

**Reaching the Educational, Economic, and Citizen Wealth Goals of Kentucky
and its Communities: A Proposed Funding Model for Postsecondary
Education**

Executive Summary

Today, economic growth is occurring in states with a high concentration of college graduates.

With Kentucky's current fiscal and political environment, the best way to improve the economy and the state revenue picture is through strategic investment in talented men and women who will fill high paying jobs in high growth professions, produce payroll tax revenue, and spend their money in the Commonwealth.

Unfortunately, Kentucky does not have a rational postsecondary education funding model that allocates state resources at an appropriate level to accelerate production of college graduates whose skills match the needs in Kentucky. There is no discernible relationship between public policy goals and funding levels.

Nearly all states are focused on increasing educational attainment levels as a means to maintain and improve their economic competitiveness. More progressive states, however, are not using antiquated postsecondary education funding mechanisms that maintain the status quo. Sixty percent of the states are implementing, developing, or actively exploring outcomes-based funding. An outcomes-based model appropriates both existing and additional state funds based on each institution's level of productivity on selected metrics. Public policy leaders clearly establish the desired outcomes and the institutions address how to reach the goals. Some examples of leading outcomes-based funding models include Indiana, Mississippi, Nevada, Ohio, and Tennessee.

Kentucky's economic progress and the social well-being of its citizens and communities are dependent upon colleges and universities to provide high quality education programs and support services in areas that match public policy goals. The time has come to implement a rational, public policy-based funding model that distributes institutional resource allocations according to state goals. A strong outcomes-based funding model will positively impact our economic growth, our relative citizen wealth, and our revenue to provide needed state services.

Proposed Outcomes-Based Model Principles, Key Outcomes, and Implementation Framework

Based on well-designed models in other states, recommendations by leading national education organizations, and the combination of Kentucky's unique funding history and current goals, the following key principles, key outcomes, and implementation framework should be considered by state policymakers.

Kentucky should have a model that:

- Affirms the statewide goals that institutions are expected to achieve.
- Promotes mission differentiation and includes metrics that allow all institutions to have an opportunity to invest in capacity building by excelling at their missions.
- Includes a relatively short list of performance metrics.
- Uses unambiguous metrics that can't be manipulated; that emphasize numbers, not rates, e.g., number of graduates, not graduation rates.
- Guides additional state funding requests and is used to distribute funds regardless of economic conditions.
- Addresses any unwarranted disparities in funding among institutions with similar missions.
- Employs phase-in provisions to moderate significant annual shifts in institutional funding.
- Is simple, transparent, focused, and easy to communicate and explain.

Kentucky should have a model that ties funding to:

- Degrees, with added incentives for priority fields, such as STEM degrees and degrees that address specific regional labor market demands, and selected subpopulations, such as underrepresented minorities and adult learners.
- Transfers from two-year to four-year institutions.
- Progress to degrees, e.g., student credits completed and student progression.
- Research activity/federal research investments, emphasizing research that drives Kentucky growth and benefits Kentucky citizens' quality of life.
- Job placement rates that could be phased in over time once data is available.

Kentucky should phase in the implementation of the new model by:

- Transitioning 25% of current appropriations in each of the next four years.
- Providing additional state funds placed into an outcomes-based pool each year to:
 - provide financial incentives to change performance while mitigating the risk of leaving institutions financially vulnerable;
 - expand capacity at institutions that can fuel economic growth and increase state revenue;
 - allow for a quicker transition; and
 - address college affordability issues.

Reaching the Educational, Economic, and Citizen Wealth Goals of Kentucky and its Communities: A Proposed Funding Model for Postsecondary Education

Sixteen years ago, the Kentucky General Assembly enacted the Postsecondary Education Improvement Act of 1997 (HB1) that was perhaps the most sweeping higher education reform legislation of any state in the past two decades. The primary objective of the reform act was “the development of a society with a standard of living and quality of life that meets or exceeds the national average.” At the heart of this plan were initiatives to expand educational access and workforce training opportunities, produce more graduates who are prepared for life and work, produce research that stimulates economic growth, and improve the wellbeing of Kentucky communities. The Council on Postsecondary Education has an accountability system in place that includes annual performance metrics aligned with the strategic plan. Kentucky has made measurable progress on these objectives.

But, Kentucky does not have a comprehensive, rational postsecondary education funding model that allocates state resources at an appropriate level to accelerate production of college graduates whose skills match the needs of Kentucky. There is no discernible relationship between public policy goals and funding levels. The current system does not have sufficient financial rewards for advancing state objectives, and performance pools, with limited funding, do not facilitate significant change on campuses. A more effective tactic for holding institutions accountable is to tie institutional funding to outcomes on identified metrics that align with state goals and objectives. By tying institutional funding to performance, accountability is stronger and institutional progress towards identified state goals will improve.

How has Kentucky’s funding strategy aligned with state goals?

At the core of HB1 are six goals, the first of which is to have “a seamless, integrated system of postsecondary education strategically planned and adequately funded to enhance economic development and quality of life.”

