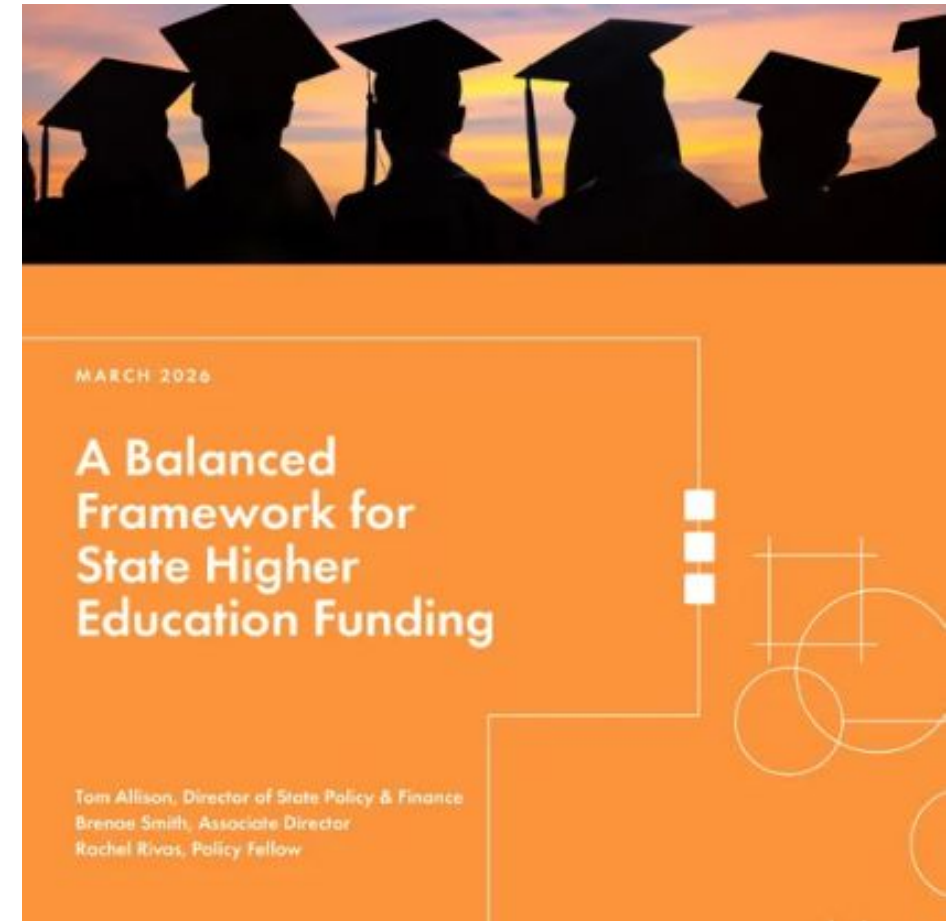


Allocation Approaches

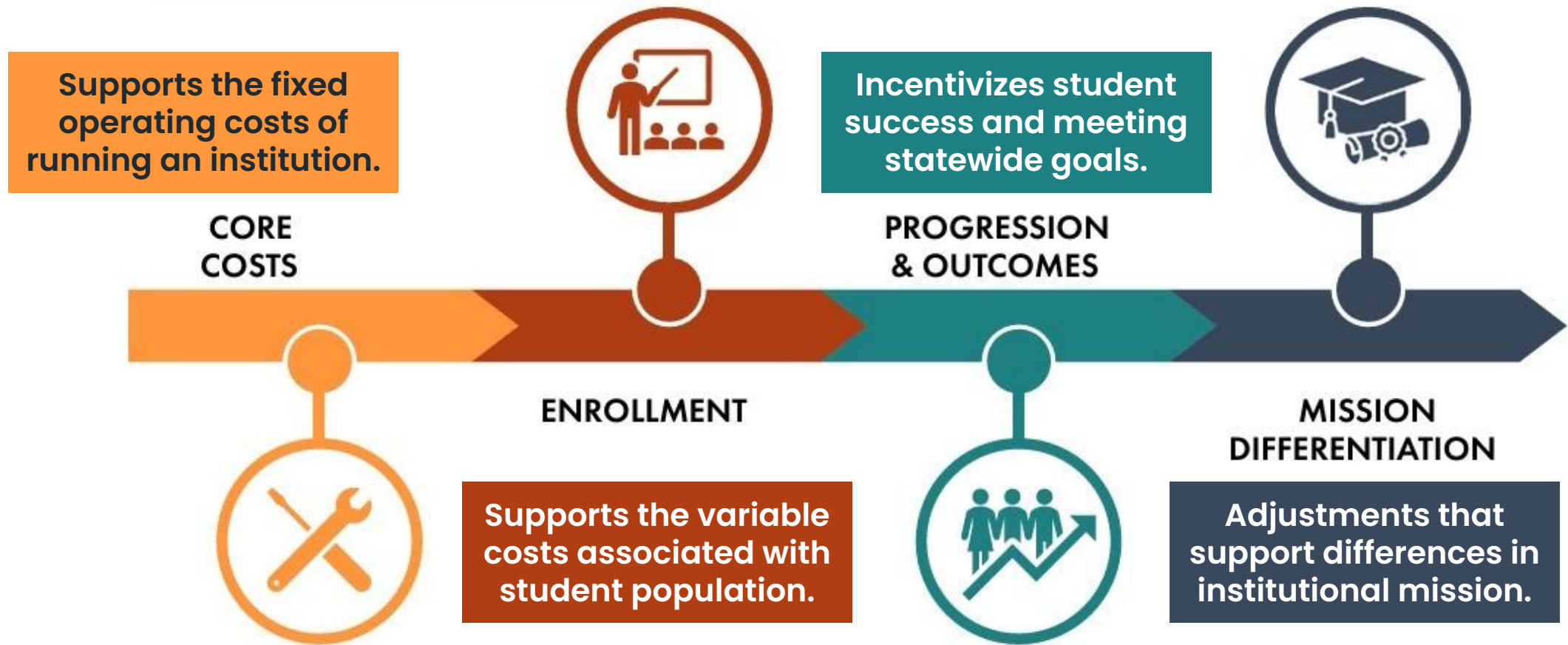
Approach	Description	Illustration	State Example
Share of Outcomes	Funding is based on each institution's share of the total outcomes generated in the state. Metrics can be scaled and weighted as desired.	Institution A produces 15% of all outcomes, so it receives 15% of the OBF funds.	Kentucky Ohio
Relative Growth	Funding is based on how much an institution improves over its own baseline relative to others' improvement.	Institution A improves its outcomes by 10%. Others improve by 0–5%. Institution A receives a larger share of the OBF than it did last year.	Tennessee
Target-Based	Funding is based on whether an institution reaches set targets for its outcomes.	Institution A achieves 90% of its target outcomes; it receives 90% of its designated OBF funding. Institution B achieves 120% of its target; it receives 100% of its funding.	Florida

