State of Arkansas *As Engrossed: S3/12/07*

86th General Assembly

A Bill

Regular Session, 2007 SENATE BILL 842

By: Senator Bisbee

For An Act To Be Entitled

AN ACT TO CREATE A FUNDING FORMULA FOR PUBLIC INSTITUTIONS OF HIGHER EDUCATION THAT USES PERFORMANCE MEASURES; TO CREATE THE HIGHER EDUCATION PERFORMANCE MEASURE PROGRAM; AND FOR OTHER PURPOSES.

Subtitle

TO CREATE A FUNDING FORMULA FOR PUBLIC INSTITUTIONS OF HIGHER EDUCATION THAT USES PERFORMANCE MEASURES AND TO CREATE THE HIGHER EDUCATION PERFORMANCE MEASURE PROGRAM.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code Title 6, Chapter 61 is amended to add an additional subchapter to read as follows:

6-61-1301. Title.

This subchapter shall be known and may be cited as the “Higher Education Performance Measure Funding Act”.

6-61-1302. Findings.

The General Assembly finds that public institutions of higher education in the state have traditionally been funded without consideration given to the performance of the institution of higher education in achieving specific goals that are known to be significant in determining the quality of the education to the student and the benefit to the state by providing a highly skilled workforce, including:

(1) Improvement in course completion and number of earned grades;

(2) Certification of maximum-credit-hours-to-degree rate for programs that are to receive state funding for student semester *credit hours;*

(3) Improvement in the number of students who transfer from a two-year college and complete a four-year degree;

(4) Transferability of courses;

(5) Increase in the retention rate;

(6) Increase in the graduation rate; and

(7) Improvement in the delivery of degrees for high-need areas, both geographically and in subject-matter areas.

6-61-1303. Definition.

As used in this subchapter, “institution of higher education” means a public institution of higher education and includes universities and two-year colleges.

6-61-1304. Creation – Purpose.

(a) There is created the Higher Education Performance Measure Program to be administered by the Arkansas Higher Education Coordinating Board and the Department of Higher Education.

(b) The purpose of this program is to improve undergraduate education at public institutions of higher education by improving the performance of the institutions of higher education as their performance relates to delivering a quality education to students and to providing a highly skilled workforce.

6-61-1305. Development of funding formulas — Implementation date.

(a) The Department of Higher Education, with the approval of the Arkansas Higher Education Coordinating Board, shall develop funding formulas based on the *seven (7)* performance measures in this subchapter.

(b) This subchapter shall be implemented beginning on July 1, 2009.

6-61-1306. Course completion performance measure.

(a) The funding formula for institutions of higher education shall include a component that provides funding based upon the latest available student semester credit hour enrollment information for students who completed each course and earned a grade.

(b) Census date enrollments shall not be used for determining the funding needs of an institution of higher education, and funding shall be determined as provided under this subchapter.

6-61-1307. Maximum-credit-hours-to-degree rate performance measure.

(a)(1) Except as provided under subsection (c) of this section, the funding formula for institutions of higher education shall include a component that provides funding for institutions of higher education only for the course-completion student semester credit *hours* for students who are enrolled in academic programs that have been certified to meet the maximum credit-hours-to-degree rate.

(2) State funding shall not be provided for any of the student semester credit hours taken by students in a program that has not been certified as in compliance with the maximum credit-hours-to-degree rate.

(b)(1) The credit-hours-to-degree rate for a four-year degree shall not exceed one hundred twenty-four (124) credit hours.

(2) The credit-hours-to-degree rate for a two-year degree or a technical certificate shall be determined by the Department of Higher Education and approved by the Arkansas Higher Education Coordinating Board.

(c) The Department of Higher Education, with the approval of the Arkansas Higher Education Coordinating Board, may grant an exception for the credit-hours-to-degree rate for a program.

6-61-1308. Two-year transfer students that complete a four-year degree performance measure.

(a) The funding formula for institutions of higher education shall include a component that provides funding to institutions of higher education for transfer students from a public two-year college in Arkansas that complete a four-year degree at a public university in Arkansas.