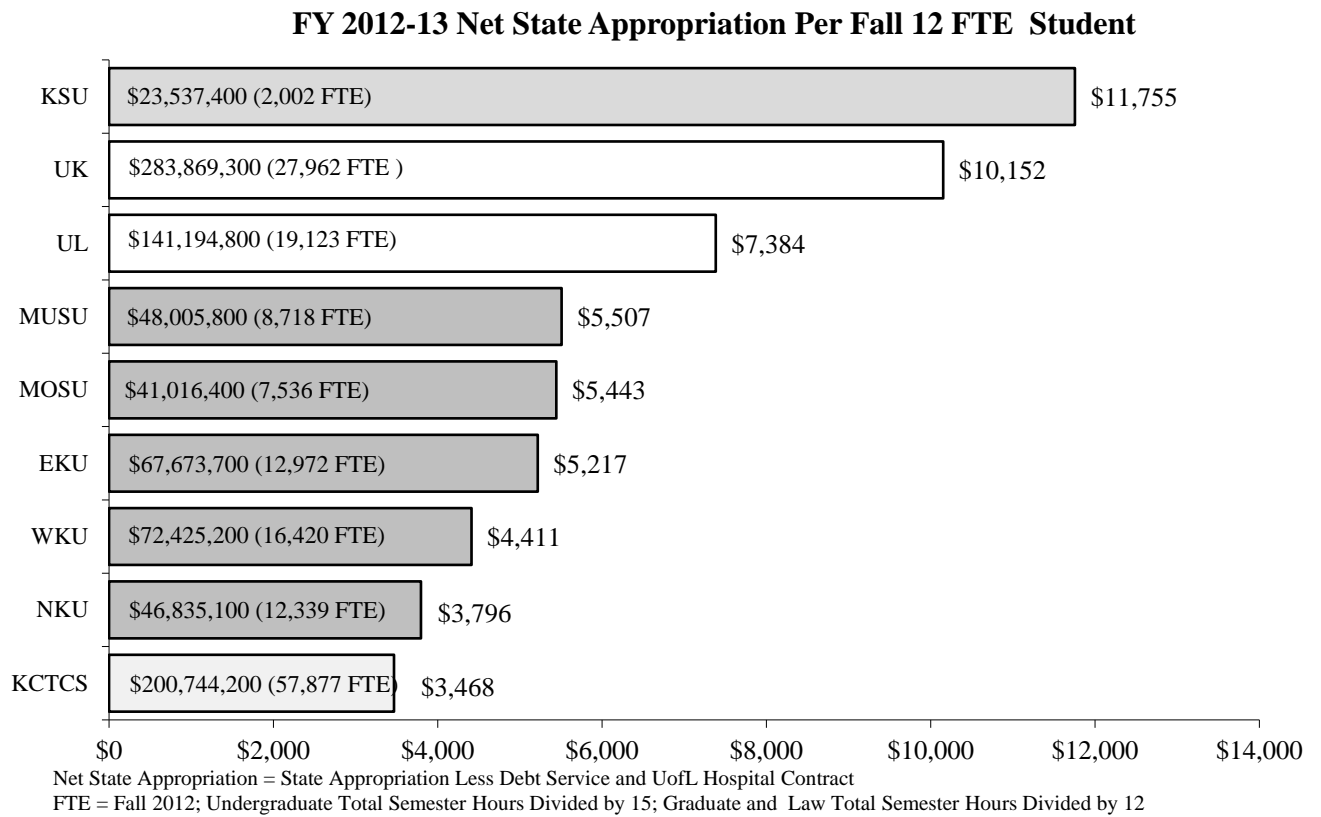
In 1982, Kentucky enacted a formula funding model based on student enrollments and institutional missions, but later moved to an incremental model that preserved base funding.

After the 1997 reform legislation was enacted, benchmark funding was tried for a few years but was discontinued. Small performance funding pools on top of an antiquated base have been recommended in recent years, but these recommendations have largely been unfunded. Reductions have been the same percentage across institutions regardless of institutional performance. As a result, institutions with strong growth and high degree production did not receive the financial support to continue the productivity.

What evidence is there that state appropriations are misaligned with state goals?

Net State Appropriation per full-time equivalent (FTE) Student

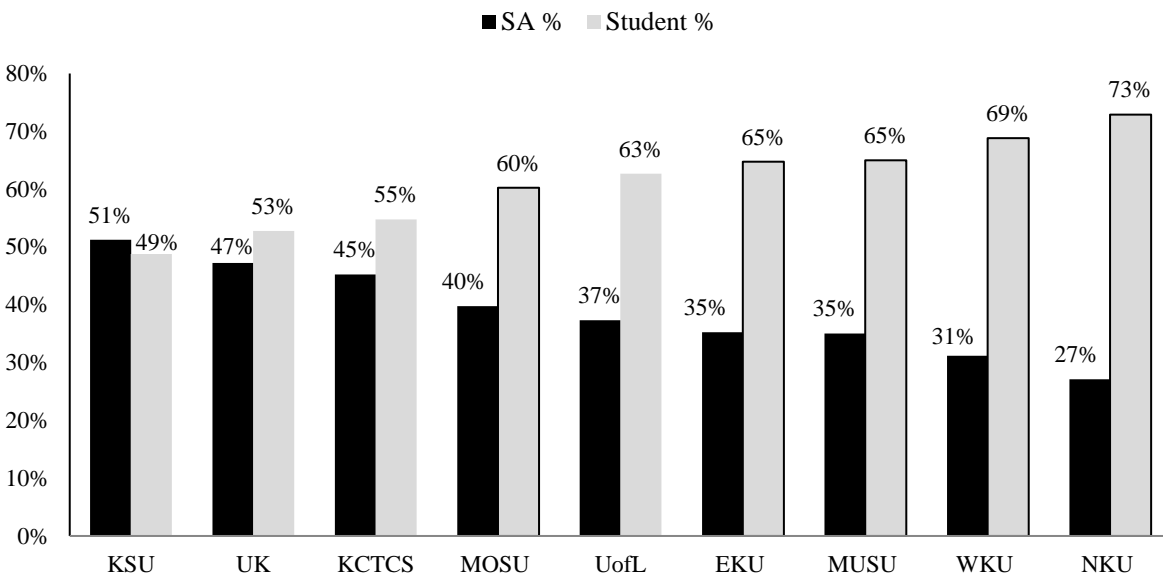
One of the primary cost drivers for colleges and universities is the number of students it serves. As a result, comparing institutional funding on an FTE basis is a widely adopted national metric for comparing higher education funding levels. When examining funding on a per FTE basis, institutions with similar missions should receive similar levels of state funding if funding is aligned with state educational attainment goals. However, we can see in Kentucky that this is far from the case. Funding per FTE at the regional institutions ranges from \$5,507 to \$3,796.



