~~PRODUCTIVITY FUNDING DISTRIBUTION POLICY~~

~~Background~~

~~Act 148 of 2017 repealed the needs-based and outcome-centered funding formulas as prescribed in Arkansas Code § 6-61-210, Arkansas Code § 6-61-224, Arkansas Code § 6-61-228, Arkansas Code § 6-61-229, Arkansas Code § 6-61-230, and Arkansas Code § 6-61-233, and amended Arkansas Code § 6-61-234. The Act directs the Arkansas Higher Education Coordinating Board (AHECB) to adopt polices developed by the Department of Higher Education (ADHE) necessary to implement a productivity-based funding model for state-supported institutions of higher education.~~

~~Productivity-based funding is a mechanism to align institutional funding with statewide priorities for higher education by incentivizing progress toward statewide goals. 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. The new funding model is built around a set of shared principles developed by institutions and aligned with goals and objectives for post-secondary attainment in our state.~~

~~The AHECB shall use the productivity-based funding model as the mechanism for recommending funding for applicable state-supported institutions of higher education. The Board shall recommend funding for the state-supported institutions of higher education as a whole and the allocation of funding to each state-supported institution of higher education. The AHECB shall make separate recommendations for the two-year institutions and four-year institutions. The framework for those recommendations is described in this policy.~~

~~Funding Distribution Framework~~

~~A productivity index for each institution will be calculated based on the Productivity Funding Model policies for four and two-year institutions. Each institution's current productivity index will be compared to its previous year's index to determine productivity changes. One productivity index will be calculated to represent productivity changes for institutions of higher education as a whole and will be used to determine how much new state funding is recommended. The AHECB will limit the funding recommendation generated by the productivity-based funding model to no more than a 2% growth over the prior year's Revenue Stabilization Act (RSA) general revenue funding amount for four and two-year institutions.~~

~~When new state funding is recommended, the proportion of new monies to be distributed among four and two-year institutions will be divided into two separate funding pools based upon the percentage of existing RSA general revenue. If any RSA general revenue funds remain unallocated to state-supported institutions of higher education~~

~~due to productivity declines, ADHE shall utilize the funds to address statewide needs in higher education.~~

~~New RSA general revenue allocated to four and two-year institutions will be distributed among the institutions with productivity index increases. The percentage of new RSA general revenue funding recommended for institutions with productive index increases will be calculated as a percentage of the contribution to the overall four or two-year institutions productivity index increases.~~

~~Within each four and two-year institution group, RSA general revenue funding will be recommended for reallocation from institutions with productivity index declines to institutions with productivity index increases. Reallocation of RSA general revenue funding to institutions with productivity increases will be calculated as a percentage of the contribution to the overall four or two-year institution productivity index increases. Reallocation for institutions with productivity index declines will be based on their percentage of productivity index decline. Recommended reallocation will be introduced on a graduated scale starting with 1% of an institution's RSA general revenue funding being reallocated in 2019-2020; up to 1.5% in 2020-2021; and up to 2% in 2021-2022 and thereafter.~~

~~The total RSA general revenue recommendation for each four and two-year institution will include any new state funding recommendation and reallocated funding recommendation. If an institution's funding recommendation is greater than a 1% increase in 2018-2019; 1.5% increase in 2019-20; 2% increase thereafter over its existing RSA general revenue funding, the Board will recommend that the amount of funding recommendation up to 2% based on the graduated scale would be added to an institutions existing RSA general revenue and any funding recommendation in excess would be one-time incentive funding for that institution. The AHECB will recommend redistribution of one-time incentive funding in the following year based on productivity index changes.~~

~~In the event that an institution of higher education's RSA general revenue funding declines by more than 5% of the 2018-2019 fiscal year level due to productivity declines, ADHE shall not further recommend reductions in funding for that institution, but shall assist the institution in developing a plan for improvement and progression.~~

~~In any fiscal year for which the aggregate general revenue funding forecast to be available for state-supported institutions of higher education is greater than 2% less than the amount provided for the immediate fiscal year, the ADHE shall not further implement the productivity-based funding model until the following fiscal year.~~

~~This policy will be reviewed every three (3) years to ensure that productivity funding distribution continues to respond to the needs and priorities of the state. However, if it is determined that the funding distribution framework created unintended consequences, this policy will be reviewed immediately.~~

Division of Higher Education Rules Governing Productivity-Based Funding for State-Supported Institutions of Higher Education

1.00 Purpose.

1.01 The Arkansas Higher Education Coordinating Board shall use the productivity-based funding model as the mechanism for recommending to the General Assembly funding for applicable institutions.