(b) The funding formula shall provide incentives for both the Arkansas public two-year college and the Arkansas public university from which the student graduates.

6-61-1309. Transferability of courses performance measure.

The funding formula for institutions of higher education shall include a component that provides funding *based on approved courses included in* the Arkansas Course Transfer System (ACTS).

6-61-1310. Retention rate performance measure.

The funding formula for institutions of higher education shall include a component that provides funding to reward an institution of higher education for improving its student retention rate *or* for exceeding a predetermined retention rate established for the institution of higher education based on the characteristics of the students enrolled in the institution of higher education.

6-61-1311. Graduation rate performance measure.

The funding formula for institutions of higher education shall include a component that provides funding to reward an institution for improving its graduation rate *or* for exceeding a predetermined graduation rate established for the institution of higher education based on the characteristics of the students enrolled in the institution of higher education.

6-61-1312. Delivery of degrees for high-need areas performance measure.

The funding formula for institutions of higher education shall include a component that provides funding to reward an institution of higher education for improving its delivery of degrees for high-need areas, both geographically and in subject-matter areas.

6-61-1313. Minimum funding.

If the enrollment at an institution of higher education is declining or if the institution's performance as compared to the performance measures in this subchapter result in a need that is less than the current funding level, the base funding of the institution of higher education shall only be protected to the extent that an institution's base funding shall not be reduced by more than five percent (5%) in a fiscal year.

6-61-1314. Rules.

The Department of Higher Education shall promulgate rules for the *implementation and administration of this subchapter.*

6-61-1315. Applicability of historic funding formula models.

The Arkansas Higher Education Coordinating Board and the Department of Higher Education may use any part of a funding formula model from Acts 1429 and 1760 of 2005 that is applicable to and facilitates the administration of this subchapter.

SECTION 2. Beginning on *July 1, 2007*, Arkansas Code § 6-61-228 is repealed.

~~6-61-228. Creation of funding formula model for universities.~~

~~(a)(1) The funding formula model for universities shall serve as a tool for implementing the broad goals of the State of Arkansas and the Arkansas Higher Education Coordinating Board~~

~~(2) The model shall ensure adequate, equitable, and stable funding and be based on reliable and uniform data.~~

~~(3) The model shall be simple to understand, sensitive to universities' differing missions, and responsive to changes within the universities and shall make provisions for special-purpose units.~~

~~(b)(1) The model shall determine the funding needs of universities using six (6) student-semester-credit-hour-based expenditure functions, one (1) square-footage-based function for facilities, and two (2) or more special-mission functions.~~

~~(2) The model shall also provide for economy or diseconomy of scale for universities with fewer than three thousand five hundred (3,500) full-time-equivalent student enrollment.~~

~~(c)(1) The six (6) student-semester-credit-hour-based expenditure functions shall be:~~

~~(A) Teaching salaries;~~

~~(B) Other instructional costs;~~

~~(C) Library costs;~~

~~(D) General institutional support;~~

~~(E) Research; and~~

~~(F) Public service.~~

~~(2) The square-footage-based expenditure function shall be for~~

~~facilities maintenance and operations.~~

~~(3) The special missions to receive consideration in the funding formula model shall be universities with a traditional minority mission or a land grant mission, or both.~~

~~(d)(1) Teaching Salaries. To determine the teaching salary needs of the universities, the student-semester-credit-hour component of each university shall be summarized into four (4) discipline cost categories:~~

~~(A) Cost Category I shall include the following instructional discipline classifications:~~

