

January 14, 2015

MEMORANDUM

TO: State Board of Regents

FROM: David L. Buhler

SUBJECT: New USHE Performance Funding Model Proposal

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 in the Legislature and others for a portion of new state funding to be used 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. This proposal was included in the Board of Regents meeting agenda for November 14, 2014. However, the Commissioner asked the Board to defer action on the item in order to provide additional time to refine the proposal.

Revisions were taken by the Commissioner to the Council of Presidents meeting on January 6, 2015, and based on their further input, additional changes were made. These changes have been incorporated in this proposal to the Board of Regents.

On September 26, 2014, the Board of Regents included \$5 million for Performance Funding in the USHE 2015-16 Budget Request to the Governor and the Legislature. This new model is proposed to the Legislature in support of the Regents' funding request. If the Legislature appropriates new money for Performance Funding, the model will come back to the Board, along with specific metrics selected by institutions, for approval in July 2015.

## Issue

The 2015-16 USHE budget request includes support for employee compensation, student participation, distinctive mission, and performance funding, all of which serve to further the strategic directions of the Board of Regents—affordable participation, timely completion, and innovative discovery. Similar budget priorities are expected in future years, in particular, support for employee compensation and student participation, as well as performance funding. The proposed new Performance Funding Model is described in the attached document. Using new increments of state tax funds, the proposed model will provide meaningful incentives for each institution within USHE to improve the quality, access and affordability of higher education in Utah.

The overall objective of Performance Funding is for each institution to measure in the top third (67 percent or better)—defined as “best-in-class”—in specific metrics when compared to its national Carnegie peers.

Institutions will be rewarded for their progress on four or five metrics: three system-wide, and one or two institution-specific. The annual goal is to improve on each metric at least 7 percent of the way from current performance to the best-in-class benchmark.

The three proposed system-wide metrics are:

1. Completion as measured by percentage of students graduating within 150 percent of time to degree or certificate.
2. Affordability as measured by the published in-state tuition and fees for undergraduate students.
3. Access as measured by the percentage of degree-seeking undergraduate students with Pell grant support.

Presidents will select one or two institution-specific metrics from the following list:

1. First-to-second year student retention for full-time students.
2. First-to-second year student retention for part-time students.
3. Degrees/certificates awarded per FTE student.

With approval of the Commissioner and Board, Presidents may also select as one of their institution-specific metrics something not listed above, which furthers the strategic directions of the Board of Regents, is of equivalent rigor, and has national data available for comparisons.

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. At each institution, Performance Funding will be divided equally among the four or five metrics, and funds awarded will be based on the percentage of each goal met. Funds not distributed will be redistributed to institutions based on their success in meeting identified metrics.

If funding is provided by the 2015 legislature, the model including institution-specific goals and allocations will be presented to the Board of Regents for approval in July 2015.

Commissioner's Recommendation

The Commissioner recommends the Board of Regents approve, as a proposal to the 2015 Legislature, the Performance Funding Model as described in the attached document.

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David L. Buhler  
Commissioner of Higher Education

DLB  
Attachment

## **Introduction**

The 2015-16 USHE budget request includes support for employee compensation, student participation, distinctive mission and performance funding, all of which serve to further the strategic directions of the Board of Regents—affordable participation, timely completion and innovative discovery. This document proposes a Performance Funding model, which will complement the other elements in the 2015-16 budget request and will incentivize USHE institutions to improve the quality, access and affordability of higher education in Utah.

## **Objective**

The overall objective of Performance Funding is for each USHE institution to rank best-in-class (initially defined as the top third percentile or better) as compared to its peer benchmark.

## **Metrics**

Each institution will have four or five metrics. Three of these metrics will apply to the entire USHE system. Each President will then choose an additional one or two institution-specific metrics.

