

PERFORMANCE BASED (OUTCOME-CENTERED) FUNDING POLICY

Background

Act 1203 of 2011 repealed Arkansas Code §6-61-223 and amended §6-61-224, §6-61-228, §6-61-229, and §6-61-230. The act directs the Department of Higher Education to develop an outcome-centered component of the funding formula for colleges and universities by December 31, 2011. Beginning in 2013-14 the funding recommendations will be based on the need component of student enrollment and the output components of student success and other performance measures. The proportion of the funding recommendation will begin with five percent based on outcome-centered measures, increasing by five percent (5%) each year to reach twenty-five percent (25%) in 2017-18. Act 1397 of 2013 was later implemented so that the funding component of the outcome-centered formula shall not progress beyond the 2014-2015 school year, or ten percent (10%), until such time as the Department of Higher Education determines that all institutions are funded at the minimum standard of equity defined as seventy-five percent (75%) of needed state funding. Also, in any fiscal year that the aggregate general revenue funding forecast for higher education institutions is less than the amount in the 2012-2013 fiscal year, the Department of Higher Education will not further implement the funding component until such time as the aggregate general revenue is restored to the 2012-2013 fiscal year level. The Director and staff at the Department of Higher Education worked with the presidents, chancellors and key staff at the universities and colleges, along with the Executive Director and key staff at the Arkansas Association of Two-Year Colleges, to develop the university and college performance measures.

Performance Measures

For the implementation of performance funding, institutions are to be held harmless for complying or participating in an initiative promoted by the Arkansas Department of Higher Education (ADHE) that has the potential to adversely affect the outcomes of compliance with performance funding measures. *This includes, but is not limited to degree audits, contributions to economic development, and increases in quality of education provided.*

The performance-based funding formulas were developed and reviewed with the following principles in mind:

Universities

- **Doubling the number of degrees produced by 2025 without compromising academic rigor.** The universities recognize that to bolster the economic development needs of the State, we must significantly increase the number of degrees, including STEM degrees, awarded to Arkansas students. Significant weighting is placed on increasing the number of bachelor's degrees awarded. All institutions will be measured each year on total credentials awarded, bachelor

credentials awarded, STEM production and student progression. Forty percent (40%) of all performance funding will be allocated to these four measures.

- **Recognizing the diversity of Arkansas's universities and the varying demographics and economic realities of their locale, as well as the academic unpreparedness of many of the students they serve.** The optional measures include underrepresented minorities, non-traditional, transfer and low-income graduates, as well as graduates with remedial needs and those electing a course of study in a high demand field or a critical need of a particular region of the state.
- **Recognizing research activities in bolstering the economic development of the state.** Several universities are involved in substantial research efforts through the receipt of external grants and awards, issuance of patents and the development of new companies. While not directly producing graduates, these economic development measures produce jobs, a component that must be present if the state has any hope of retaining a large percentage of its graduates.
- **Holding all institutions accountable for the major state goals outlined in Act 1203 through the combination of mandatory and optional measures.** The measures allow each institution to select optional goals based on mission, role and scope. Each institution will be measured against its own progress and not against an arbitrary standard.
- **Recognizing that the performance record in the early years will almost certainly change over time and that it must be reviewed on an annual basis to assure the overall goal of doubling the number of graduates by 2025 is attainable.**
- **Keeping the measures simple, clear and understandable.**
- **Producing accurate and reliable data will dictate the success of the performance funding measures.**

Colleges

Two-year colleges are open-door institutions that serve four major educational purposes: 1) technical skills education; 2) preparation for transfer to a four-year university; 3) remedial education and; 4) workforce training for business and industry. A two-year college performance funding model must incorporate all four purposes.

Performance Measures Definitions

Universities

The following table provides a list of the measures with definitions:

Mandatory Measures	
Measure	Definition
Bachelor Credentials	Number of bachelor's degrees earned by students for an academic year regardless of enrollment status.
Total Credentials	Number of all credentials (technical certificates and above) earned by a student for an academic year regardless of enrollment status.
STEM Credentials	Number of all credentials (technical certificates and above) earned by a student for an academic year regardless of enrollment status in the STEM CIP Codes. The source identifying STEM CIP Codes is the version published by US Immigration and Customs Enforcement (ICE). The list may be found at the following website (www.ice.gov/sevis/stemlist.htm).
Progression: University Version (New Arkansas Measure)	This measure utilizes a cohort of credential-seeking students enrolling in 6 or more hours during a fall semester. The cohort is then tracked through the next academic year to identify how many students in the cohort earned a total 18 or more credit hours through the two academic years (including remedial/developmental courses). The Progression Rate is expressed as a percentage and changes over time are expressed as a difference in percentage points. If a student graduates during the allotted time frame, then that student is counted as progressed.
Optional Measures	
Measure	Definition
Course Completion	This is a Successful Course Completion Rate calculation which compares number of successful SSCH to all SSCH in all non-remedial courses. The Successful Course Completion Rate is expressed as a percentage and changes over time are expressed as a difference in percentage points.
High Demand Credentials	Number of all credentials (technical certificates and above) earned by a student for an academic year regardless of enrollment status in the HIGH DEMAND CIP Codes. The 2011 version of the HIGH DEMAND CIP Codes were obtained from ADWS (Arkansas Department of Workforce Services).
Minority Student Credentials	Number of all credentials (technical certificates and above) earned to persons identified as Asian only, Black only, Hispanic any, American Indian/Alaska Native only, Hawaiian/Pacific Islander only or Two or More Races. (Unknowns, Non-Resident Aliens, White and Other graduates are not included.)
Non-Traditional Student Credentials	Number of all credentials (technical certificates and above) earned by a non-traditional student in an academic year. Non-traditional students are defined as age 25 or older at the time of graduation.
Remedial Student Credentials	Number of all credentials (technical certificates and above) earned by a remedial student in an academic year. Remedial students are defined as students who were required to take at least one remedial course for completion.