Student / State Share

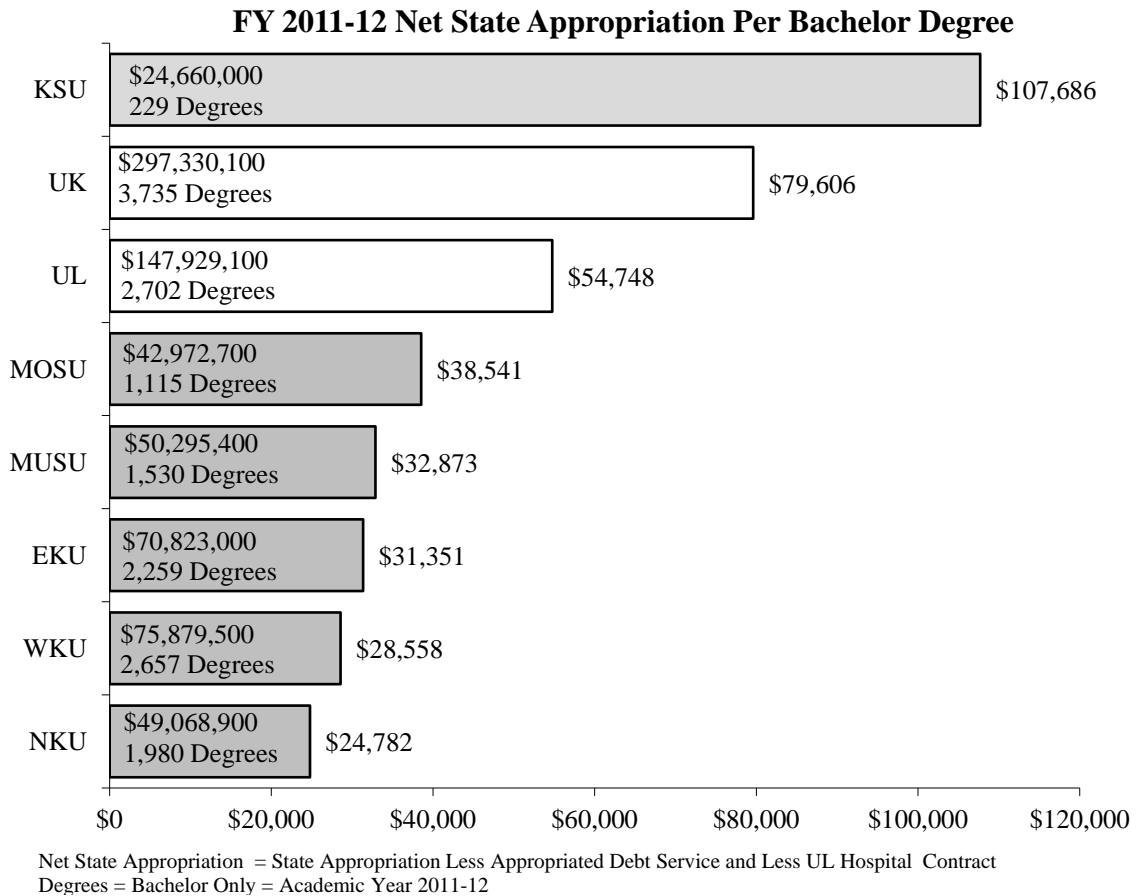
A key component in reaching Kentucky's educational attainment goals is ensuring our institutions of higher education remain affordable for Kentucky's residents. This affordability is maintained through a balance of state and federal financial aid programs, state funding to institutions, tuition rates, and institutional financial aid. When looking at state appropriations, higher levels of state appropriation can lead to lower tuition rates and/or increased levels of institutional financial aid. In a state where institutional funding aligns with state goals, the total public funds (institutional state appropriations compared to tuition revenue) should be relatively similar for institutions with similar missions. However, in Kentucky, those institutions that have grown the most are most heavily reliant on student tuition. Much of the growth at these institutions has been funded through tuition rate increases rather than a balance of state appropriation and tuition revenue. Data from fiscal year 2011-12 indicate that the state share of public funds varies significantly for the regional comprehensive universities, with a high of 40% to a low of 27%.

2011-12 Share of Total Public Funds



Net State Appropriation per Bachelor's Degree

While the number of FTE students is one of the primary drivers of costs, the number of degrees produced is a primary outcome for an institution's contribution to increasing educational attainment levels in the state. As a result, funding institutions on a per degree basis is being adopted by states as a primary metric for the allocation of funds. This approach encourages institutions to focus on ensuring the students they enroll are able to successfully graduate. When examining funding on a per degree basis, institutions with similar missions should receive similar levels of state funding if funding is aligned with state educational attainment goals. Among the Kentucky regional universities, funding varies widely with a high of \$38,541 per degree to a low of \$24,782.



Together these three metrics suggest that unwarranted disparities exist in the funding of Kentucky's regional institutions. While institutional missions differ, which justifies some variation in funding allocation among Kentucky's universities, there is no public policy explanation for the magnitude of funding disparities among the regional comprehensive institutions.

What are other states doing to align their funding strategies with goals?

Performance Funding

As policymakers in Kentucky have continued to express concerns about accountability, lower costs, and improved performance, many states have implemented performance funding. According to the Southern Regional Education Board (SREB), more than half of the states have some form of performance-based funding. More traditional performance funding models have used a small pool of new dollars to reward institutions for making incremental change from year to year in pursuit of pre-determined improvement targets, such as a percentage increase in degrees awarded or graduation rates. In some states, these pools have been in addition to enrollment-based funding components that addressed institutional size and growth.

As previously mentioned, performance funding proposals in Kentucky in recent years featured a separate small pool of funds on top of current base funding. In nearly each biennium, the proposals were not supported nor would they have better aligned state resources with state goals.

Paying for Results: Recent Trends in Outcomes-based Funding across the States

More recently, state policy leaders in other states are exploring outcomes-based funding. In September 2012, SREB released a report titled *Essential Elements of State Policy for College Completion: Outcomes-Based Funding*. SREB describes outcomes-based funding as a specific type of performance funding approach designed to not only further state goals for its postsecondary system but also strengthen the reliability, sustainability, equity, and adequacy of funding for the state's public postsecondary institutions. In some states, separate enrollment-driven formulas are being phased out as the number of course completions, student progression, and degrees are being integrated into a more holistic, outcomes-based model. These models appropriate both existing and additional state funds among institutions based on each institution's level of productivity on selected metrics. More than 60% of the states in the U.S. are implementing, developing, or actively exploring outcomes-based funding. Some examples:

- Ohio and Indiana both have made significant progress transitioning components of their enrollment-driven funding formulas to course completions and degree attainment. Nevada is considering a new outcomes-based formula that also shifts the focus from enrollments to completions and degrees.
- Mississippi had an enrollment-driven formula that was frozen approximately five years ago. Like Kentucky, Mississippi's current funding situation has resulted in large unwarranted disparities among institutions with similar missions. Earlier this year, the Mississippi College Board adopted a new funding formula based on outcomes. Ninety percent of the new model rewards student credit hour completions and degrees weighted by discipline and course level (e.g., freshman, sophomore), in addition to providing funds for research at research universities. The remaining ten percent is provided for operating expenses based on factors such as enrollment, number of on-campus students, acreage, and number of buildings.
- Tennessee has an integrated funding model in place that primarily allocates funding based on outcomes while institutions have the opportunity to earn up to an additional 5.45% from

performance funding metrics. The new model has had strong support from the higher education community and state policy leaders.