~~(i) English;~~

~~(ii) General studies;~~

~~(iii) Mathematics;~~

~~(iv) Interdisciplinary studies;~~

~~(v) Health-related knowledge;~~

~~(vi) Interpersonal skills;~~

~~(vii) Leisure and recreational activities;~~

~~(viii) Personal awareness;~~

~~(ix) Philosophy;~~

~~(x) Psychology;~~

~~(xi) Public administration; and~~

~~(xii) Social sciences;~~

~~(B) Cost category II shall include:~~

~~(i) Ethnic and cultural studies;~~

~~(ii) Marketing;~~

~~(iii) Communications;~~

~~(iv) Education;~~

~~(v) Languages;~~

~~(vi) Home economics;~~

~~(vii) Law;~~

~~(viii) Biological sciences;~~

~~(ix) Parks and recreation;~~

~~(x) Basic skills;~~

~~(xi) Construction trades;~~

~~(xii) Mechanics;~~

~~(xiii) Precisions;~~

~~(xiv) Production;~~

~~(xv) Transportation; and~~

~~(xvi) Business management;~~

~~(C) Cost Category III shall include:~~

~~(i) Agriculture;~~

~~(ii) Conservation;~~

~~(iii) Architecture;~~

~~(iv) Communication technologies;~~

~~(v) Computer and information sciences;~~

~~(vi) Library science;~~

~~(vii) Physical sciences;~~

~~(viii) Science technology;~~

~~(ix) Visual and performing arts; and~~

~~(x) Health professions; and~~

~~(D) Cost Category IV shall include:~~

~~(i) Engineering; and~~

~~(ii) Engineering-related technology.~~

~~(2) A university's annualized student semester credit hours component in each cost category shall be summarized into three (3) instructional levels: undergraduate, graduate, and doctoral to produce a four-by-three (4x3) matrix or table containing the university's student semester credit hours in each cost category and level.~~

~~(3)(A) Teaching salary computations shall be determined by dividing each of the twelve (12) cells of the table by the number of student semester credit hours that have been determined by research to be needed to produce a full-time-equivalent faculty member.~~

~~(B) Those student semester credit hour standards shall be:~~

~~Cost Category~~	~~Undergraduate~~	~~Graduate~~	~~Doctoral~~
~~I~~	~~645~~	~~170~~	~~130~~
~~II~~	~~480~~	~~250~~	~~145~~
~~III~~	~~365~~	~~160~~	~~120~~
~~IV~~	~~230~~	~~102~~	~~70~~

~~(4)(A) A university's student semester credit hours in each cost category shall be divided by the applicable standards in subdivision (d)(3)(B) of this section to determine the number of full-time-equivalent faculty needed at each of the three (3) instructional levels.~~

~~(B)(i) The number of faculty at each instructional level shall be multiplied by an average Southern Regional Education Board faculty salary for a university at that level to ensure that every university receives the same funds for the same discipline and level of student semester credit hours.~~

~~(ii) The sum of the teaching salaries at the three (3) instructional levels shall constitute the teaching salaries need of the university.~~

~~(e) Other Instructional Costs. Other instructional costs of the university shall be calculated as an amount equal to forty-five percent (45%) of teaching salaries of the university.~~

~~(f) Library Costs. Library costs shall be calculated as an amount equal to eleven percent (11%) of the sum of the teaching salaries and other instructional costs of the university.~~

~~(g) General Institutional Support. General institutional support of the university shall be calculated as an amount equal to fifty-four percent (54%) of the sum of teaching salaries and other instructional costs of the university.~~

~~(h) Research. Research funding of the university shall be calculated as an amount equal to five percent (5%) of the undergraduate teaching salaries need plus twenty-five percent (25%) of graduate teaching salaries plus fifty percent (50%) of doctoral teaching salaries.~~

~~(i) Public Service. Public service funding of the university shall be an amount equal to three percent (3%) of teaching salaries of the university.~~

~~(j)(1) Facilities Maintenance and Operations. Facilities maintenance and operations funding of the university shall be based upon the university's needed square footage as determined by the Five-Factor Academic Space Prediction Model that considers the discipline and level of the student semester credit hours of each university.~~

~~(2) For each year of a biennium, the Arkansas Higher Education Coordinating Board staff shall determine a funding rate per square foot based upon the most recent cost experiences of the universities.~~

~~(3) The rate calculated in subdivision (j)(2) of this section shall be multiplied by the university's actual square footage that the space prediction model has determined the university needs.~~

~~(4) Excess square footage above the space prediction model's established need shall be funded at one-half (1/2) that rate.~~

~~(5) Universities with less square footage than the space prediction model-determined need will receive one-half (1/2) the established rate for the additional square footage needed.~~

