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## **Performance Funding in Kentucky Should Promote Successful Outcomes for All Students**

**By Ashley Spalding**

A work group has been tasked with developing a model of performance-based funding for Kentucky's public postsecondary institutions in the coming months, with five percent of higher education funding to be contingent upon performance in 2018. As Kentucky grapples with the best way to implement performance-based funding, a guiding principle should be the need to bring about successful outcomes for all students.

This principle is important in order to ensure that nontraditional students such as low-income, low-skilled adults do not get left behind as state universities and community colleges begin to receive funding based on graduation rates and the number of degrees that are produced, among other metrics. As noted recently in a statement by the Lumina Foundation's president and CEO: "A focus on equity in student outcomes is an essential objective of today's outcomes-based funding models. In addition to increasing attainment, we must close the current achievement gaps for students of color and low-income students."<sup>1</sup>

The performance funding model that ends up being implemented in Kentucky needs to include in its measures of success how well the state's public postsecondary institutions are doing at helping low-income students, including adults, successfully move through developmental education courses, persist in earning college credits and acquire degrees and other credentials. This model should not include measures that discourage institutions from serving underprepared low-income students or dissuade this population from attending.

### *Why Success Among Low-Income Adults Is an Important Measure*

In 2013, 65.6 percent of Kentuckians in their primary earning years (25-54) did not have an associate's degree or higher.<sup>2</sup> These adults typically have lower wages than those with more education, which makes it difficult to meet basic family expenses, help move their children out of poverty and into higher education in the future, contribute to the state economy and save for retirement.

While postsecondary degree attainment in Kentucky has been growing, little to no progress has been made on addressing the gaps between degree attainment for low-income and other college students. The bachelor's degree graduation rate for all Kentucky students at four-year institutions in 2015 was 49.4 percent, up from 47 percent in 2009. Meanwhile, the bachelor's graduation rate for low-income students was 36.3 percent — down from 46.2 percent in 2009.<sup>3</sup>

Among the barriers faced by low-income students who are often adults are: financial difficulties, the need to work and support a family, being academically underprepared and losing momentum in developmental education courses rather than moving on to credit bearing courses, and the need for supports like intensive advising and counseling particularly for first generation college students.<sup>4</sup> At its best, performance funding could help the state's higher education institutions address these gaps in degree attainment.

*Strategies for Promoting Successful Outcomes for All Students*

As outlined in a Working Poor Families Project report, among the strategies for ensuring that performance-based funding promotes success for all students are:<sup>5</sup>

Measure performance broadly — for instance, by including all types of students and educational programs. This includes part-time as well as full-time students and certificate as well as diploma programs.

Adopt performance criteria that reward intermediate educational outcomes, as well as longer term ones. This includes acknowledging educational checkpoints related to student success in addition to credential attainment. Such intermediate educational outcomes could include: completion of a first course in developmental education; transition from developmental education to a first credit bearing course; attainment of the first 15 and 30 credit hours of college level instruction; and receipt of a degree, diploma or certificate.

Include incentives for serving disadvantaged Kentuckians like low-income working adults. This is important as these students typically face multiple barriers to success in college.

*The Performance Model Supported by Kentucky's Higher Education Institutions Followed These Strategies*

Among the performance-based funding models under consideration leading up to the formation of the work group were one put forward by the state's Council on Postsecondary education (CPE) with the support of the state's public university and community college presidents toward the end of last year and a model included in the Senate's budget proposal during the 2016 General Assembly.

The model developed by CPE could have promoted successful outcomes for all students, including low-income and adult students, through some of the strategies described above. At the same time, while the metrics in this model are promising additional details would be needed to fully assess the extent to which it would lead to successful outcomes.

Here are the performance metrics in the CPE proposal:<sup>6</sup>

- Degrees and credentials produced (certificates, diplomas and associate degrees at the state's community colleges and baccalaureate degrees at the public universities)
- Retention rates from first to second year
- Progression metrics
  - Percentage of students earning 30+ credit hours per academic year at the University of Kentucky
  - Students progressing beyond 60 credit hour and 90 credit hour thresholds at all other four-year institutions
- College readiness
  - Underprepared students completing credit bearing math course at a community college
  - Underprepared students completing credit bearing English course at community college
- Graduation rates (three-year rates at community colleges and six-year rates at four-year institutions)
- Closing achievement gaps for underrepresented minority students and low-income students
- Sector specific metrics
  - Research and Development expenditures at the research universities
  - STEM (Science Technology Engineering and Mathematics) degree production at the comprehensive universities
  - Workforce education and training contact hours and transfers out with an associate degree at the community colleges
- As yet to be determined institution specific metrics

This performance funding model measures performance broadly — for instance, by including certificates and diplomas as well as associate degrees for community colleges and not disincentivizing institutions other than the University of Kentucky (UK) from having part-time students. At UK, a performance metric is the share of students earning more than 30 credit hours a year, incentivizing the university to encourage full-time attendance and discourage students from enrolling part-time, which is necessary for many adult students. However, it is important that the other institutions, particularly the state’s community colleges, would be able to continue serving low-income, low-skilled adults with these performance metrics.

