

## EXECUTIVE SUMMARY

The Idaho State Board of Education has adopted Complete College Idaho as a means of increasing educational attainment levels across the State in order to maintain and improve economic competitiveness. Unfortunately, Idaho is attempting to reach CCI goals using antiquated postsecondary education funding mechanisms that support maintaining the status quo. The SBOE has the statutory authority to adopt a new outcomes-based funding model that accelerates the production of college graduates in Idaho and holds institutions accountable for their performance. The SBOE also has the authority to reallocate base funding at any time to ensure that their priorities are followed regardless of legislative allocation.

It is recommended that this funding model remain in place through the attainment of CCI goals, or 2025, whichever comes first (2025 is a revised CCI date that has been adopted in several states). At that time, the SBOE should evaluate their strategic plan and determine if such rapid increases in education attainment across the State is still as critical a priority as it is today. In addition, given the differences in mission, sources of funds, and governance, this funding model assumes a separate model will be developed for the Community Colleges. The four-year institutions rely heavily on general state appropriation to fund their undergraduate education whereas the Community Colleges are much more reliant on property taxes than general funds.

Highlights of the proposed model include:

- Establishes baseline performance level expectations for institutions to achieve based on their current levels of funding (plus maintenance budgets requests).
- Rewards institutions for exceeding their baseline performance expectation with increases in base funding.
- Reallocates funding from institutions that fail to achieve their baseline performance expectation with decreases in their base funding.
- Incorporated weighting factors to allow the Board to provide additional incentives for sub-populations and types of degree program (STEM, health sciences, etc.) if they choose
- Delineates funding and budget requests for mission activities beyond undergraduate education.
- Creates an innovation and capacity fund to allow institutions to invest in innovation and growth to achieve degree targets.
- Aligns all institutions behind supporting CCI as the #1 goal of the State Board of Education.
- Provides a mechanism of sustaining the incentive regardless of economic conditions.

## FUNDING MODEL CONCEPTS AND RATIONALE

Based on HEWG funding formula discussions, industry best practices, and guiding principles, several key concepts have emerged that have been incorporated into the proposal. These include:

1. **CCI Focused**: The primary objective of a new outcomes based funding model should be to provide incentives focused on accelerating progress towards CCI goals. The proposal prioritizes this focus until CCI goals are achieved, or 2025, at which time Idaho should revise the model based on priorities at that time.
  2. **Mission Differentiation**: Any new funding formula should consider the different missions of the institutions. Given the differences both in terms of mission, governance, and funding between the community colleges and the baccalaureate degree granting institutions, this proposal assumes a separate outcomes-based model will be developed specific to the community colleges. In addition, only A.A.S. degrees are included to focus academic degree incentives on Bachelor's degrees. The funding model proposes funding mission differentiation activities through line items.
  3. **Target Based**: Consideration should be given for incorporating annual performance targets for the number of degree graduates expected of each institution. The targets should be scalable such that the formula communicates to the Legislature what achievement levels will likely be accomplished at different levels of funding. The model establishes a general fund contribution of \$10,000 per weighted degree above an expected annual growth rate of 2% that is expected to be achieved with existing resources and maintenance funding. This \$10,000 is based on the assumption that the general state appropriation contribution towards the education of an undergraduate student should be roughly the same across all four institutions.
  4. **Limited Competition**: Incentives should be designed in a way that limits competition amongst the institutions. The funding model establishes targets by institution which limits competition. In addition, incentivizing transfers encourages 4-year institutions to collaborate with Community Colleges.
  5. **Sustainable Incentives**: Incentives should be provided to institutions that achieve their targets regardless of the economic conditions of the State. Less than full funding protocols prioritize CCI performance funding so that incentives are maintained if the Legislature does not fully fund the request.
  6. **"Skin in the Game"**: The institutions existing base budget should be at risk if degree graduate targets are not achieved. In the model, institutions that fail to meet a 2% growth target will realize a reduction in base funding. In addition, funding for other mission activities is at risk if the legislature does not fully fund the CCI performance fund.
  7. **Sub-populations**: Considerations could be given for additional incentives for graduating students who are low income (defined by Pell eligible), adult learners (ages 30+), and transfers from Community Colleges. Given the substantial overlap between first generation, underrepresented minorities, and low income students, this incentive is intended to capture a large share of these other sub-populations.
  8. **Industry Needs**: Additional incentives could be provided for graduates in fields that support the economic development strategies of the State. This includes STEM, Health Professions, Business, and other majors to be identified by the State Board of Education.
  9. **Maintenance Budgets**: Maintenance requests (e.g. CEC and benefit rate increases) and occupancy costs should continue to be included as part of the annual budget request for the institutions.
- Progression and Capacity**: The funding model should recognize that institutions incur costs during a student's education and funding solely on completion does not align with when costs occur. In addition, institutions may need to invest in building capacity in order to serve and graduate more students. An Innovation and Capacity fund is included in the funding model to partially address this.