~~(k)(1) Special Missions. A federally designated land grant university shall receive special mission funding in the amount of ten percent (10%) of teaching salaries of the university in recognition of its federally mandated research and public service mission.~~

~~(2) The universities with a traditional minority mission shall receive an additional amount equal to ten percent (10%) of all student semester credit hours or full-time-equivalent-based portions of the funding formula.~~

~~(l)(1) Economy/Diseconomy of Scale. The funding formula shall include an economy/diseconomy of scale provision for universities with fewer than three thousand five hundred (3,500) full-time-equivalent student enrollment.~~

~~(2) The Arkansas Higher Education Coordinating Board staff in consultation with the presidents and chancellors of the universities shall determine the method of calculation.~~

~~(3) For the 2005-2007 biennium, that method is:~~

~~FTEs Below 3,500~~	~~FTE~~
~~1 - 150~~	~~$1,200~~
~~Next 150~~	~~$1,000~~
~~Next 200~~	~~$ 800~~
~~Next 250~~	~~$ 600~~
~~Next 250~~	~~$ 300~~

~~Next 200 $ 200~~

~~(m)(1) Funding Formula Model. The total expenditure needs of each university shall be determined by adding all of the funding needs determined under subsections (d)-(l) of this section.~~

~~(2) Appropriation needs for a university shall be determined by subtracting from the total expenditure needs the tuition and fee revenues calculated as the sum of one hundred thirty dollars ($130) for each undergraduate student semester credit hour, one hundred ninety dollars ($190) for each graduate student semester credit hour, and two hundred thirty dollars ($230) for each doctoral student semester credit hour.~~

~~(3)(A) This funding formula model is designed to produce educational and general operating funds for universities of higher education that generate student semester credit hours.~~

~~(B) This model does not determine the funding needs of special units, such as the medical school, division of agriculture, and system offices.~~

~~(4) This model does not provide for capital or personal services recommendations.~~

~~(5) This model does not provide funds for institutional scholarships, debt service, or fund transfers.~~

~~(6)(A) The revenue domain for the funding formula model shall include only state appropriations and student tuition and fee income and does not include private contributions and other discretionary funds.~~

~~(B) The revenue domain shall exclude funding at the universities from all sources other than from state appropriations and student tuition, including, but not limited to, the federal government, private sources, and self-supporting activities.~~

~~(C) Since the general definition specifies operating funds, the funding formula model also does not consider the appropriation and allocation of capital funds.~~

~~(n)(1) The funding formula model shall be utilized only to allocate funds to the universities.~~

~~(2) This funding formula model shall not be used to prescribe the allocation of those funds within the universities.~~

SECTION 3. Beginning on July 1, 2009, Arkansas Code § 6-61-229 is repealed.

~~6-61-229. Funding formula model for two-year colleges.~~

~~(a) The funding formula model for two-year colleges shall:~~

~~(1) Serve as a tool for implementing the broad goals of the State of Arkansas and the Arkansas Higher Education Coordinating Board;~~

~~(2) Be based on reliable and uniform data;~~

~~(3) Be simple to understand, sensitive to colleges' differing missions, and responsive to changes within them; and~~

~~(4) Make provisions for special-purpose units.~~

~~(b)(1) The model shall determine the funding needs of two-year colleges in four (4) student-semester-credit-hour or full-time-equivalent, student-based expenditure functions, one (1) square-footage-based expenditure function, and one (1) contact hour expenditure function.~~

~~(2)(A) The student semester credit hour or full-time equivalent-based expenditure functions shall include:~~

~~(i) Teaching salaries;~~

~~(ii) Academic support;~~

~~(iii) Student services; and~~

~~(iv) Institutional support.~~

~~(B) The square footage-based expenditure function shall be designated for facilities maintenance and operations.~~

~~(C) Funding for workforce education programs shall be determined from student contact hours.~~

~~(c) In order to determine the teaching salaries needs of the two-year colleges, the student semester credit hour shall be summarized into four (4) academic discipline categories based upon the relative costs of academic programs as determined by historical expenditure patterns.~~