Principles of a Strong Postsecondary Finance System

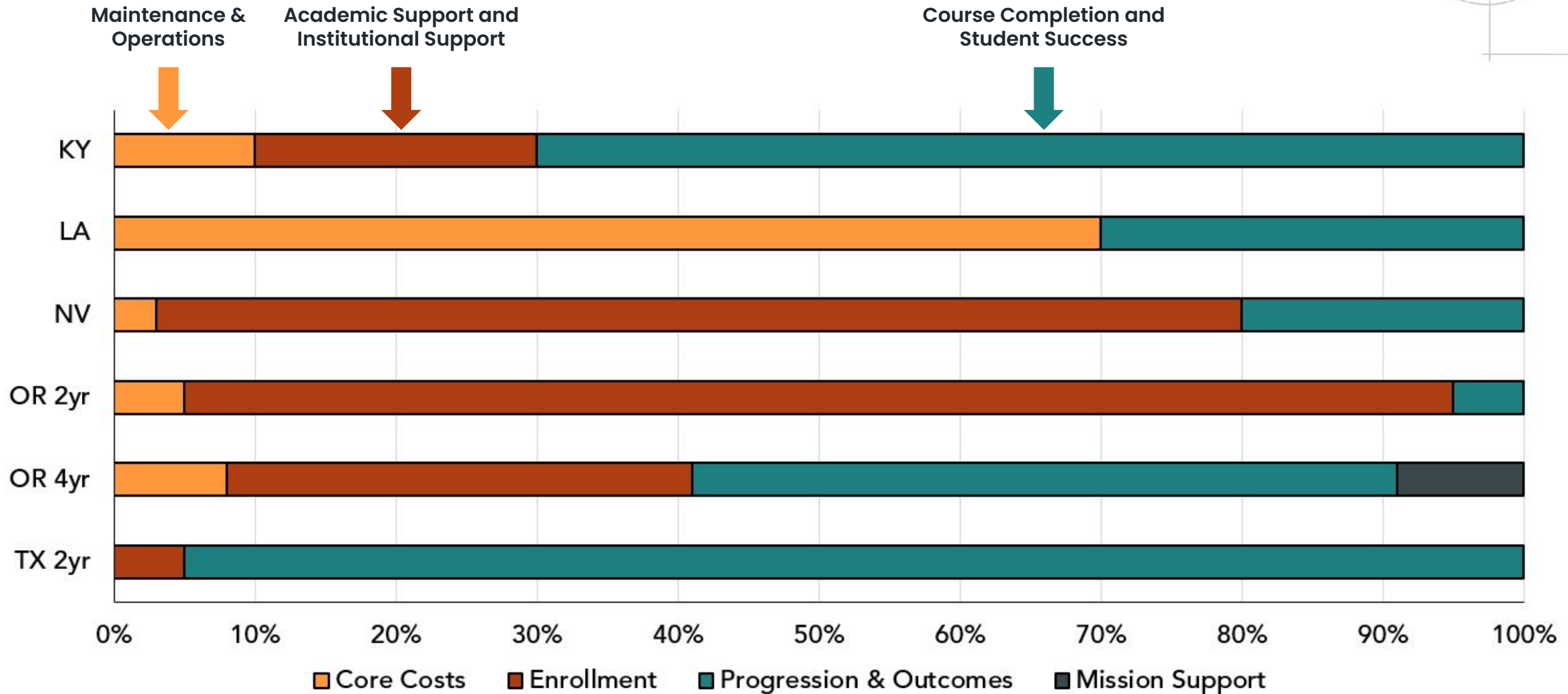
- Advance a state's strategic goals
- Center student needs and success
- Align with institutional cost drivers



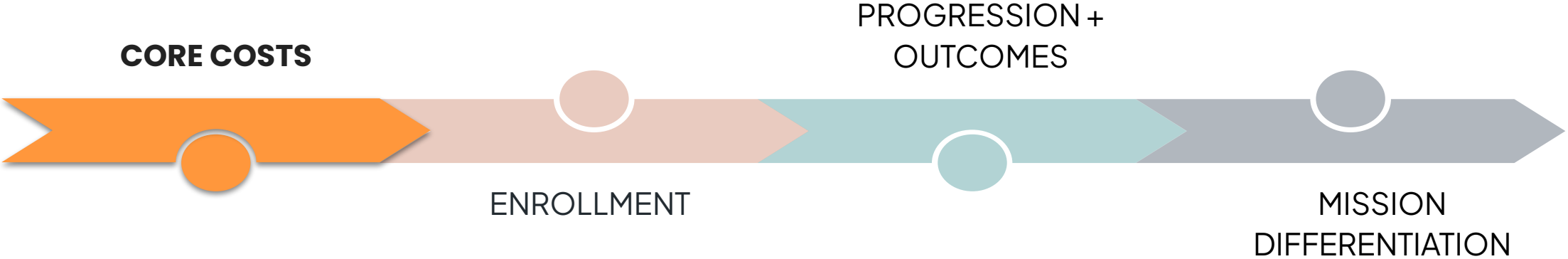
The Balanced Framework for State Higher Education Funding



Combinations of Formula Components Across States



CORE COSTS: supports the fixed operating costs of running an institution.