## FUNDING MODEL SUMMARY

- **Annual Budget Requests:**
  1. Maintenance budget requests (e.g. CEC, benefits) and occupancy costs.
  2. CCI Performance Funding Allocations.
  3. Line items.
  4. Separately budgeted Agricultural Research & Extension Services, Endowment Funds, Health Education Programs, and Special Programs will continue.
- **CCI Performance Funds:**
  1. “Baseline”: weighted undergraduate degree graduates (A.A.S. and Bachelor’s only) will be calculated on a 3-year average of 2013-14, 2014-15, and 2015-16.
  2. Minimum performance level:
    - Higher education institutions will be expected to increase their 3-year average by a minimum of 2% annually, which will be called their “CCI Graduate Target”.
    - If an institution fails to reach their target, the subsequent year’s target cannot be lower than the current year target (i.e., the target will never decline).
  3. Incentive structure:
    - If an institution exceeds their “CCI Graduate Target”, they will receive \$10,000 per weighted degree graduate in excess of their target.
    - If an institution fails to reach their “CCI Graduate Target”, they will lose \$10,000 per weighted degree graduate under their target.
    - \$10,000 per graduate is the estimated existing general state appropriations allocated for undergraduate education, assuming all institutions are funded similarly for this purpose. The figure equates to \$10,000 per A.A.S. degree and \$20,000 per Bachelor’s Degree.
  4. Degree weighting will be applied as follows:
    - Degree Level: Associate Applied Science Graduate = 1X, Bachelor Graduate = 2X.
    - Sub-populations: Low Income, Transfer Student from CC, or Adult Learner (30+) = 1.25X.
    - “Priority” degrees as determined by the State Board of Education = 1.25X
    - Cost of instruction is not factored, however, could be incorporated here.
- **Mission specific funding:** Line items may include requests for funding for all mission activities that extend beyond the shared mission of undergraduate education including graduate education, research, one year certificate programs, and public service.
- **Innovation and Capacity Fund:**
  - \$5 million in one-time funds requested annually by SBOE through 2023.
  - Proposal based awards to institutions to implement CCI accelerating innovations as well as increasing capacity.

### LESS THAN FULL FUNDING

Initial attempts at performance funding failed because they relied on the Legislature to fund institutions once they reached performance targets. Performance funding 2.0 resolved this issue by developing a model where institutions compete for a share of a performance pool regardless of the size of the pool. Neither approach is ideal and skepticism has been expressed by many stakeholders. This funding model utilizes concepts from both approaches to minimize competition while providing a sustainable incentive. The less than full funding protocol model assumes the highest budget priority for the SBOE will be funding the CCI Performance Fund.

In the event the Legislature chooses to not fund the CCI performance fund incentives earned at each institution, the SBOE will reallocate to fully fund the incentives earned by each institution. A portion of each institutions general state appropriation will be protected from reallocation in the funding model. The remaining general state appropriation will be subject to reallocation using an across the board approach based on unprotected general state appropriation in order to fund degree incentives earned.

1: Fixed Costs (protected from reallocation in the funding model):

- Each institution has a set of fixed costs (e.g. all universities have a President, Provost, etc.) which are generally unrelated to institutional size. A formula will be used to calculate these fixed costs and this portion of the General State Appropriation will be protected from reallocation in the model. Fixed costs should be calculated in a manner which does not provide an incentive to grow fixed costs. For example, considering tenured faculty as fixed costs provides an incentive to hire more tenured faculty.