While specific features may differ given each state's past funding history, array of institutions, and postsecondary goals, there are three common themes among these new and emerging models: 1) student progression (e.g., completed credit hours or courses), 2) credentials conferred (e.g., degrees and certificates), and 3) incentives for producing degrees in high demand fields and to underrepresented groups.

Of great significance is that states, *either with or without* historical enrollment-driven formulas, are incorporating course completions into their outcomes-based models, and the historical focus on graduation rates (yield) is transitioning to degree production (more graduates). Graduation rates do not account for the substantial number of students that complete their degree attending part-time for at least a portion of their education, nor does it take into account students that transfer to other institutions and then complete their degree. Using rates may impede access. On the other hand, outcomes-based funding can yield the following benefits:

- Incentivize colleges and universities to increase degree productivity and improve the time it takes to graduate.
- Encourage colleges and universities to attract, prepare, and graduate non-traditional and at-risk students so that the state can respond to new or increased workforce development opportunities as well as improve participation rates in higher education.
- Promote efforts to become more effective and efficient.
- Communicate to colleges and universities the priorities of the state.
- Accelerate progress towards state goals.

Given the current funding status and strategic goals for postsecondary education, what principles and features should be included in a new funding model for Kentucky?

If Kentucky policymakers are interested in investing taxpayer dollars in a way that produces the results they expect, a new funding strategy is needed. The 1997 reform act and the current statewide strategic agenda for postsecondary education, *Stronger by Degrees*, positions Kentucky well to move toward an outcomes-based funding approach. Such a model would provide the mechanism for state policy leaders to invest in its postsecondary education institutions in order to achieve desired outcomes.

Based on well-designed models in other states, recommendations by the Southern Regional Education Board (SREB) and the National Center for Higher Education Management Systems (NCHEMS), and the combination of Kentucky's unique funding history and current goals, the following key principles, key outcomes, and implementation framework should be considered by state policymakers:

Key Principles

Kentucky should have a model that:

- Affirms the statewide goals that institutions are expected to achieve.
- Promotes mission differentiation and includes metrics that allow all institutions to have an opportunity to benefit by excelling at their missions.
- Includes a relatively short list of performance metrics.
- Uses unambiguous metrics that can't be manipulated; that emphasize numbers, not rates, e.g., number of graduates not graduation rates.
- Can be used to support the biennial request for additional state funding as well as to distribute funds regardless of economic conditions.
- Addresses any unwarranted disparities in funding among similar institutions.
- Employs phase-in provisions to moderate significant annual shifts in institutional funding.
- Is simple, transparent, focused, and easy to communicate and explain.

Key Outcomes

Kentucky should have a model that ties funding to:

- Degrees, with added incentives for:
 - Priority fields, such as STEM degrees and degrees that address specific regional labor market demands.
 - Selected subpopulations, such as underrepresented minorities.
- Transfers from two-year to four-year institutions.
- Progress towards degree such as student credit hours completed and student progression.
- Research activity and federal research investments that drives Kentucky growth and citizen quality of life.
- Job placement rates that could be phased in over time once data is available.

Implementation Framework

Kentucky should phase in the implementation of the new model by:

- Transitioning 25% of current appropriations in each of the next four years.
- Placing additional state investment into the outcomes-based pool each year to:
 - Provide financial incentives to change performance while mitigating the risk of leaving some institutions financially vulnerable.
 - Expand capacity at institutions that can fuel economic growth and increase state revenue.
 - Allow for a quicker transition.
 - Address college affordability issues.

In the example below, 25% of the state appropriation base is designated as an outcomes-based pool (Column B). The state would then invest an additional pool of money each year for four years (Column C), to create a pool of funds (Column D) to be distributed based on each institution's performance using the outcomes-based funding model. The recurring base (Column

E) becomes the starting base appropriation for the following year (Column A). Column F shows the annual postsecondary education increase (a four-year average of 5%).

EXAMPLE						
	A.	B.	C.	D.	E.	F.
Year	Beginning SA Base	Outcomes Based Portion (25% per year)	State Investment (CPE Request)	B+C Total Outcomes Pool	A+C Total Net SA	C/A % Increase
2014-15	\$916,013,400	\$229,003,350	\$40,000,000	\$269,003,350	\$956,013,237	4.37%
2015-16	\$956,013,400	\$498,006,700	\$45,000,000	\$543,006,700	\$1,001,013,400	4.71%
2016-17	\$1,001,003,350	\$772,010,050	\$55,000,000	\$827,010,050	\$1,056,013,400	5.40%
2017-18	\$1,056,013,400	\$1,056,013,400	\$60,000,000	\$1,116,013,400	\$1,116,013,400	5.68%

Conclusion

Kentucky’s progress in improving the economic and social welfare of its citizens and communities is highly dependent upon the ability of its colleges and universities to fulfill the goals of the CPE strategic agenda and the state’s 2020 goals. Kentucky’s goal of meeting the national average is getting more difficult as nearly all states are focused on increasing educational attainment levels as a means to maintain and improve their economic competitiveness. However, some of these states are not trying to compete using an antiquated postsecondary education funding mechanism that encourages the status quo. The time has come to implement a rational, public policy-based funding model that distributes institutional resource allocations according to state goals.

Appendix

A Case Study **The Cumulative Impact of State Funding Policies on Northern Kentucky University**

Northern Kentucky University is an excellent example of how a high performing institution can be constrained by state funding policies that are not based on a progressive and rational funding model aligned with state goals. The Commonwealth's current approach for funding higher education has resulted in large unwarranted disparities in funding levels amongst institutions with similar missions. This current funding approach has disadvantaged those institutions like Northern Kentucky University that have made the most progress toward state goals. Given the relatively scarce outlook for additional state funding for higher education in the near future, continuation of the current funding approach threatens to constrain the significant progress Northern Kentucky University has made in advancing state goals.