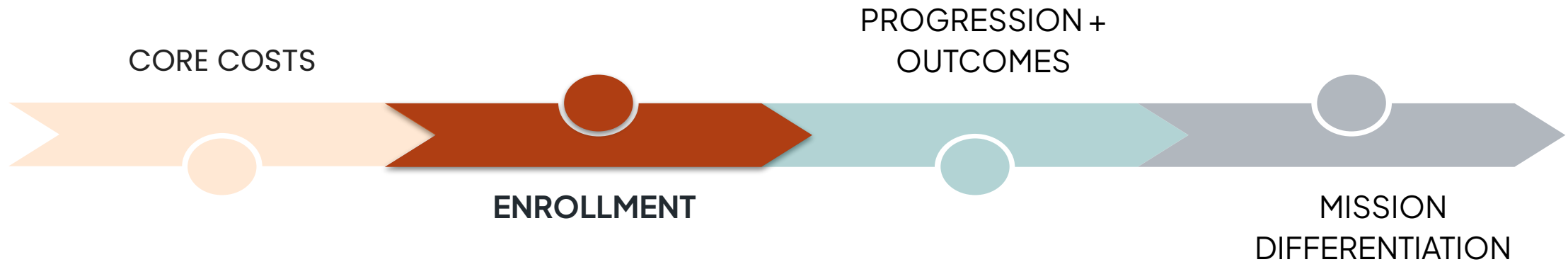


Current Practice in Kentucky	Other State Practices
• Maintenance & Operations allocation based on square footage of facilities • Small School Adjustment/CNI • Funding Floor	• Minimum \$ per institution • Adjustments for size, geography, mission-specific

Approaches to Core Cost Funding

State Approaches	Pros	Cons	State Examples
Guaranteed minimum amount	Addresses core costs regardless of enrollment	Guaranteed amount is usually small - \$3-\$11 million	California Oregon Texas
Funding floor or hold harmless amount	Creates stability for institutions that know they will receive at least the minimum	Funding floors are time-specific and do not account for inflation	California Kentucky
Only appropriate new money through outcomes model (base remains constant)	Base funding is protected Every institution should receive a share of new funding	Once distributed, new money accounts for a small amount Some years there is no new money	Pennsylvania Hawaii
A portion of the formula is based on previous year's allocation	Possibility for incremental increases as performance funds get incorporated into the base	Possibility for decreasing the base when there is a loss of performance funding	Louisiana Minnesota New Mexico

ENROLLMENT: Supports the variable costs associated with student population.