1.02 The board shall recommend funding for the institutions as a collective and funding to each individual institution.

1.03 The board shall make separate recommendations for the two-year institutions and four-year institutions.

2.00 Definitions.

2.01 "Institution" means a state supported:

2.01.1 Two-year institution of higher education; or

2.01.2 Four-year institution of higher education.

2.02 "Productivity-based funding" means a mechanism to align institutional funding with statewide priorities for postsecondary education by incentivizing progress toward statewide goals.

2.03 "RSA" means the Revenue Stabilization Act.

3.00 Funding Distribution Framework

3.01 A productivity index for each institution will be calculated based on the Productivity Funding Model Policies for Universities and Colleges.

3.01.1 Each institution's current productivity index will be compared to its previous year's index to determine productivity changes.

3.01.2 One productivity index will be calculated to represent productivity changes for institutions as a collective and will be used to determine how much new state funding is recommended.

3.01.3 The Arkansas Higher Education Coordinating Board will limit the funding recommendation generated by the productivity-based funding model to no more than a 2% growth over the prior year's RSA general revenue funding amount for institutions.

3.02 When new state funding is recommended, the proportion of new monies to be distributed among institutions will be divided into two separate funding pools for four and two-year institutions based upon the percentage of existing RSA general revenue.

3.02.1 If any RSA general revenue funds remain unallocated to institutions due to productivity declines, the Division of Higher Education shall utilize the funds to address statewide needs in higher education.

3.02.2 New RSA general revenue allocated to institutions will be distributed among the institutions with productivity index increases.

3.02.3 The percentage of new RSA general revenue funding recommended for institutions with productivity index increases will be calculated as a percentage of the contribution to the overall institutions' productivity index increases.

3.03 Within each four and two-year institution group, RSA general revenue funding will be recommended for reallocation from institutions with productivity index declines to institutions with productivity index increases.

3.03.1 Reallocation of RSA general revenue funding to institutions with productivity increases will be calculated as a percentage of the contribution to the overall four or two-year institution productivity index increases.

3.03.2 Reallocation for institutions with productivity index declines will be based on their percentage of productivity index decline.

3.03.3 Recommended reallocation will be introduced on a graduated scale starting with 1% of an institution's RSA general revenue funding being reallocated in 2019-2020; up to 1.5% in 2020-2021; and up to 2% in 2021-2022 and thereafter.

3.04 The total RSA general revenue recommendation for each institution will include any new state funding recommendation and reallocated funding recommendation.

3.04.1 If an institution's funding recommendation is greater than a 1% increase in 2018-2019; 1.5% increase in 2019-20; or 2% increase thereafter over its existing RSA general revenue funding, the board will recommend that the amount of funding recommendation up to 2% based on the graduated scale would be added to an institutions existing RSA general revenue and any funding recommendation in excess would be one-time incentive funding for that institution.

3.04.2 The board will recommend redistribution of one-time incentive funding in the following year based on productivity index changes.

3.05 In the event that an institution of higher education's RSA general revenue funding declines by more than 5% within any consecutive five-year period due to productivity declines, the division shall not further recommend reductions in funding for that institution.

3.06 In any fiscal year for which the aggregate general revenue funding forecast to be available for state-supported institutions of higher education is greater than 2% less than the amount provided for the immediate fiscal year, the division shall not further implement the productivity-based funding model until the following fiscal year.

3.07 This rule will be reviewed every three (3) years to ensure that productivity funding distribution continues to respond to the needs and priorities of the state.

3.08 However, if the division determines that the funding distribution framework created unintended consequences, this rule will be reviewed immediately.