

November 5, 2014

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: New USHE Performance Funding Model

Background

In 2013, the Utah Legislature provided \$1 million in one-time funds to incent Utah System of Higher Education (USHE) institutions to meet specific performance metrics that aid college completion. These metrics were subsequently adopted by the Board of Regents and funding was awarded to institutions based on their performance on the metrics. Similarly, in 2014, the Legislature provided 1.5 million in one-time money for performance funding. Metrics were adopted by the Board and funding will be allocated to institutions based on their performance in July 2015.

There is continued strong interest, by Senator Steve Urquhart and others in the legislature, in using a portion of new state funding to provide incentives for performance on measures related to student success. In the spring of 2014 the Commissioner appointed a working group chaired by President Charles Wight, Weber State University, and including President David Pershing of the University of Utah and President Scott Wyatt of Southern Utah University, to develop a new performance funding model. This working group considered models in other states as well as guiding principles articulated by the Commissioner. In September 2014, the working group provided a draft to the Commissioner, who then worked with them to make a few modifications and refinements. The revised draft was presented to the Council of Presidents on October 28, 2014 and received their support.

On September 26, 2014, the Board of Regents included \$5 million for Performance Funding in the Utah System of Higher Education 2015-16 Budget Request to the Governor and the Legislature. It is proposed the new model, supported by the institutional presidents and the Commissioner, be used to implement any performance funding appropriated during the 2015 legislative session.

Issue

The proposed new Performance Funding Model is described in the attached document. Its purpose is to provide a plan that, using new increments of state tax funds, "will incentivize each institution within USHE to improve the quality, access and affordability of higher education in Utah."

Under this model, funding will be allocated to institutions based 50% on their share of USHE graduates, and 50% on their share of USHE state tax funding. This provides a further incentive for increasing each institution's share of graduates in the system, while also taking into account higher cost programs. Institutions will receive a share of the funding allocation based on performance on the established metrics. Funds not distributed will be redistributed to institutions based on their success on the identified metrics.

It is proposed that three common metrics be used for all USHE institutions; each institution will select either one or two additional metrics from a list of options provided in the plan. (A president may propose for approval of the Commissioner to substitute a unique metric of comparable rigor). With one exception, the metrics are aimed at bringing institutions to "best in class" performance as defined as the top quartile (75 percent or better) of their national Carnegie peers with the goal of improving at least 10 percent annually toward "best in class." The one exception to using national comparisons is the metric encouraging institutions to develop a meaningful graduation plan for each student since national comparisons are not available; however, this does reflect best practices as described by Complete College America.

The three proposed system-wide metrics are:

1. Completion as measured by percent students (as reported by IPEDS) graduating within 150 percent of time to degree or certificate.
2. Improvement in the percent of FTE students who have signed, by the end of their first semester, a meaningful plan leading to their graduation.
3. Access as measured by the percentage of degree-seeking undergraduate students with Pell grant support.

Proposed options for institutional-specific metrics are:

1. Affordability as measured by average tuition and fees collected per FTE student as compared to (that is, lower than) their peers.
2. First-to-second year student retention for full-time and part-time students.
3. Percent of students successfully completing a math course leading to successful degree completion or transfer in the first semester.
4. Degrees/certificates awarded per FTE student.
5. Average wage earned by Career and Technical Education graduates (certificates and associate degrees).
6. Transfer Conversion Rate—successful transfers resulting in a degree within 150 percent of time (for community colleges).
7. Research funding per faculty member (for research universities).
8. Graduate degrees awarded per tenured faculty member (for research universities).

Assuming funding is provided by the 2015 legislature, institution-specific goals and allocations will be presented to the Board of Regents for approval in July 2015. For the first year, funds will be allocated to institutions on a one-time basis to assist them in preparing to meet system and institutional goals.

Commissioner's Recommendation

The Commissioner recommends the Regents approve the performance funding model as included in the attached document.

David L. Buhler
Commissioner of Higher Education

DLB
Attachment

Proposal to Utah Board of Regents Performance Funding Model November 5, 2014

Vision

- Create and implement a Performance Funding (PF) Plan that, with new increments of state tax funds, will incentivize each institution within USHE to improve the quality, access and affordability of higher education in Utah.