NKU has made significant progress over its 45-year history. Decade after decade, guided by an aspirational vision and bold but realistic strategic goals, the university has grown from a cow pasture with a farm pond and trailers to a modern metropolitan university that serves nearly 16,000 students and currently produces nearly 3,000 degrees and certificates annually. NKU, along with WKU, has seen the largest enrollment growth (37%) of all universities since postsecondary reform was put in place. In addition, NKU has the largest percentage increases in degree production amongst the regional comprehensive institutions since 1998-99.

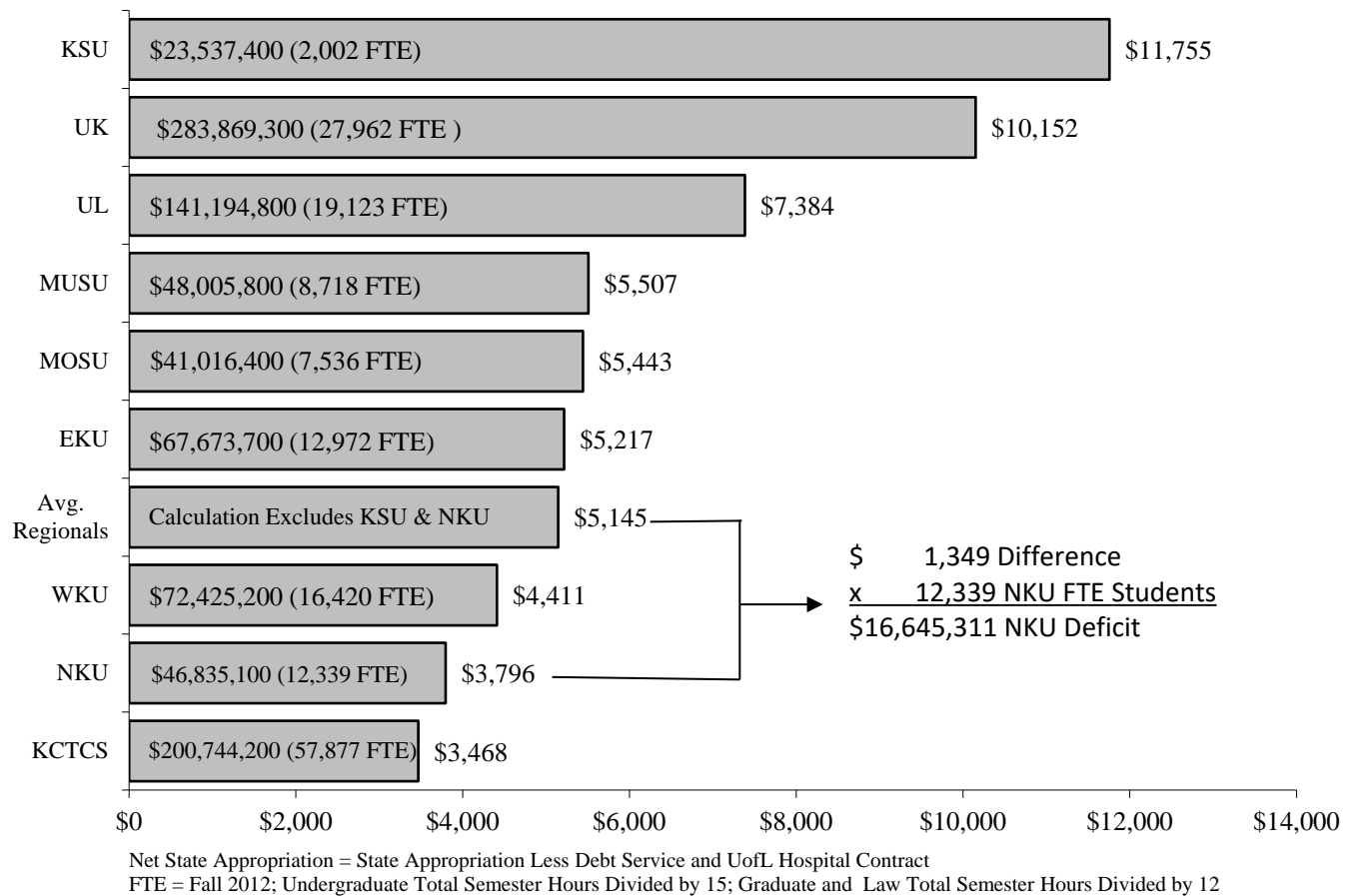
KY Regional Institutions Increases in Degrees 1998-99 compared to 2011-12				
	Bachelor's Degrees		Bachelor's Degrees and Above	
	# Increase in Degree Production	% Increase in Degree Production	# Increase in Degree Production	% Increase in Degree Production
NKU	817	70%	1,155	78%
WKU	748	39%	1,214	50%
EKU	497	28%	843	39%
MuSU	473	45%	727	47%
MoSU	204	22%	393	33%

What is NKU's funding situation?

Funding per Full-time Equivalent (FTE) Student

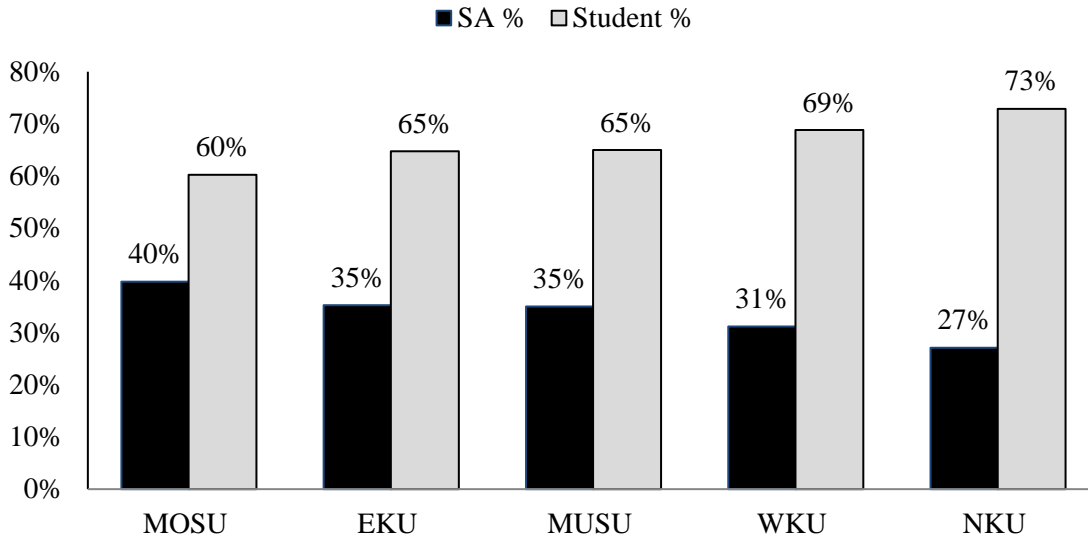
One of the primary cost drivers for colleges and universities is the number of students it serves. As a result, comparing institutional funding on an FTE basis is a widely adopted national metric for comparing higher education funding levels. As Table 1 illustrates, the current funding approach used by the Commonwealth has created large disparities in net state appropriations per FTE student among the regional universities. NKU has the greatest disparity with the lowest state funding per FTE student and a \$16.6M gap between NKU's funding per FTE student and the average of the other regional universities.

