
Docket Item:

Student Success and Completion Model (SSCM) Review – Implementation Details

Summary:

This docket item provides information on the further development of staff recommendations for modifications to the HECC's distribution formula for the Public University Support Fund (PUSF).

Docket Material:

With the Commission's endorsement of the staff recommendations presented at the November meeting, staff was tasked with providing additional information and recommendations related to the design of the mission differentiation (MD) funding component, the magnitude of a stop-loss mechanism, and multi-year forecasting.

A Microsoft Excel workbook was designed to support the conversation for all three.

Mission Differentiation Design

Under the current formula, MD funding is designed to grow at the lesser of inflation or the growth in the PUSF. This comparison is conducted annually. Inflation is pegged to the consumer price index (CPI). By practice, 49% of the PUSF allocated in the first year of the biennium and 51% is allocated in the second year.

Some of the institutions are concerned about the current design in which the total funding for mission differentiation declines as PUSF funding declines, but only grows at the rate of inflation once the PUSF funding recovers. This is often referred to as a "one-sided ratchet," in which the overall funding for MD is allowed to drop and never recovers once PUSF funding levels recover. This creates vulnerability for those institutions more dependent on the mission differentiation portion of the formula. The original intent of the cap on mission differential was to grow the outcome portion of the funding over time to create ever stronger focus on student access and completion. The question then becomes, how do we balance both sets of concerns with an objective design?

Currently, MD is funded at \$71 million, or 16.6% of the total PUSF in FY2021. Staff recommends establishing a "MD funding index" equal to \$71 million adjusted annually by CPI. Under the new formula, MD would annually equal 16.6% of PUSF or the funding index, whichever is less. We believe this recommendation addresses both concerns by removing the one-sided ratchet while also growing the portion funding allocated to activities and outcomes over the long haul.

Stop-Loss Mechanism

The stop-loss mechanism is a little different. The Commission has committed to phase in any changes to the SSCM over time in support of the principle of providing funding stability. The question is how to do that when the total PUSF is expected to decrease.

When the SSCM was initially adopted five years ago, the state funding context was different. The formula was being radically overhauled an enrollment basis to one that emphasized outcomes, and increases in state funding

were expected. As a result, the stop loss/stop gain was designed to transition to outcomes over time and ensure no one institution experienced extraordinary gains relative to the others.

This year, under the staff-recommended changes and potentially flat or reduced state funding, the conversation has focused on ensuring that no institution experiences extraordinary losses relative to others. As such, the stop loss should be defined as a loss over and above the total PUSF decrease. This would speak to an “extraordinary” loss.

For example, if the total PUSF funding for FY2022 declines 4%, which it does under a flat-funded 2021-23 PUSF amount due to the 49/51 split, the stop loss could be set at an *additional* 2%. This would mean no institution would experience more than a 6% decline in funding from FY2021 to FY2022. This is the staff recommendation.

Continuing under this same scenario (a flat-funded 2021-23 PUSF), the PUSF distribution for FY2023 would increase by 4% over the prior, first year of the biennium. At an institutional level, the increase from FY2022 to FY2023 would likely vary between 1% and 6%. Therefore, a stop loss would not be needed since all institutions would likely experience an increase in funding.

Multi-Year Forecasting

The previously mentioned Microsoft Excel workbook staff created includes multi-year forecasting over the next three biennia. End users can input funding assumptions and then see how the redesigned MD component and recommended stop-loss will affect future year distribution amounts by institution.

Staff Recommendation:

This is an informational and discussion item only.