

TOPIC: REVIEW AND APPROVAL OF A PERFORMANCE-BASED FUNDING PLAN PURSUANT TO 23-1-108 (1.9) C.R.S

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I. SUMMARY

As part of Senate Bill 11-052, the Colorado Commission on Higher Education (CCHE or Commission) approves a performance funding plan demonstrating the method to distribute performance funding to institutions and recommending any necessary changes to the existing College Opportunity Fund (COF) funding methodology. This action item provides a brief background and description of the attached performance funding plan and recommends that the Commission approve and submit the plan to the General Assembly's Education Committees and Joint Budget Committee.

II. BACKGROUND

Along with providing the framework for the higher education master plan, *Colorado Competes*, Senate Bill 11-052 required that the Commission through the department develop a plan for distributing performance-based funding based upon the success of institutions meeting goals identified in governing board performance contracts. The Commission is also required to provide information in the plan about how the allocation of performance-based funding would impact College Opportunity Fund (COF) stipends and fee-for-service contracts and recommend to the Joint Education Committees of the General Assembly any statutory changes needed to modify COF prior to the implementation of performance funding.

Approving this conceptual plan for allocating performance funds is the next step required in the process of implementing a performance funding framework for Colorado public colleges and universities. This process started with the passage of Senate Bill 11-052, and continued through the Commission's adoption of goals approved in the statewide master plan. The master plan and goals created the foundation for performance contracts which were finalized with the institution governing boards over the past year. Ultimately the process will culminate in the evaluation of data supporting progress toward the four primary goals¹ identified in the system wide master plan as measured by individual metrics agreed upon in performance contracts. By statute, the actual allocation of performance funding will occur beginning as soon as FY 2016-17 when state funding for higher education is at or above \$706 million with 25 percent of the amount over \$650 million being made available for performance funding.

¹ The Statewide Master Plan, *Colorado Competes*, established four goals for higher education of critical importance to the state: (1) increasing credential attainment, (2) improving student success (3) reducing attainment gaps and (4) restoring fiscal balance.

The attached plan demonstrates through examples and narrative the methodology that will be applied when allocating performance funding when (1) institution data from performance contracts can be collected and compared and (2) when performance funding becomes available as described above. The plan also provides background on the process and principles that informed the plan's development, addresses the statutory requirements related to the College Opportunity Fund as a mechanism to allocate performance funding and a summary of the next steps in the process.

III. STAFF ANALYSIS

The centerpiece of the plan is a description of the quantitative process used to allocate performance funds. The plan details the steps for collecting data, awarding and weighting points, and finally scaling and totaling points. Ultimately these points are then applied against available performance funding to be allocated by governing board. Each state with a performance funding mechanism for higher education uses a unique allocation methodology and Colorado's was developed with the input of the institutions, evaluation of other state systems and the assistance of the department and the National Center for Higher Education Management Systems (NCHEMS).

Over the summer and autumn department staff met with governing board CFOs and institution data experts (Data Advisory Committee) to establish common principles and develop a Technical Guidebook to ensure that data are collected consistently and accurately. Principles included concepts such as measuring progress toward a goal alongside goal achievement. For example, if an institution gains ground toward a metric goal and gets 80% of the way to meeting that goal, that institution would still "get credit" for that progress.

The actual performance assignment process breaks down into the following steps:

1. Data are collected and points are assigned for each metric associated with one of the four goals,
2. The points are weighted in accordance with the weights assigned by governing boards in the performance contracts,
3. The weighted points are scaled to account for the relative size of the institution or system,
4. The relative share of "total" performance across all the institutions is measured against total performance funds available and shares of funding are awarded to governing boards.

The plan walks through a hypothetical allocation scenario based on credential completion to illustrate the process. Continued data collection and the collective work of the department and institutions will be needed to build performance funding "baseline" data and complete a fully functioning performance funding model.

Another part of the plan required by statute is related to how performance funding will impact Colorado's unique funding allocation system, the College Opportunity Fund (known as COF).

The COF system of funding student stipends and fee-for-service contracts was implemented in 2005 long before a performance funding mechanism was anticipated. The primary concern with the potential overlay of performance funding as it relates to COF is the ability to retain TABOR enterprise status for the publically funded institutions and governing boards. To this end, the attached plan recommends that a third category of COF be created in anticipation of performance funding becoming available that would allow Colorado to “purchase” performance (such as additional degree completion) through COF in the same way that the state purchases unique services through COF fee-for-service contracts. While this will likely require slight statutory changes, initial department discussions with legislative legal services staff indicate that this approach would meet the needs of COF and adequately segregate performance funding from the other COF funding categories.

The plan closes by highlighting next steps as well as some of the challenges and opportunities we face in successfully implementing performance funding over the next few years. The plan anticipates the ability to further evaluate and adjust Colorado’s approach to performance funding in anticipation of funding levels that will trigger performance implementation.

IV. STAFF RECOMMENDATIONS

Staff recommends Commission approval of the attached Performance Finding Allocation Plan to be provided to the General Assembly’s Education Committees and Joint Budget Committee.

STATUTORY AUTHORITY

Section 23-1-108 (1.9), C.R.S. (2013)

C.R.S. 23-1-108(1.9) on or before December 1, 2013, the commission shall create a performance-based funding plan to appropriate to each governing board, including the governing boards for the junior colleges and area vocational schools, a portion of the performance funding amount for the applicable state fiscal year based on the success demonstrated by institutions under each governing board’s control in meeting the goals and expectations specified in the institutions’ respective performance contracts.