Table 1
FY 2012-13 Net State Appropriation Per Fall 12 FTE Student



Translating this chart to the perspective of the student, NKU students pay 73% of the cost of their education, the largest among any of the other Kentucky regional universities (see Table 2).

Table 2
2011-12 Student/State Share of Total Public Funds

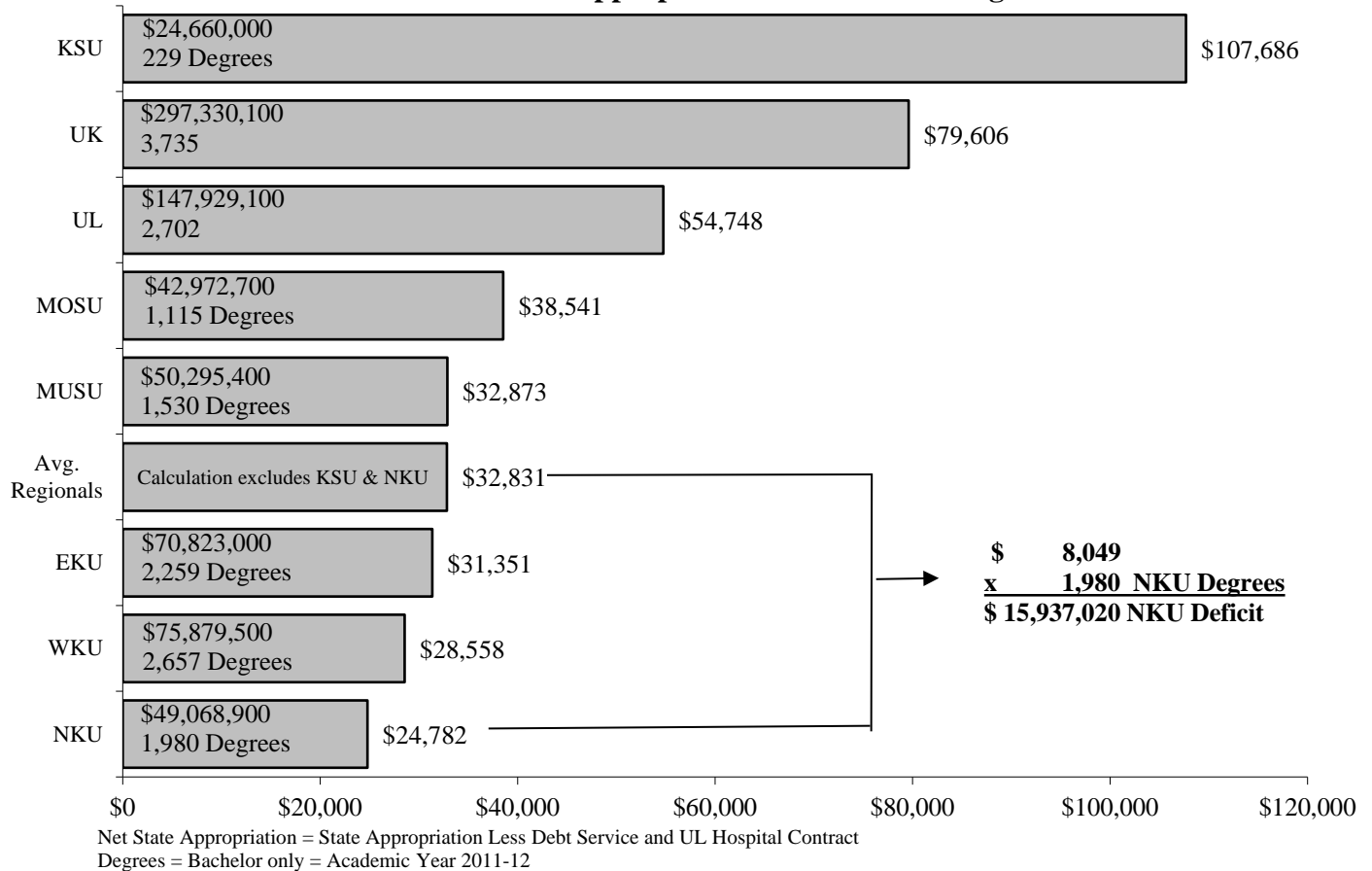


As Table 1 and Table 2 illustrate, the two institutions that have experienced the largest enrollment growth since postsecondary reform receive the lowest state funding per FTE student and their students pay the largest share of the cost of their education. If NKU had not grown since 1997-98, the university would be receiving funding per FTE near the average of the other regional institutions (at roughly \$5,192 per FTE student). The current funding approach serves as a financial disincentive for institutions to grow and to make progress towards state educational attainment goals. Another way to look at it, if NKU had not grown since postsecondary education reform, they would not have contributed as significantly to the state's educational attainment goals but their funding outlook would be relatively better.

