The Administration's Higher Education Long-Term Funding and Performance Plan

The General Fund augmentations to the higher education segments proposed in the 2013-14 Governor's Budget are predicated on the institutions maintaining steady systemwide tuition and fees from 2013-14 through 2016-17, and achieving improvements in outcome performance measures that are high priorities of the Administration.

Goals

The Administration is seeking to meet the following goals to improve the state's system of higher education:

1. Increase the rate and number of students who receive degrees from the universities, or those who complete certificates at the community colleges and/or transfer to four-year institutions. *(Captured in performance measures 1 through 5 below.)*

2. Shorten the average time it takes students to earn their degrees, so that they can graduate sooner, enter the workforce sooner, and incur less student debt to get their degree. This will also open up more slots for the segments to enroll more students, thus increasing access. *(Captured in performance measures 1 and 2 below.)*

3. Keep college accessible to low-income students, and increase the number of low-income students who complete college. *(Captured in performance measure 6 below.)*

4. Control the cost of higher education so that it stays affordable for students and the state. Increase the efficiency of higher education so that student tuition is not used as a "balancer" to cover perpetually rising costs. *(Captured in performance measure 7 below, and in the requirement to freeze tuition over the next four years.)*

Major Components of the Funding and Performance Plan for UC and CSU

The state will provide a General Fund increase of five percent to UC and CSU's base budgets in both 2013-14 and 2014-15, and four percent in 2015-16 and 2016-17. (CSU's increase will be based on the same dollar amount increase that UC receives.)

These increases will require the segments to meet the Administration's priorities to maintain affordability and improve student success. Specifically:

- No increases in systemwide resident tuition and fees through 2016-17: In 2011-12, annual undergraduate tuition and fees were $12,192 at UC and $5,472 at CSU. Both segments agreed not to increase these fees in 2012-13, in return for a $125 million General Fund augmentation each university was provided in 2013-14. Both institutions are expected to maintain these tuition and fee levels through 2016-17.

- Segments to reach specific targets for performance measures. The Governor's Budget provided an opportunity for the Administration to further develop specific performance measures the segments will be expected to improve, specific short and longer-term targets for improvement, and fiscal incentives if the segments achieve the targets.

- At a minimum, segments should maintain current enrollment levels. As funding allows, and as the segments begin making progress toward the student outcome measures (i.e. increasing the number of degrees their students complete and improving graduation rates), UC and CSU should be able to serve a greater number of students beyond the 2012-13 levels.

Performance Measures

1 and 2. Increase graduation rates for freshmen and transfer students: UC and CSU will be expected to increase their system wide four-year graduation rates for incoming freshmen and their two-year graduation rates for transfer students.

3. Increase the number of transfer students UC and CSU enroll from the community colleges: In addition to increasing the number of CCC transfer students UC and CSU enroll, the four-year institutions are expected to work closely with CCCs to align lower and upper-division coursework and create clear transfer pathways for students that enable them to graduate on time, without accumulating excessive extra units. This will ensure that the segments can achieve the goal of improving the two-year graduation rates for these students, The number of transfer-ready students the CCCs will be producing in future years is expected to increase, given the additional funding the community colleges are expected to receive beginning in 2013-14.

4, 5, and 6. Increase degree completions for undergraduate students, and for low-income undergraduate students: The segments will be expected to increase the number of undergraduate degrees completed each year, for those student populations who entered the university as freshmen and as transfer students. To ensure that UC and CSU do not constrict the number of low-income students they enroll to improve their graduation rates, the institutions will be required to increase the number of degrees awarded to low-income students. The low-income student population will be measured by the number of students who receive a Pell Grant at any time during their matriculation at the institution.

7. Improve the number of degree completions as a percentage of enrollments: To measure the efficiency of the segments in graduating the students they enroll, the universities will be expected to improve upon the ratio of graduates per 100 full-time equivalent (FTE) students enrolled. By basing student enrollments on FTE rather than headcount, this measure will take into account the number of students attending college on a part-time basis, which is particularly prevalent at CSU. While this measure is tied to the degree completions outcomes, it will enable comparisons of this performance measure between the segments on an apples-to-apples basis.