### *System-wide Metrics*

The proposed system-wide metrics are:

- 1.) Completion as measured by percent of first-time, full-time students (IPEDS Graduation Rate Survey) graduating within 150% of time to degree or certificate (six years for a bachelor's, three years for an associate);
- 2.) Affordability as measured by the published in-state tuition and fees for undergraduate students (IPEDs Institutional Characteristics Survey); and
- 3.) Access as measured by the percent of degree-seeking undergraduate students with Pell grant support (IPEDs Financial Aid Survey).

### *Institution-specific Metrics*

Presidents shall select one or two institution-specific metrics from the following list:

- 1.) First to second year student retention for full-time students (IPEDS Fall Enrollment Survey).
- 2.) First to second year student retention for part-time students (IPEDS Fall Enrollment Survey).

- 3.) Degrees/certificates awarded per FTE student (IPEDS Completions Survey, IPEDS 12-month Enrollment Survey).

With the approval of the Commissioner, Presidents may select as one of their institution-specific metrics something not listed previously, which is of equivalent rigor, has national data available for comparisons, and furthers the strategic directions of the Board of Regents. Some possible examples include:

- Average wage earned by Career and Technical Education graduates (certificates and associate degrees)
- Transfer conversion rate – successful transfers resulting in a degree within 150% of time (for community colleges)
- Research funding per faculty member (for research universities)
- Graduate degrees awarded per tenured faculty member (for research universities)

#### *Comparisons*

Performance Funding metrics are based on existing, nationally reported measures that are already tracked—such as those found in IPEDS—as opposed to developing new metrics specific to this model. Each institution’s metrics will be compared with peer sets from Carnegie or other national comparison data sets. (Metrics will not be compared between USHE institutions.) Peer benchmarks will be determined and locked-in for three years. At the end of three years, these benchmarks will be evaluated and either continued or updated. Affordability benchmarks will be adjusted annually.

#### *Annual Goal*

The goal each year (as applicable) will be to move the selected metrics up at least 7% of the way from current performance to the best-in-class performance level.

- 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 1.4% (showing 7 % improvement in narrowing the gap).

### **Distribution of Funds**

#### *Among USHE Institutions*

Allocation of funds 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.

#### *At Each Institution*

For each institution, the Performance Funding allocation will be divided equally among the four or five metrics. Funds awarded will be based on the percentage of each goal met; i.e., if an institution reaches 50% of goal 1, it will receive 50% of the allocation for

that goal; if 100% of goal 2, it will receive 100% of the allocation for that goal, and so forth.

### **Funding Based on Goal Achievement**

#### *If Goal is Achieved*

An institution receives full funding for a metric if they achieve at least a 7% improvement toward its goal, or is already at or exceeds its goal. These funds will become ongoing base funds. This allows institutional improvements to be made permanent, including the hiring of faculty and staff.

#### *If Goal is Not Achieved*

In the event that an institution does not make the full 7% improvement in a particular year, funding will be based on the percentage of that goal met.

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 first year, any funds not earned will go to USHE institutions on a one-time basis, based on goals met.
- Second year – funds are still available to the “original” institution to be earned as ongoing base dollars. If not earned the second year, funds are then provided to the other USHE institutions on a one-time basis, based on goals met.
- Third year – funds not earned by the “original” institution in the third year are then added to the pool of Performance Funds available for allocation to all USHE institutions.

#### *If Best-in-Class is Achieved*

Once an institution reaches the best-in-class level for a particular metric, that institution will continue to be rewarded each year for maintaining excellence.

### **Disbursement of Performance Funds Appropriated During 2015 Legislative Session**

If Performance Funds are appropriated during the 2015 Legislative Session, funds for FY 2016 will be awarded as follows:

- Performance Funds will be awarded on a one-time basis to all USHE institutions immediately after July 1, 2015.
- The Board of Regents will approve institution-specific goals for FY 2016 Performance Funds in the July 2015 Board of Regents meeting.
- Based on goal achievement, ongoing Performance Funds will be allocated to the USHE institution base budgets beginning July 1, 2016.