2: Undergraduate education (protected from reallocation in the funding model):

- The funding model will utilize the performance fund metrics to calculate the total portion of the general state appropriation that is assumed to be specifically allocated for undergraduate education.
- The calculation will be the total # of weighted graduates counted in the CCI Performance Funding Model \* \$10,000 based on the most recent 3-year rolling average achieved. These funds are also protected from reallocation as a result of less than full funding by the Legislature.

3: Separately budgeted Agricultural Research & Extension Services, Endowment Funds, Health Education Programs, and Special Programs will also be protected from reallocation in the funding model.

DRAFT FUNDING MODEL FOR 4-YEAR COLLEGES AND UNIVERSITIES

CCI PERFORMANCE FUND CALCULATIONS

Column	A	B	C	D	E
	<b>CCI Graduate Target</b>	<b># of Weighted Graduates (A.A.S., Bachelor)</b>	<b>Performance Compared to Target</b>	<b>Performance Incentive per Degree Graduate</b>	<b>Change in CCI Performance Incentives Earned</b>
Calculation	2% increase from prior 3 year avg.	3 year rolling avg.	B - C	\$10,000	C * D
LCSC					
UI					
ISU					
BSU					
<b>SBOE CCI Performance Fund Budget Request</b>					Total Column E

**Step 1:** The initial baseline is determined by the 3-year average from 2013-14, 2014-15, and 2015-16.

**Step 2:** The initial 2016-17 CCI Graduate Target is established at a 2% increase from the baseline.

**Step 3:** 2016-17 performance is determined based on a 3-year average of 2014-15, 2015-16, and 2016-17 and is compared to the 2016-17 CCI Graduate Target.

**Step 4:** The CCI Performance Incentives Earned is determined and calculated for the next annual budget request. The calculation is Performance - Target \* \$10,000.

**Step 5:** The next year's new CCI Graduate Target is calculated:

- If the institution exceeded their CCI Graduate Target, the target is established at a 2% increase from actual performance.
- If the institution failed to reach their CCI Graduate Target, the target is established at the higher of the current year CCI Graduate Target or a 2% increase from actual performance. This prevents institutions from being rewarded for achieving performance levels they have previously achieved.

**CALCULATING THE INCENTIVE**

**Assumptions:**

1. The four-year institutions all share a common mission for undergraduate education.
2. The State Board of Education believes the same undergraduate degree from any of the four-year institutions has the same value to the State of Idaho.
  - o For example, a Bachelor’s Degree in Biology from Lewis Clark State College has the same value to the State of Idaho as a Bachelor’s Degree in Biology from the University of Idaho, Idaho State University, and Boise State University.
3. Nearly all of the general state appropriation provided by the Legislature for Lewis Clark State College is to fulfill their mission for undergraduate education. This assumption allows the formula to calculate the amount of general state appropriation invested by the Legislature for undergraduate education on a per weighted degree basis.
4. Differences in costs for the same undergraduate degree at each of the four-year institutions can be attributable to mission differences that extend beyond undergraduate education.
  - o For example, a Chemistry professor at Boise State University likely makes more and teaches fewer classes than a Chemistry professor at Lewis Clark State Colleges. However, these contributors to potentially a higher cost of education for Chemistry are primarily due to the research mission of Boise State University and not anything specific to undergraduate education.
5. 21.4% of Lewis Clark State College’s general state appropriation can be considered fixed costs. This % is used in the Tennessee higher education funding formula.
6. Differences in degree weights should align with the weights used in the CCI Performance Fund Calculations and the incentive should be re-calculated once a final degree weighting is agreed upon.

**Calculation:**

LCSC FY18 General State Appropriation	\$16,952,300
Less: GSA Allocated for Fixed Costs (21.4% of GSA)	\$3,627,793
<b>GSA Allocated for Undergraduate Education</b>	<b>\$13,324,507</b>
Estimated # of weighted graduates*	1,317
<b>GSA Allocated for Undergraduate Education per Weighted Graduate</b>	<b>\$10,117</b>

\* Based on Associate Degree = 1, Bachelor’s Degree = 2, as reported to IPEDS for 2013, 2014, 2015 and an assumed 10% higher weighting due to sub-population and targeted degree weightings yet to be determined.