Targets for the Outcome Measures

From 2013-14 through 2016-17, UC and CSU will receive about a 20 percent General Fund increase. For both segments, the General Fund allotments account for roughly half of their core operating funds, and tuition and fee revenues provide the other half (in 2012-13, the GF share for UC and CSU provided 46 percent and 51 percent of core operating revenues, respectively.) Thus, the segments would receive about a 10 percent overall increase in their core operating revenues over the four-year period. To receive these augmentations, however, UC and CSU must make progress toward the Administration's goals for on-time completion, overall degree production, and transfer student enrollments. Segments will be expected to show a 10 percent improvement on each of the stated outcome measures between 2011-12 and 2016-17—while we recognize that the universities must address some of their unfunded mandatory costs with the General Fund augmentations being provided, they are expected to achieve greater efficiencies to reduce overall operating costs to allow them to allocate new resources to achieve the expected outcome improvements. At CSU, we expect this will be accomplished by reducing the number of excess units per completion and increasing overall through-put. At UC, we expect this will be accomplished by lower spending per degree. The Administration sees these improvements to cost efficiency as an integral part of each segment's ability to provide a high-quality education without continually increasing the financial burden placed on students through tuition and fees. In the intervening years, the state will track the segments' progress toward meeting these goals and beginning in 2015-16, the segments' funding augmentations will be based on the extent to which they are on track to reach these goals in 2016-17.

Further Funding and Performance Plan Details

The specifics of the Plan are described below (also see attached multi-year spreadsheets):

1. **Performance measures.** The segments will be expected to improve upon seven performance measures, beginning in 2013-14, with a targeted improvement goal of 10 percent in each of the measures by 2016-17. In the intervening years, UC and CSU will be expected to achieve the following targeted improvements in each of the outcome measures: 1 percent in 2013-14; 3 percent in 2014-15, and 6 percent in 2015-16. Each of the measures will be weighted equally, so that about 14 percent of each segment's annual General Fund augmentation will be tied to each outcome measure. Together the targets and weights will determine the amount of funding the segments will or will not receive beginning in 2015-16. (See attached spreadsheet for the annual targets for each of the measures for the segments.)

2. **Four-year tuition freeze requirement.** The plan will include an absolute requirement that the segments freeze tuition at current levels — if UC or CSU increases tuition and fees, the General Fund augmentation that has been proposed in that year's Governor's Budget will be forfeited, and any General Fund increases that have been built into the segment's base budget beginning in 2013-14 will be removed. The university will receive no further General Fund augmentations through 2016-17.

3. **Reporting requirements.** By September 1, 2013 (assuming that the Budget Act of 2013 is signed before that date), the segments will report on the outcome data for 2011-12, which will establish the base upon which the future performance measures will be calculated. The segments will be required to report by March of each year, beginning in 2014, on data for the performance measures for the preceding academic year. The universities will be allowed to keep the General Fund augmentations provided: (a) in 2013-14, so long as they report on the 2011-12 levels of the outcome measures, and (b) in 2014-15 so long as the performance measures they report for 2012-13 do not worsen from the 2011-12 levels (again, contingent on no tuition increases).

Design Principles for Performance Targets

- **Partial credit.** A segment could keep all or part of the augmentation that will be proposed in the 2015-16 Governor's Budget (i.e. in January 2015) depending on the degree to which it has met its targets from the previous academic year, based on data that will be provided in March. If a segment has not met the 1 percent targeted improvements for 2013-14, upon which the 2015-16 funding augmentation is contingent, the segment's 2015-16 appropriation will be reduced proportionally at the 2015-16 May Revision, to reflect the degree to which targets were not met.

  A segment could keep some of the funding increase if it made some progress toward improvement, but did not fully meet the specified target. For example, UC will be expected to increase the number of community college transfer students it enrolls by 10 percent by 2016-17; since each of the seven measures are weighted equally, UC would retain about 14 percent of its proposed funding increase for meeting that target. Under the funding model, UC will retain about 7 percent of the funding increase in 2016-17 if it increased its transfer enrollments by 5 percent by 2016-17.