Funding per Degree

While the increase of FTE students is one of the primary drivers of costs, the number of degrees produced is a primary outcome for an institution’s contribution to increasing educational attainment levels in the state. As a result, funding institutions on a per degree basis is being adopted by states as a primary metric for the allocation of funds. From a different perspective, funding per degree provides a proxy for how much the state is investing at each institution to produce a degree. It encourages institutions to focus on ensuring the students they enroll are able to successfully graduate as well as reduces the state’s investment in students that never complete their degree. When examining funding on a per degree basis, institutions with similar missions should receive similar levels of state funding if funding is aligned with state educational attainment goals. As illustrated in Table 3, NKU receives the lowest state appropriation per degree of any of the regional institutions in the state. \$15.9M in additional funds would be needed to bring NKU to the average state appropriation per degree for the other regional institutions.

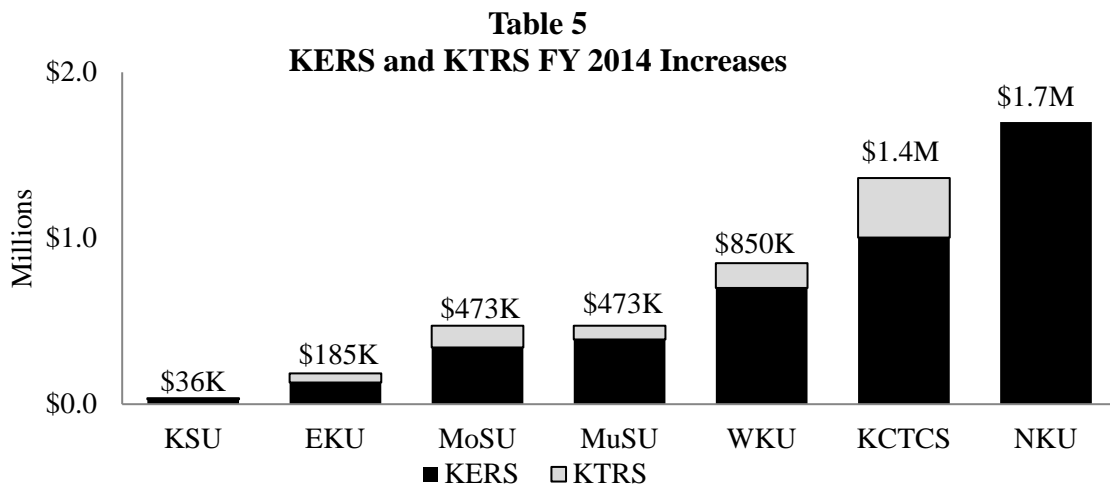
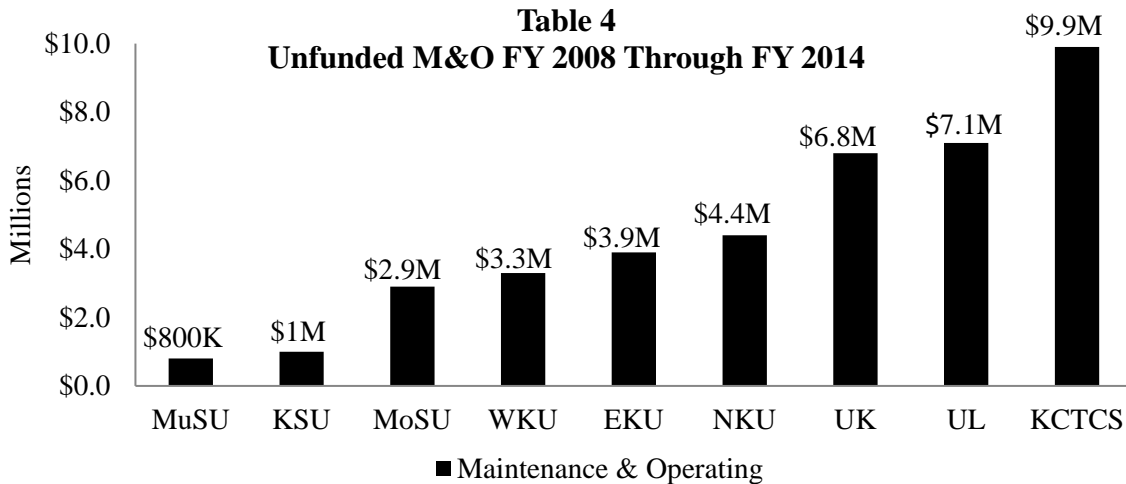
Table 3
FY 2011-12 Net State Appropriation Per Bachelor Degree



Additional NKU specific challenges

In addition to receiving the lowest state funds per FTE and per degree of any of the KY regional institutions, NKU faces additional financial challenges, particularly in recent years. NKU is the only KY regional university in a major metropolitan area bringing not only intense competition for faculty, staff and students but higher costs for operations. In addition, NKU is the only KY regional university with a professional school (Chase College of Law).

Further exacerbating these disparities in recent years has been the Commonwealth's 1) uneven approach to supporting the maintenance and operating costs of opening new state-funded facilities and 2) lack of recognition of the variable impact of the unfunded pension liability across the institutions. Since 2007, institutions opening new buildings have had to cover the operating costs with either tuition rate increases or funds reallocated from core operations. These financial pressures have impacted NKU more than any other regional institution.



Note: UK & UL do not have any employees participating in KERS or KTRS.

How has NKU managed its resources despite its low state funding?

In addition to state budget cuts of \$8.4M over the past six years, NKU has reallocated \$10M of its existing resources to address fixed costs increases, essential expenditures (such as emergency communication systems), new buildings, deferred maintenance, scholarships and financial aid, technology (including expansion of instructional technology / online courses and implementation of SAP), enrollment growth-related costs (including faculty and student supported related positions), and other investments vital to student success and regional progress. This \$18M reallocation represents nearly 40% of the university's state appropriation or 10% of the university's budget. These substantial reallocations have been possible due to the significant efficiencies, cost savings, and productivity improvements that have occurred across campus. The university continuously looks for ways to contain costs and operate more efficiently.

Listed below are some of the more significant cost savings initiatives the university has implemented in recent years (see summary of cost savings report for more details):

- Refinanced debt - \$800K.
- Reorganized and eliminated staff and administrative positions - \$1M.
- Moved to a self-insured worker's compensation program - \$200K initial savings plus additional annual savings.
- Realized energy performance and other utility contract savings - \$750K
- Transitioned to using the Department of Revenue for the collection of student bad debt - \$1.1M to date, \$250,000 - \$300,000 per year (note: this measure hurts NKU's ability to re-recruit these students in future years.
- Operational savings through technology, supplies, and other measures (electronic checks and forms, student email to cloud, new supply contracts, reduction of fleet cars.) - \$2.5M.
- Closed the Covington NKU Campus - \$500K.