~~(d) The cost categories shall be designated as general education, technical education, basic skills, and allied health as follows:~~

~~(1) General education shall include the following academic disciplines:~~

~~(A) Agriculture business;~~

~~(B) Natural resources;~~

~~(C) Archeology;~~

~~(D) Communications;~~

~~(E) Education;~~

~~(F) Engineering;~~

~~(G) Foreign languages;~~

~~(H) Home economics;~~

~~(I) Law;~~

~~(J) Letters;~~

~~(K) Liberal studies;~~

~~(L) Biology or life sciences, or both;~~

~~(M) Mathematics;~~

~~(N) Interdisciplinary;~~

~~(O) Health;~~

~~(P) Recreation;~~

~~(Q) Philosophy;~~

~~(R) Physical sciences;~~

~~(S) Psychology;~~

~~(T) Public administration;~~

~~(U) Social sciences;~~

~~(V) Transportation;~~

~~(W) Visual arts; and~~

~~(X) Performing arts;~~

~~(2) Technical education shall include the following academic disciplines:~~

~~(A) Agriculture;~~

~~(B) Marketing;~~

~~(C) Communications technology;~~

~~(D) Engineering technology;~~

~~(E) Technical education;~~

~~(F) Science technology;~~

~~(G) Protective services;~~

~~(H) Construction trades;~~

~~(I) Mechanics;~~

~~(J) Precision production; and~~

~~(K) Business management;~~

~~(3) Basic skills shall include remedial or developmental, or both, student semester credit hours; and~~

~~(4) Allied health shall include health professions.~~

~~(e)(1) The number of full-time-equivalent faculty needed by a college~~

~~shall be determined using the established workload standards required to produce a need for one (1) full-time-equivalent faculty member.~~

~~(2) The workload standards to produce a full-time-equivalent faculty member shall be:~~

~~(A) Six hundred sixty (660) student semester credit hours for general education;~~

~~(B) Four hundred eighty (480) student semester credit hours for technical education and basic skills; and~~

~~(C) Four hundred twenty (420) student semester credit hours for allied health.~~

~~(f)(1) The full-time-equivalent faculty needs of each college shall be determined by dividing the workload standards into the college's student semester credit hours in that cost category.~~

~~(2) Funding for teaching salaries for each college shall be determined by multiplying the total or full-time-equivalent faculty needs of each college by the predicted Southern Regional Education Board average salary for two-year colleges with no academic rank.~~

~~(3) The teaching salary funding shall be adjusted for the use of part-time faculty or full-time-equivalent faculty needs generated by student semester credit hours taught by part-time faculty and shall be funded at one-half (1/2) of the rate of those student semester credit hours taught by full-time faculty members.~~

~~(4) The part-time faculty adjustment for each college will be determined each biennium by the Department of Higher Education staff.~~

~~(5) The fringe benefits for teaching salaries shall be determined by multiplying the teaching salaries funding by the current average fringe benefit rate, which shall be determined for the biennium by the department staff.~~

~~(6) The total teaching salaries needs of a college shall include the fringe benefits and teaching salary needs.~~

~~(g)(1) Funding needs for the academic support functions shall be equal to sixty percent (60%) of adjusted teaching salaries plus thirty-five thousand dollars ($35,000) for a staff salary in public service.~~

~~(2) Fringe benefits for academic support shall be determined by multiplying the fringe benefit rate determined for the biennium by sixty percent (60%) of the academic support funding described in subdivision (g)(1)~~

~~of this section.~~

~~(h)(1) The funding needs for student services shall be calculated based on a variable rate per student using the mean of full-time-equivalent enrollment and headcount enrollment.~~

~~(2) Student services funding shall include an economy-of-scale component that will provide progressively less funding per student over established enrollment levels.~~

~~(3) For the 2005-2007 biennium, student services funding for the first seven hundred fifty (750) students shall be six hundred fifty dollars ($650); four hundred fifty dollars ($450) for each of the next two thousand two hundred hundred fifty (2,250) students; and two hundred fifty dollars ($250) for all students in excess of a three thousand (3,000) full-time-equivalent enrollment level.~~