Alternatively, if a segment does not achieve the targeted improvement in any of its outcome measures in 2013-14 through 2015-16, it will be possible to retain the full share of the General Fund augmentation tied to that measure if it can document improvements in related outcomes to indicate that it is on track to fully meet the 10 percent improvement by 2016-17. For example, if a segment does not improve its four-year graduation rate by 3 percent by 2014-15, but shows a large enough increase in the average number of units its students are completing, which should result in a 10 percent graduation rate improvement by 2016-17, the segment could be allowed to keep the associated funding increase. The segments will suggest possible 'substitute' outcome measures to the Department of Finance and the LAO when they report on the 2011-12 outcome measures in September 2013, and will provide the data for these proxy measures at that time as well. Finance and the LAO will make the final determination as to whether the alternative measures proposed by the segments do in fact indicate that the overall target will be achieved.

- **Ability to recoup lost funding.** A reduction due to missing targets will not result in a permanent loss of funding by a segment. Instead, a segment could earn back the lost funding the following year if the segment were to meet the following year's target. In effect, this structure provides a segment an ongoing fiscal incentive to continue its pursuit of meeting future performance targets.

- **Incentive for improving efficiency.** The Administration is setting performance targets sufficiently high to encourage and reward greater efficiency (i.e. lower total cost per degree completed) in both systems.

Major Components of the Funding and Performance Plan for the Community Colleges

For the community colleges, the Administration will undertake a longer development process and intends to propose performance measures in the 2014-15 Governor's Budget that ties future funding increases to desired improvements in performance. This longer timeframe is needed to work with experts and stakeholders to identify outcome measures that are appropriate to the colleges' local governance structure, open enrollment policy, multiple missions, and constitutional funding requirement.

The Administration intends to focus on three major areas of performance:

1: <u>Course completion.</u> The new funding model will address the current flaw of basing funding on third-week enrollment and instead will place greater emphasis on course completion.

2: <u>Individual student progress.</u> Given the complexity of the colleges' multiple missions, diverse goals, and ability levels among students, there is a need to recognize individual student progress as a desired outcome, in addition to completion. The new model may include measures of progress that have been shown to be strong indicators of retention and eventual college completion. These measures could include, for example, the number of students who advance from basic skills to college-level work in English or math, or the number of students who earn at least 30 units.

3. <u>Completion.</u> Completion will be defined as earning an associate degree, credit certificate, transfer to four-year institution, or transfer readiness. The intention is to acknowledge the colleges' multiple missions and differing student goals, while still expressing the state's funding priorities.

In addition, the intent for the 2014-15 Governor's Budget will be to encourage colleges to improve the progress and completion rates of low-income students, to acknowledge the additional costs of educating these students and avoid any perverse incentive to reduce services to low income students or other students in an effort to improve overall outcomes.

Furthermore, as with the 2013-14 performance funding proposals for UC and CSU, the Administration's intention is to provide partial funding if community colleges partially meet the targets. (In other words, the increases will not be allocated on an "all or nothing" basis that requires the community colleges to meet all performance targets to receive the additional funding.)

Performance-based outcome measures

1: Four-year graduation rates

		1% target	3% target	6% target	10% target
UC (2008-09)	61.5	62.1	63.3	65.2	67.7
CSU (2007-08)	15.9	16.1	16.4	16.9	17.5

UC comparitors		CSU comparitors			
Univ. of Virginia	87.4	Kent St. OH	30.6	George Mason U VA	40.6
Univ. of MI	75.5	Towson U. MD	42.8	U MD Balto. Cnty	34.2
		U of Albany NY	53		

2: Two-year graduation rates for CCC transfers

CSU: includes sophomores and above, but 98% of transfers are juniors

		1% target	3% target	6% target	10% target
UC (2010-11)	53.2	53.7	54.8	56.4	58.5
CSU (2008-09)	23.3	23.5	24.0	24.7	25.6

3: Number of new CCC transfer students enrolled, headcount

	Fall 2011	1% target	3% target	6% target	10% target
UC	15,784	15,942	16,258	16,731	17,362
CSU	37,172	37,544	38,287	39,402	40,889

4, 5, and 6: Degree Completions

4. First-time Freshmen

	Number	1% target	3% target	6% target	10% target
UC	34,001	34,341	35,021	36,041	37,401
CSU	34,482	34,827	35,516	36,551	37,930

5. Transfer Students

	Number	1% target	3% target	6% target	10% target
UC	14,368	14,512	14,799	15,230	15,805
CSU	39,009	39,399	40,179	41,350	42,910