Listed below are some of the more significant budget reduction and cost containment measures that negatively impact our ability to serve students and our region:

- Operate with fewer full-time faculty and staff than necessary to adequately serve all of our students and our region's needs.
 - Highest number of FTE students per full-time faculty.
 - Highest number of FTE students per full-time staff.
 - Largest percentage of part-time faculty to full-time faculty.
 - Lowest full-time staff to full-time faculty ratio.
 - Extensive use of part-time faculty and temporary lecturers.
- Reduced investments in areas necessary to recruit, retain, and develop the talent necessary to support our diverse student body and the Northern Kentucky region:
 - No merit (or cost of living) salary increases for faculty / staff for three years (\$1M per 1% annual increase); some faculty / staff candidates ask for a recent history of salary increases when making their decision hurting our ability to recruit talent.
 - Restructured academic faculty professional development functions - \$800K.
 - Reduction in travel and professional development opportunities - \$2M.
 - Modified health insurance plans and renegotiated contracts - \$400K.

- Limited investments for meeting the needs of non-traditional students.
 - Veterans support center staffed with <1 FTE.
 - Adult-focused, cohort-based bachelor's degree programs.
 - Undergraduate online courses.
 - Low marketing budgets limit ability to compete with more costly for-profit institutions for non-traditional students.
- Reduced community service/outreach activities - \$2.2M.
- Cost deferral - extended equipment and computer replacement schedules while managing with limited deferred maintenance budgets.

How do NKU's current financial challenges constrain the institution from addressing the opportunities and challenges facing the Northern Kentucky region and its people?

Northern Kentucky University uses the full breadth of its resources invested in education, research, and service to enhance the region. While increasing educational attainment levels in the region is our primary focus, applying the talents of our faculty, staff and students is a major driver of change in our community. NKU's service to the region includes a wide range of activities such as nursing care for the underprivileged in the inner city, applied research for the protection of the Ohio River, free legal services for children and youth, and advising and technology services for our area businesses. Constraints on resources curtail our activities in all of these activities and limit the region's progress. Specific areas of high-priority investments for our region include:

- Strengthening the P-12 education pipeline, particularly with dual-credit high school courses.
- Hiring more full-time faculty to improve student retention and apply their talents to serve the region.
- Increasing capacity to serve more students, particularly through programs that serve adult learners, veterans, and under-represented minorities.
- Developing a more interdisciplinary curriculum to produce graduates with the skills and knowledge necessary in today's economy.
- Improving student success by hiring more academic and student support positions such as academic advisors, career counselors, and student coop and internship coordinators.

Our community has called for the expansion of our informatics and healthcare-related programs and services. Regional analysis suggests that these disciplines will be among the highest areas of talent need, both for new and replacement workers. These disciplines represent the majority of the expected job openings in our region, with salaries over \$35,000, for the foreseeable future. The lack of adequate funding has impeded NKU's ability to produce this needed talent.

How is NKU planning to continue its upward trajectory over the next five years?

In January 2013, NKU embarked on a comprehensive, inclusive, and ambitious strategic planning process to guide the university toward its 50th anniversary in 2018. As part of the

strategic planning process, the president has conducted numerous open forums seeking advice from the campus community and external stakeholders. In addition, a comprehensive survey was administered to faculty, staff, and students, and the results are being used as a part of the university's SWOT analysis. Environmental scanning for the planning process has included a plethora of state, regional, and national studies and documents, and a recent Stakeholder Conference garnered input from more than 100 internal and external constituents.

With the assistance of a strategic planning committee, the university will develop a five-year, institution-wide strategic plan for approval by the Board of Regents. The plan will represent the shared vision, values, and goals of the entire university community and will be the unifying instrument that optimizes the use of available resources and talent toward the achievement of NKU's mission and aspirations.

But, implementing an ambitious five-year strategic plan is very difficult when state support is uncertain and inadequate. An outcomes-based funding model would provide a more stable, predictable foundation upon which all of the state's institutions can build long-range plans. An outcomes-based funding model would also incentivize institutions to identify strategies in their long-range, strategic plans that promote and achieve the state's public agenda for higher education. With our strategic planning process currently underway, this is an opportune time for NKU to design strategies around a new outcomes-based funding model that will address the needs of our stakeholders.

Can NKU's unwarranted funding disparity be addressed?

The outcomes-based funding model proposed in the body of this paper could be designed to address more aggressively the unwarranted disparities across similar institutions in the early stages of implementation. While Kentucky's solution must be tailored to the specifics of its higher education environment, the work in states that have already commissioned studies and developed various approaches can offer insights and options to consider.

- In 2012, the Utah System of Higher Education hired consultants to make recommendations and incorporate an equity component into their funding request.
 - The equity analysis was based on a comparison among peers of each institution's funding level per FTE student and the share of public funds provided by state appropriations.
 - The recommended target for the state share of total public funds was 60% for comprehensive universities.
- Virginia developed a plan to fund higher education more equitably, establishing a goal that 70% of total education and general costs should be funded by the state while leaving 30% of the costs to students. While the 70/30 split may not be attainable, particularly during recessionary times, an equitable distribution of state funds remains the goal.
- Idaho commissioned a study of the equity in higher education funding for their state in 2011. Funding per student for the public institutions had grown more disparate over the

previous 10 years, and their study concluded that the state must define and formalize a standard for determining equitable funding such as state appropriations per FTE student.

Kentucky has the opportunity to build an outcomes-based model that simultaneously aligns funding with state goals and addresses unwarranted funding disparities.

Conclusion

For more than 15 years, NKU has been able to deliver significant progress towards the state's higher education goals despite having the lowest level of state funds per FTE and per degree of any of the four-year universities. The institution has remained steadfast in its commitment to improve the intellectual, social, economic, and civic vitality of the Northern Kentucky region and the Commonwealth. This university is poised to stretch to new heights to make even greater contributions and improvements. But continued progress is jeopardized by the state's antiquated funding allocations. Therefore, the university's significant contribution towards state higher education goals may not be sustainable. Now, more than ever, this region and its citizens need the Commonwealth to support NKU and reward its performance through a rational, long-term, outcomes-based funding model.