Proposed Rulemaking

Title

Promulgated by:
Department of Education
Division of Higher Education

Title 6. Education

Chapter IV. Division of Higher Education, Department of Education

Subchapter A. Generally

~~**Part 362. Productivity Funding Model — Two-Year Colleges**~~

~~**Subpart 1. Generally**~~

~~**6 CAR § 362-101. Background.**~~

~~(a)(1) Acts 2017, No. 148 repealed the needs-based and outcome-centered funding formulas as prescribed in Arkansas Code §§ 6-61-210 [repealed], 6-61-224 [repealed], 6-61-228 [repealed], 6-61-229 [repealed], 6-61-230 [repealed], and 6-61-233 [repealed], and amended Arkansas Code § 6-61-234.~~

~~(2) Acts 2017, No. 148 directs the Arkansas Higher Education Coordinating Board to adopt polices developed by the Division of Higher Education necessary to implement a productivity-based funding model for state-supported institutions of higher education.~~

~~(b)(1) Productivity-based funding is a mechanism to align institutional funding with statewide priorities for higher education by incentivizing progress toward statewide goals.~~

~~(2) At the same time, such models encourage accountability to students and policymakers by focusing on the success of students through the achievement of their educational goals.~~

(3) The new funding model is built around a set of shared principles developed by institutions and aligned with goals and objectives for postsecondary attainment in our state.

(c)(1) A set of guiding principles, which is described below, is important to orient the design of a new funding model for public higher education institutions.

(2) These guiding principles allow the development of a productivity-based funding model which is student-centered and responsive to postsecondary attainment goals, while creating a funding context which enables:

(A) Innovation;

(B) Increased efficiency; and

(C) Enhanced affordability.

6 CAR § 362-102. Guiding principles.

(a) **Student-centered.** The model should place at its center students and student's needs including both access to and completion of meaningful and quality postsecondary learning.

(b) **Outcomes.**

(1) The model should focus on completion, and particularly on completions of under-served and at-risk students and completions in areas of need by the state and industry.

(2) This structure should recognize differences in investment associated with meeting the evolving needs of:

(A) Students;

(B) The workforce; and

(C) The state.

(c) **Collaboration.** The model should provide incentives for cross-institutional collaboration and reward the successful transition of students across institutions.

(d) **Supporting institutional mission.** The model should respect and be responsive to the diverse set of missions represented by each public institution of higher education.

(e) **Formula structure.** The model should maintain clarity and simplicity.

(f) **Flexibility.** The model should be adaptable in the face of a dynamic institutional and external environment.

(g) **Stability and transition.**

(1) The model should support short-, mid-, and long-term financial stability of the public institutions of higher education, while focusing attention on:

(A) Outcomes; and

(B) The goals of the state.

(2) The transition from the current funding formula to a productivity-based funding formula should allow for a managed and intentional transition process which mitigates negative impact at any one (1) or group of institutions.

6 CAR § 362-103. Measures.

(a) In addition to incorporating the guiding principles above, measures adopted in the productivity-based funding model should acknowledge the following priorities:

(1) Differences in institutional missions are recognized and encouraged;

(2) Completion of students' educational goals should be the most important priority of every institution;

(3) Progression toward completion recognizes that funding must follow the student;

(4) Affordability is encouraged through:

(A) On-time completion;

(B) Limiting excess credits; and

(C) Efficient resource allocation;

(5) Collaboration is rewarded by:

(A) Encouraging successful transfer of students; and

(B) Reducing barriers to student success; and

(6) Potential unintended consequence of raising academic requirements or lowering academic quality to increase completions must be discouraged.

(b)(1) The measures adopted relate to:

(A) Effectiveness;

(B) Affordability; and

(C) Efficiency.

(2) In addition, some adjustments to the model are necessary to respond to the unique missions of some institutions which cannot be captured in the productivity metrics.

(c)(1) Measures will be reviewed every five (5) years to ensure that the model continues to respond to the needs and priorities of the state.

(2) A review more frequently than five (5) years is impractical as institutions would not have opportunity to respond in a timely fashion.