6. Low-Income Students (combined freshmen and transfers)

	Number	1% target	3% target	6% target	10% target
UC (Cal Grants)	14,668	14,815	15,108	15,548	16,135
CSU (Pell Grants)	37,403	37,777	38,525	39,647	41,143

7: Undergraduate Degree Completions per 100 FTE

	DC	undergrad. FTE	DC per 100 FTE	1% target	3% target	6% target	10% target
UC	48,899	187,732	26	26	27	28	29
CSU	76,427	313,069	24	25	25	26	27

UC AND CSU MULTI-YEAR FUNDING AND PERFORMANCE MEASURE PLAN

		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Planning	"5-5-4-4 Plan"	$125.1m (Jan 2013)	$142.3m (Jan 2014)	$119.5m (Jan 2015)	$124.3m (Jan 2016)	???	???
	Data Reporting	11-12 Data Received (BA of 2013)	12-13 Data Received (Mar 2014)	13-14 Data Received (Mar 2015)	14-15 Data Received (Mar 2016)	15-16 Data Received (Mar 2017)	16-17 Data Received (Mar 2018)
Implementation	Tuition	No Increase	No Increase	No Increase	No Increase	???	???
	Target	N/A	12-13 data **= or >** than 11-12 data (MR 2014)	13-14 data **+1%** from 11-12 to 13-14 (MR 2015)	14-15 data **+3%** from 11-12 to 14-15 (MR 2016)	15-16 data **+6%** from 11-12 to 15-16 (MR 2017)	16-17 data **+10%** from 11-12 to 16-17 (MR 2018)
	Target Met/Incentive	N/A	keep 1/7 of $ per target (MR 2014)	keep 1/7 of $ per target **>1%** (MR 2015)	keep 1/7 of $ per target **>3%** (MR 2016)	keep 1/7 of $ per target **>6%** (MR 2017)	keep 1/7 of $ per target **>10%** (MR 2017)
				-or-	-or-	-or-	-or-
				keep % of $ per target **0%-1%**	keep % of $ per target **0%-3%**	keep % of $ per target **0%-6%**	keep % of $ per target **0%-10%**
	Target Missed/Consequence	N/A	lose 1/7 of $ per target (MR 2014)	lose 1/7 of $ per target (MR 2015)…	lose 1/7 of $ per target (MR 2016)…	lose 1/7 of $ per target (MR 2017)…	lose 1/7 of $ per target (MR 2018)…
				…but could earn part or all of loss by meeting 16-17 target…	…but could earn part or all of loss by meeting 17-18 target…	…but could earn part or all of loss by meeting 18-19 target…	…but could earn part or all of loss by meeting 19-20 target…
				…and build in good faith 4% of the 5-5-4-4 for 16-17 Budget.	…and build in good faith % for 17-18 Budget.	…and build in good faith % for 18-19 Budget.	…and build in good faith % for 19-20 Budget.

Dates in parenthesis = Approximate time of action

Theoretical Earnings for Meeting/Missing Higher Education Performance Targets

($ in millions)

	2013-14	2014-15	2015-16	2016-17
How Much Could be Earned this Year? (January)	125.1	142.3	119.5	124.3
What "Make Up" $ Could be Earned this Year? (January)	0	0	61.0	12.9
Situation (March)	Met All Targets	Met 4 of 7 Targets	Met 6 of 7 Targets, Half way to 7th Target	Met All Targets
$ Earned for Target Met	125.1	81.3	111.0	124.3
"Make up" $ Earned from Prior Year(s)	0.0	0.0	56.6	12.9
Total Earned for Fiscal Year (at Budget Act)	125.1	81.3	167.6	137.2
$ Not Earned for Fiscal Year	0.0	61.0	12.9	0
Cumulative $ Earned	125.1	206.4	374.0	**511.2**
What is the Maximum, Cumulative $ that Could be Earn?	125.1	267.4	386.9	**511.2**

Note: Though UC or CSU could potentially earn more funding than planned for in the Multi-Year in a given year, those earnings are paid for with General Fund savings from prior years. Moreover, the tragectory of potential earnings (in this case $511.2 million over 4 years) would never exceed the total budgeted for that 4-year period.