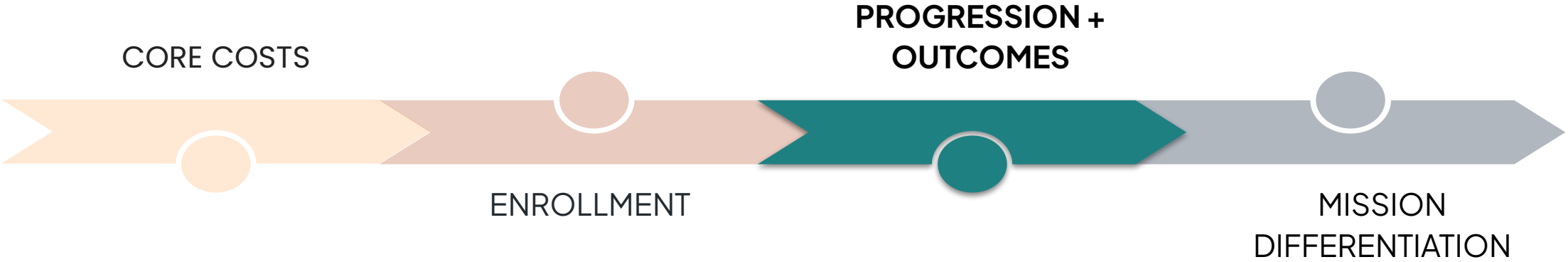
Current Practice in Kentucky

- Academic Support allocation based on share of FTE enrollment
- Institutional Support based on share of spending on instruction and student services

Other State Practices

- Weighted enrollment based on priority student populations
- Weighted enrollment based on program or field of study

PROGRESSION & OUTCOMES: Incentivizes student success and meeting statewide goals.

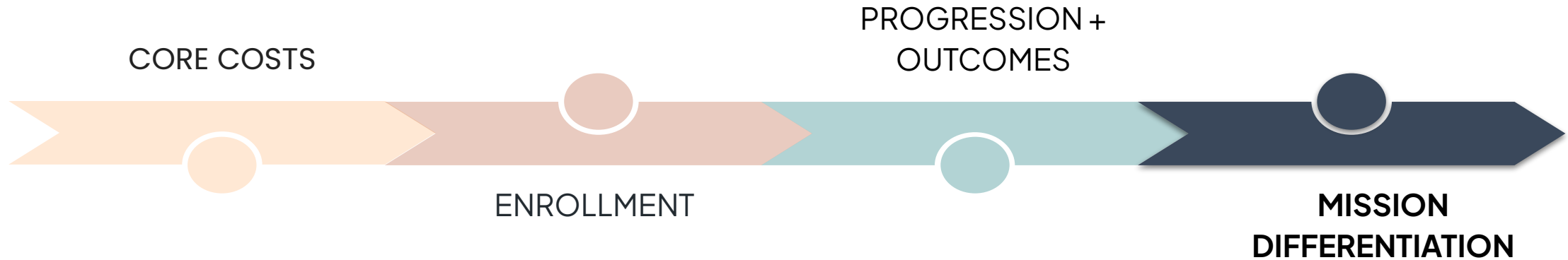


Current Practice in Kentucky	Other State Practices
• Course Completion allocation • Student Success allocation • Focus on low income and first-generation completions • Focus on STEM+H degrees	• Post-completion outcomes (job placement, wages, ROI) • Metrics or adjustments for high-priority programs • Graduate degree production

Approaches to Workforce and Talent Metrics

Approaches	Metric Examples	State Examples
Include post-completion metrics	Job Placement (in-state)	FL, WI, WV
	Wages/Earnings	CA, FL, OK, WV
	ROI	AR, TX
Weight SCH or degrees awarded in high-priority programs that align with statewide goals	Cost-Based (weight programs that are more expensive to produce)	NV, OH
	Strategy-Based (weight programs that are of strategic interest to the state, such as economic development)	KY, OR, VA
	Market-Based (weight programs that are high-demand based on labor market analysis)	LA, TX, UT

MISSION DIFFERENTIATION: Adjustments that support differences in institutional mission.



Current Practice in Kentucky	Other State Practices
• Sector differentiation – separate funding pools and metrics for universities and KCTCS • Small School Adjustment • Research university weights	• Within sector differentiation of metrics institutional characteristics • Institutional selection of metrics • Research-specific allocations • Rural-serving designations

Other Topics for Consideration



Adequacy

Determining the basic level of resources required to achieve desired outcomes



Affordability

Incorporating metrics and incentives to reduce cost, debt, or time-to-degree



Graduate Degrees

Including graduate education in outcomes metrics



Research Differentiation

Accounting for the differing missions between research and comprehensive institutions

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