The model also includes rewards for intermediate educational outcomes, in addition to longer term ones, including: retention rates from first to second year, progression metrics for four-year institutions and completion of credit-bearing courses in math and English by underprepared students at community colleges, which is a measure of students successfully moving beyond developmental education courses.

In addition, the model incentivizes closing achievement gaps for underrepresented minority students and low-income students. It is also important to note that institutions will be evaluated based on institution specific metrics, rather than all being held to the same standard, which acknowledges the schools’ different missions and student bodies.

The Senate model’s performance metrics were largely based on CPE’s; however, there are important differences that could negatively impact underprepared students.<sup>7</sup> Among the Senate’s main metrics were degrees and credentials awarded; student retention rates from first to second year; percentage of full-time undergraduates earning 30 or more credit hours a year; and graduation rates and sector-specific metrics. In contrast to CPE’s model though, the Senate proposal did not measure and reward the successful progression of underprepared students or provide a separate metric for closing achievement gaps. While the Senate model’s scoring system did boost an institution’s scores for the degree/credential attainment and retention rate metrics for low-income and underrepresented minority students, it is not clear how much weight these measures would be given in the calculations. These gaps in performance metrics could disincentivize institutions from serving underprepared students who are often low-income. Academically underprepared students often have more difficulty staying enrolled in college and graduating, particularly within the prescribed time frame.

It should also be noted that CPE’s proposal was based on new money to offset budget cuts to the state’s higher education institutions in recent years, and the Senate’s proposal would have made 25 percent of 2018 funding contingent upon performance (other than Kentucky State University (KSU), which was exempt). In the end, the final budget proposal had five percent of institutional funding (with KSU exempted) contingent upon performance, and cut higher education funding an additional 4.5 percent.

It is problematic that performance-based funding will be implemented in the context of budget cuts, which makes meeting performance goals difficult. Increased tuition as a result of state budget cuts jeopardizes the ability of low-income students to afford to attend or persist in college. In addition, low-income, particularly adult students often require supports like intensive academic advising and education/career counseling to overcome numerous barriers to college persistence and degree attainment, and institutions may have difficulty affording these supports given yet another round of budget cuts is going into effect.<sup>8</sup>

While there is more than one way to design performance-based funding to be effective at promoting successful outcomes for all Kentucky students, the three general strategies mentioned previously should be followed. In addition, the data system supporting the model will need to track outcomes for adults, Pell grant recipients and part-time students, and metrics should be reviewed on a regular basis and modified as needed. As an example, Tennessee does a five-year review of their funding formula and recently increased the premium that institutions receive for enrolling adult, low-income and academically underprepared students to further encourage enrollment of these “at-risk” students and recognize the additional supports necessary to ensure their success.<sup>9</sup>

*The Kentucky Center for Economic Policy is a non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED) and is a member of*

*the Working Poor Families Project, a national initiative funded by the Annie E. Casey, Ford, Joyce and W.K. Kellogg foundations that advances state policies in the areas of education and skills training for adults; economic development; and income and work supports. Visit KCEP's website at [www.kypolicy.org](http://www.kypolicy.org).*

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<sup>1</sup> Lumina Foundation, "Outcomes Based Funding: Important Takeaways for State Policymakers," March 10, 2016, <https://www.luminafoundation.org/news-and-events/outcomes-based-funding-important-takeaways-for-state-policymakers>.

<sup>2</sup> Working Poor Families Project, Population Reference Bureau, analysis of 2013 American Community Survey.

<sup>3</sup> Kentucky Council on Postsecondary Education, "Statewide Performance Metrics," Stronger by Degrees, [http://dataportal.cpe.ky.gov/sadashboard/dashboard\\_master.swf](http://dataportal.cpe.ky.gov/sadashboard/dashboard_master.swf).

<sup>4</sup> Ashley Spalding, "Crossing the Finish Line," Kentucky Center for Economic Policy, November 26, 2012, <http://kypolicy.org/crossing-finish-line-overcoming-barriers-community-college-degree-credential-attainment-kentucky-2/>.

<sup>5</sup> John Quintero, "Making Performance Funding Work for All," Working Poor Families Project, Spring 2012, <http://www.workingpoorfamilies.org/wp-content/uploads/2012/05/policybrief-spring2012.pdf>.

<sup>6</sup> Kentucky Council on Postsecondary Education, "2016-2018 Postsecondary Education Budget Recommendation Institutional Operating Funds," November 13, 2015, <https://v3.boardbook.org/Public/PublicItemDownload.aspx?ik=37872824>.

<sup>7</sup> Ashley Spalding, "Questions and Concerns About the Senate's Performance-Based Funding Proposal," Kentucky Center for Economic Policy, March 25, 2016, <http://kypolicy.org/questions-concerns-senates-performance-based-funding-proposal/>.

<sup>8</sup> Ashley Spalding, "Five Reasons Cutting Higher Education Hurts Low-Income and Minority Kentuckians," Kentucky Center for Economic Policy, May 24, 2016, <http://kypolicy.org/five-reasons-cutting-higher-education-hurts-low-income-minority-kentuckians/>.

<sup>9</sup> Nate Johnson and Takeshi Yanagiura, "Early Results of Outcomes-Based Funding in Tennessee," March 10, 2016, <https://www.luminafoundation.org/resources/early-results-of-outcomes-based-funding-in-tennessee>.