Guiding Principles

- PF Metrics: three in common across all USHE institutions; one unique to each USHE institution
 - For the institutional unique metric, either:
 - One or two unique metric(s) selected by the president from an approved list of possibilities.
 - One of two unique metrics may be recommended by a president and approved by the commissioner.
 - Wherever possible, the metrics should be based on existing, nationally reported measures that are already tracked (e.g., IPEDES) rather than developing new metrics unique to this model.
 - Proposed metrics will be presented to the Board of Regents for approval on an annual basis.
- PF Metrics-Comparisons: Performance metrics should be compared with peer sets from Carnegie or other national comparison data sets, rather than between USHE institutions.
 - Ideally, performance metrics should also help presidents encourage strategic changes at their own institution.
- PF Goal: The Goal is to earn Best-in-Class (top quartile) status ranking as compared to the peer benchmark. In this manner, PF should clearly reward educational quality and access.

- Peer benchmarks and Best-in-Class (top quartile) will be determined and locked-in for three years. At the end of three years they will be evaluated and either continued or updated.
- Performance Funding Distribution: Once an institution receives an allocation of PF Funding for achieving a goal, those funds will become on-going base funds, allowing institutional improvements to be made permanent, including through the hiring of permanent faculty and staff. Allocation of funding by the Commissioner's Office for each institution will be based 50/50 on the institution's share of USHE graduates and of state tax funds.
 - Presuming Performance Funding dollars are appropriated during the 2015 Legislative Session, funds for FY 2016 will be awarded as follows:
 - Award the PF funds on a one-time basis to all USHE institutions immediately after July 1, 2015.
 - Set USHE institution-specific goals for FY 2016 ongoing funds that are Regent-approved in the July 2015 Regents meeting
 - Depending on Goal Achievement, allocate on-going funds to the USHE institution base budgets beginning with July 1, 2016.
 - The institutional allocations will be divided equally for each institution among the four/five metrics.
 - Funds awarded will be based on the portion of each goal met; i.e., if an institution reaches 50% of goal one, it receives 50% of the allocation for that goal; if 100% of goal two, it will receive 100% of the allocation for that goal, etc.
 - For any funds NOT earned by a USHE institution in a given year:
 - To account for one-year anomalies and to further encourage performance the 1st year, the funds not earned go to the other USHE institutions on a one-time basis based on goals met.
 - 2nd year - funds are still available to the "original" institution to be earned as on-going base dollars, & if not earned, are then provided to the other USHE

institutions (based on goals met) on a one-time basis.

- 3rd year - funds not earned by the original institution in the 2nd year are then added to the available pool of PF funds available for allocation to all USHE institutions.

Incentive Concept

- Financially reward institutions for moving toward **Best in Class** performance (the top quartile - 75th percentile or better) of their national peers
 - The objective each year (as applicable) will be to move the selected metrics up at least 10% of the way from current performance to the Best in Class performance level (75th percentile).
 - Once an institution reaches the Best in Class level for a particular metric the institution should continue to be rewarded each year for maintaining excellence.
 - In the event that an institution does not make the full 10% change goal in a particular year, fractional credit will be given.

Example: If a USHE institution's graduation rate in the prior year was 40% and the Best in Class mark is 60%, then the one-year improvement goal is 2.0% (covering 1/10 of the gap). If the institution meets or exceeds the one-year improvement goal, it receives the maximum credit toward performance funding. If it achieves only 65% of its one-year goal, it receives 65% of the maximum credit toward performance funding.

Evaluation Metrics

- USHE leaders will develop a list of three common metrics, which characterize high performing educational institutions with different missions. Each USHE institution will also have one or two institution-specific metric(s).
 - In each case, Best in Class (top quartile) performance will be documented for national peer public-university groups.

- The Commissioner, Presidents and Regents will agree on the three common metrics for the entire system. Individual presidents will then choose one or two additional for their own institution.
- It is proposed the three system-wide metrics shall be:
 - 1) Completion as measured by percent of students (first-time/full-time as reported in IPEDS) graduating within 150 percent of time to degree or certificate (e.g., six years for a baccalaureate, three years for an associate's degree).
 - 2) Improvement in the percent of FTE students who have signed, by the end of their second semester, a meaningful plan leading to graduation (certificate or degree completion).
 - 3) Access as measured by the percentage of degree-seeking undergraduate students with Pell grant support.
- Institutional presidents shall select one or two institution-specific metrics from the following list. With the approval of the Commissioner, Presidents may select as one of their metrics something not listed that is of comparable rigor.
 - Affordability as measured by average tuition and fees collected per FTE student (as compared to (lower than) peers
 - First to second year student retention for full-time and part-time students
 - Percent of students successfully completing in their first semester a math course that will advance their progress toward degree completion or transfer.
 - Degrees/certificates awarded per FTE student
 - Average wage earned by Career and Technical Education graduates (certificates and associate degrees)
 - Transfer Conversion Rate--successful transfers resulting in a degree within 150 percent of time (for community colleges)
 - Research funding per faculty member (for research universities)
 - Graduate degrees awarded per tenured faculty member (for research universities)