Regional Economic Needs Programs Credentials	Number of all credentials (technical certificates and above) earned by a student for an academic year regardless of enrollment status in programs identified by the institution and approved by the Arkansas Higher Education Coordinating Board. See Appendix B for detail.
Transfer Student Credentials	Number of all credentials (technical certificates and above) earned by a student transferring from another Arkansas public institution of higher education.
Expenditure of Federal Awards	Increase in restricted federal expenditures excluding transfers and scholarships by fiscal year.
Patents	The number of U.S. patents (utility, plant or design) issued or reissued to an institution within the year. Certificates of plant variety protection issued by the USDA should be included.
New Company Start-ups	The number of new companies started during the years that were dependent on licensing an institution's technology for their formation.
Compensatory Measure	
Percentage of Pell Receiving Undergraduate Population	Percentage of all undergraduate students receiving Pell grants (http://nces.ed.gov/collegenavigator/)

Colleges

The following table provides a list of two-year college measures with definitions:

Mandatory Measures	
Measure	Definition
Remedial Course Success	The rate of remedial courses completed relative to remedial courses attempted.
Non-remedial Course Success	The rate of non-remedial courses completed relative to non-remedial courses attempted.
Progression	The rate of students that complete either 18 hours or a credential.
Certificates of Proficiency	The number of certificates of proficiency awarded.
Technical Certificates	The number of technical certificates awarded.
Associate Degrees	The number of associate degrees awarded.
Total Credentials	The rate of credentials awarded relative to enrollment.
Mandatory Compensatory Measures	
Measure	Definition
Low-Income	The number of low-income students relative to enrollment.
Under-prepared	The number of underprepared students relative to enrollment.
Optional Measures	
Measure	Definition
STEM Credentials	The number of STEM credentials awarded.

High Demand Credentials	The number of high demand credentials awarded.
Workforce Training	The number of workforce training contact hours reported.
Transfer	The number of students that transfer after completing a minimum of 12 hours.
Adult Credentials	The number of credentials awarded to adults.
Minority Credentials	The number of credentials awarded to minorities.
Employment	The number of credential completers that obtain employment.

Performance Funding Scoring Requirements

The maximum score that can be earned on the University and College Performance Funding Model is ten (10) points. In order for an institution to maintain one-hundred percent (100%) of its performance (outcome-centered) funding, a minimum score of six (6) is required. If an institution scores below six (6), performance funding may be reduced using a graduated scale based on the institution's score.

Distribution of Performance (Outcome-Centered) Funding

One-hundred percent (100%) of an institution's performance (outcome-centered) funds will be distributed to that institution each year that the minimum score of six (6) is received on the Performance Funding Model. At such time that an institution scores below the minimum score of six (6), performance funds will be redistributed based on the following guidelines:

Universities

In the first year that a university does not meet the minimum score of six (6), the university may submit an improvement plan outlining the areas where performance has not been met and detail the actions the university will take to achieve or exceed the minimum score required for the Performance Funding Model. If approved, the university may receive improvement funding, up to the amount of performance funding that was lost.

If an improvement plan is not submitted or is not approved for the amount of performance funding lost, those funds will be redistributed, on a competitive basis, to other universities that meet the required performance funding score. To receive redistribution funding, a university must submit a proposal outlining plans to improve some performance-funding outcome measure. Submitted proposals will be ranked and funded beginning with the highest ranked proposal until all redistribution funds are exhausted.

If a university fails to meet the minimum score of six (6) for a second consecutive year, and each consecutive year thereafter that a university does not meet the minimum score of six (6), performance funds will be reduced using the graduated scale based on the institution's score. These funds will be redistributed on a competitive basis, to other universities that meet the required performance funding score. To receive redistribution funding, a university must submit a proposal outlining plans to improve some performance-funding outcome measure. Submitted proposals will be ranked and funded beginning with the highest ranked proposal until all redistribution funds are exhausted.

The ADHE will assemble a committee that will be responsible for approving and ranking improvements plans.

Colleges

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The ADHE will assemble a committee that will be responsible for reviewing improvements plans.

The following resolution is offered for the Board's consideration:

RESOLVED, That the Arkansas Higher Education Coordinating Board adopts the amendment to the performance measures described in this agenda item for outcome-centered components in implementing the provisions of Act 1203 of 2011 and Act 1397 of 2013.