~~(4) The funding rates for each level shall have a full-time-equivalent enrollment level that shall be adjusted biennially for inflation.~~

~~(5) Full-time-equivalent enrollment levels shall be reviewed annually to determine whether they require adjustment.~~

~~(6) Fringe benefits for student services shall be calculated as an amount equal to the biennial fringe benefit rate multiplied by sixty percent (60%) of the calculated student services funding needs under subdivision (h)(3) of this section.~~

~~(i) Institutional support funding shall be an amount equal to eighteen percent (18%) of the total of the teaching salaries, academic support, student services, and facilities maintenance and operations.~~

~~(j) Facilities maintenance and operations funding shall include an intensity factor for all institutions:~~

~~(1) Colleges whose square footage per full-time-equivalent student is greater than the average shall have an intensity factor of one (1), but no college shall receive funding for more than one and one-half (1.5) times the average square footage per full-time-equivalent student multiplied by the college's full-time-equivalent enrollment;~~

~~(2) Those colleges whose square feet per full-time-equivalent student is less than the average square footage per full-time-equivalent student shall have an intensity factor that is determined by multiplying the full-time-equivalent enrollment by the average square footage per full-time-~~

~~equivalent student and dividing the result by the actual square footage;~~

~~(3) The portion above one (1) shall be multiplied by sixty-five hundredths (0.65) and added back to one (1) to arrive at the intensity factor for the college. The Arkansas Higher Education Coordinating Board staff shall determine a funding rate per square foot based on the most recent cost experiences of the institutions;~~

~~(4) That rate shall be multiplied by the institution's actual square footage and the intensity factor for the institution; and~~

~~(5) Staff benefits for facilities maintenance and operations shall be determined by multiplying sixty percent (60%) of the square footage funding and multiplying it by the biennial fringe benefit rate.~~

~~(k) Funding for workforce education shall be based on contact hours and shall be calculated by using an established rate for the first ten thousand (10,000) contact hours, a lesser rate for the next ten thousand (10,000), and a lesser rate for all noncredit contact hours in excess of twenty thousand (20,000).~~

~~(l) The total expenditure needs of each college shall be equal to the sum of teaching salaries, academic support, student services, institutional support, facilities maintenance and operations, and workforce education.~~

~~(m)(1) The appropriation needs of each college shall be the total expenditure needs of the college less the calculated tuition and fee income.~~

~~(2) The Arkansas Higher Education Coordinating Board shall establish biennially a tuition rate per credit hour for two-year colleges with revenue derived from a local tax, including, but not limited to, a sales tax or an ad valorem tax, and a higher per credit hour tuition rate for those colleges without revenue derived from a local tax.~~

~~(n)(1) The formula does not provide funds for institutional scholarships, debt service, or fund transfers.~~

~~(2) The revenue domain for the funding model shall include only state appropriations and student tuition and fee income and shall not include private contributions and other discretionary funds.~~

~~(3) The revenue domain shall exclude funding at the colleges from all sources other than from student tuition and state appropriations, including, but not limited to, local tax levies, the federal government, private sources, and self-supporting activities.~~

~~(4) Since the general definition specifies operating funds, the~~

~~funding model also does not consider the appropriation and allocation of capital funds.~~

~~(o)(1) The funding formula model shall only be utilized to allocate funds to the two-year colleges.~~

~~(2) It shall not be used to prescribe the allocation of those funds within the colleges.~~

~~(p) Notwithstanding the provisions of this section, each two-year college shall receive a minimum base funding equal to the greater of three million dollars ($3,000,000) per fiscal year or an amount equal to the previous year's funding per fiscal year.~~

SECTION 4. Beginning on July 1, 2009, Arkansas Code § 6-61-230 is repealed.

~~6-61-230. Review of funding formula.~~

~~The Arkansas Higher Education Coordinating Board, in collaboration with the Executive Council of the Presidents Council, shall review the funding formula biennially and make written recommendations for appropriate modifications or changes to the President Pro Tempore of the Senate, the Speaker of the House of Representatives, and the Governor by October 15 of the year prior to each regular session of the General Assembly.~~

/s/ Bisbee