(3) However, if it is determined that the measures adopted have created unintended consequences, those measures will be reviewed immediately.

6 CAR § 362-104. Productivity measures summary of measures.

(a) The productivity funding formula consists of four (4) categories:

(1) Effectiveness (ninety percent (90%) of formula);

(2) Affordability (ten percent (10%) of formula);

(3) Adjustments; and

(4) Efficiency (plus or minus two percent (+/-2%) of formula).

(b) The metrics of the four (4) categories are broken down below.

Effectiveness	**Affordability**	**Adjustment**	**Efficiency**
Credentials Progression Transfer Success Gateway Course Success	Time to Degree Credits at Completion	Diseconomies of Scale	Core Expense Ratio Faculty-to-Administrator Salary Ratio

(c)(1) At this time, postcompletion success metrics are not included in the formula but will be when adequate data is available.

(2) It has been determined that the noncredit workforce training/education metric will not be incorporated into the productivity funding model.

(3) However, the addition of this metric will continue to be evaluated in the future.

(4) Other future technical modifications, such as an addition of an inflationary index and refining of existing metrics, will be considered in the future as necessary.

(d)(1) Each metric is calculated using a three-year average based on the most recent academic year data that is available.

(2) Institutions will receive points in the productivity model according to the requirements of each metric.

(3) Points for each institution will be totaled and applied according to the weighting assigned to each metric in the effectiveness and affordability categories.

(4) Once the points for the effectiveness and affordability measures are totaled, adjustments based on diseconomies of scale will be applied.

(5) Finally, the efficiency category will be applied against the adjusted total.

(6) The final total of points will become the institution's productivity Index.

6 CAR § 362-105. Effectiveness category credentials.

(a)(1) The primary measure of effectiveness emphasizes students completing credentials that meet their educational goals and meet the workforce needs of the state.

(2) The importance of credentials at each educational level is recognized.

(3) In addition, the unique characteristics of students are measured to recognize the additional resource needs of institutions which serve students' needs.

(4) Characteristics include:

(A) Underserved race and ethnicity;

(B) Underserved income;

(C) Age; and

(D) Underserved academic.

(b)(1) The credentials metric is weighted at forty five percent (45%) of the formula.

(2) This metric includes the average of the number of credentials awarded over the most recent three (3) academic years, with consideration given to credentials earned by students who contribute to closing the attainment gap of underserved populations in Arkansas, as well as credentials that will help meet state workforce needs.

(c) The credentials metric includes the number of credentials earned in all degree levels:

(1) Certificate of proficiency;

(2) Technical certificate;

(3) Advanced certificate; and

(4) Associate degree.

(d)(1) Designated weights are applied to each level of credential.

(2) All credentials earned in science, technology, engineering, and math (STEM), and high-demand fields receive additional weights.

(3) Credentials earned by students who are underserved in the areas of race/ethnicity, income, academic preparedness, and age will receive additional weight.

Weighting specifications – Degree level

Certificate of Proficiency	1.0
Technical Certificate	2.0
Advanced Certificate	2.0
Associate Degree	3.0

Weighting specifications – Degree type

STEM Credentials	3.0
High Demand Credentials	3.0
All Other Credentials	1.0

Weighting specifications – Student characteristics

	Undergrad Level
All Students	1.00
Underserved Race/Ethnicity	0.29
Underserved Income	0.29
Underserved Academic	0.29
Adult (25 to 54)	0.29

(e) **Progression.**

(1)(A) For programs requiring more than one (1) semester to complete, progression toward a credential must be measured.

(B) A student's progression towards a degree will be recognized.

(C) In addition, the unique characteristics of students should be measured to recognize the additional resource needs of institutions which serve students' needs.

(D) Characteristics include:

(i) Underserved race and ethnicity;

(ii) Underserved income;

(iii) Age; and

(iv) Underserved academic.

(2)(A) The progression metric is weighted at twenty percent (20%) of the formula.

(B) The metric includes the average number of progression goals met by concurrent and undergraduate students at the accumulation of fifteen (15) hours, thirty (30) hours, and forty-five (45) hours over the most recent three (3) academic years.

(C) Consideration is given to progression goals met by students who contribute to closing the attainment gap of underserved populations in Arkansas.

Weighting specifications – Student characteristics

All Students	1.00
Underserved Race	0.29
Underserved Income	0.29
Underserved Academic	0.29
Adult (25 to 54)	0.29

6 CAR § 362-106. Transfer.

(a)(1) Many students begin their postsecondary work at a community college before transferring to a university to complete a bachelor's degree.

(2) The efficient and effective transfer of these students should be measured to encourage collaboration among institutions.

(b)(1) The transfer metric is weighted at fifteen percent (15%) of the formula.

(2) The metric includes the average of the number of undergraduate students over the most recent three (3) academic years who transfer successfully from a two-year to a four-year institution with an associate degree or with at least thirty (30) earned hours of Arkansas Course Transfer System (ACTS) courses in an effort to encourage:

(A) Student success; and

(B) Institutional collaboration.

(3) Students who have received an associate degree will be assigned additional weighting.

Weighting specifications – Transfer students

30 Hours of ACTS courses	1.00
Associates	1.25

6 CAR § 362-107. Gateway course success.

(a)(1) Gateway courses in math, English, and reading-intensive courses in the humanities and social sciences are a first indicator of likely student success.

(2) This is particularly important for students who are underprepared for college-level course work.

(3) In addition, the unique characteristics of students should be measured to recognize the additional resource needs of institutions which serve these students.

(4) The designated characteristic for this metric includes underserved academic.

(b)(1) The Gateway course success metric is weighted at ten percent (10%) of the formula.

(2) The metric includes the average of the number of successfully completed gateway courses by academically prepared and academically underserved concurrent and undergraduate students over the most recent three (3) academic years.

(3) The metric recognizes the completion of math, English, and reading gateway courses by students with a grade of A, B, or C.

(4) Gateway courses completed by academically underserved students will receive additional weighting.

Weighting specifications — Gateway course success

Placement in Remedial Course	3.00
No Placement in Remedial Course	1.00

6 CAR § 362-108. Affordability category — Time to degree.

(a)(1) Affordability of a credential is impacted by the length of time it takes a student to earn a credential.

(2) Measures should encourage students to complete credentials on time, generally two (2) years for an associate's degree.

(b)(1) The time to degree metric is weighted at fifty percent (50%) of the affordability category.

(2) The metric incudes the average of the number of students who graduated within the recommended timeframe for associate degrees over the most recent three (3) academic years.

(3) On time is defined as twenty-four (24) months for associate degrees.

(4) The metric also recognizes students who complete their degree within:

(A) Twenty-five percent (25%) of on-time completion (up to thirty (30) months for associate degrees); and

(B) Fifty percent (50%) of on-time completion (up to thirty-six (36) months for associate degrees).

(5) Allowances will be made for degree programs that require more than twenty-four (24) months to complete due to:

(A) External accreditation;

(B) Professional licensure requirements; or

(C) Statewide articulation agreements.

(6) The Division of Higher Education will review and approve the request for allowances.

Weighting specifications – Time to degree

On-Time Completion	1.0
Within 25% of On-Time Completion	0.875
Within 50% of On-Time Completion	0.4

(c) **Credits at completion.**

(1) Similar to time to degree, measuring the affordability of a credential also includes measuring the number of credit hours a student completes toward that credential.

(2) Students whose credit hour accumulation is at or near the minimum number required for a credential pay less in tuition and fees, thus, making the credential more affordable.

(d)(1) The credits at completion metric is weighted at fifty percent (50%) of the affordability category.

(2) The metric incudes the average of the number of students who graduated within the scheduled number of credits completed for associate degrees over the most recent three (3) academic years.

(3) On schedule is defined as sixty (60) credit hours for associate degrees.

(4) The metric also recognizes students who complete their degree within:

(A) Ten percent (10%) of on-schedule completion (up to sixty-six (66) credit hours for associate degrees); and

(B) Twenty-five percent (25%) of on-schedule completion (up to seventy-five (75) credit hours for associate degrees).

(5) Allowances will be made for degree programs that require more than sixty (60) credit hours to complete due to:

(A) External accreditation;

(B) Professional licensure requirements; or

(C) Statewide articulation agreements.

(6) The division will review and approve the request for allowances.

Weighting specifications – Credits at completion

On Schedule	1.00
Within 10% of On Schedule Completion	0.875
Within 25% of On Schedule Completion	0.4

6 CAR § 362-109. Adjustments.

(a) **Diseconomies of scale.**

(1) Some institutions in the state serve rural areas with insufficient populations to support large enrollments.

(2) Adjustments should be included to acknowledge this unique aspect of mission.

(b)(1) The diseconomies of scale adjustment will be recognized by adjusting the comparative year productivity index score of an institution that falls into a specified student enrollment size range.

(2) The range is based on the average three-year enrollment for two-year colleges.

Adjustment specifications – Diseconomies of scale

Enrollment Breaks	Adjustment

Less than 30% of Average	1%
Less than 50% of Average	2%
Less than 70% of Average	3%

6 CAR § 362-110. Efficiency category.

(a) **Core expense ratio.** This measure is intended to encourage resource allocations which maximize spending in areas that directly impact student success and achievement of institutional mission.

(b)(1) The core expenses ratio is weighted at fifty percent (50%) of the efficiency category.

(2) The ratio measures the expenditures on the core functions of an institution compared to the expenditures for institutional support and how the ratio compares to an institution's Southern Regional Education Board (SREB) institution peer group.

(c)(1) The core expense ratio is equal to the sum of instruction expenditures, academic support expenditures, student services expenditures, public service expenditures, and research expenditures on a per full-time equivalent (FTE) basis divided by the institutional support expenditures per FTE.

(2) Data for these expenditure elements are reported to and published by the integrated postsecondary education data system (IPEDS).

(3) The adjustment for each institution is calculated by finding the percentage deviation of the core expense ratio of each institution compared to the SREB average core expense ratio for their peer group.

(4)The resulting percentage is assigned an efficiency adjustment as described in the chart below.

Weighting specifications – Core expense ratio

% Deviation of ration from SREB Peer Group	% Change to Productivity Index score
Below -20%	-2.0%
-15.01% to -20%	-1.5%

-10.01% to -15%	-1.0%
-5.01% to -10%	-0.5%
-5% to 5%	0.0%
5.01% to 10%	0.5%
10.01% to 15%	1.0%
15.01% to 20%	1.5%
Above 20%	2.0%

(d) **Faculty-to-administrator salary ratio.**

(1) This measure is intended to encourage efficient use of administrative positions to support institutional mission.

(2)(A) The faculty-to-administrator salary ratio is weighted at fifty percent (50%) of the efficiency category.

(B) The ratio measures the expenditures on faculty salaries compared to the expenditures on institutional support salaries and how the ratio compares to an institution's Southern Regional Education Board (SREB) institution peer group.

(3)(A) The faculty-to-administrator salary ratio is equal to instruction salaries and wages per FTE divided by the institutional support salaries and wages per FTE.

(B) Data for these expenditure elements are reported to and published by the integrated postsecondary education data system (IPEDS).

(4)(A) The adjustment for each institution is calculated by finding the percentage deviation of the faculty-to-administrator salary ratio of each institution compared to the SREB average faculty-to-administrator salary ratio for their peer group.

(B) The resulting percentage is assigned an efficiency adjustment as described in the chart below.

Weighting specifications – Faculty-to-administrator salary ratio

% Deviation of ration from SREB Peer Group	% Change to Productivity Index score
Below -20%	-2.0%
-15.01% to -20%	-1.5%
-10.01% to -15%	-1.0%
-5.01% to -10%	-0.5%

~~-5% to 5%~~	~~0.0%~~
~~5.01% to 10%~~	~~0.5%~~
~~10.01% to 15%~~	~~1.0%~~
~~15.01% to 20%~~	~~1.5%~~
~~Above 20%~~	~~2.0%~~