



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

April 18, 2018

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: University of Wisconsin: Section 13.10 Request for Approval of Outcomes-Based Funding Formula -- Agenda Item XI

On February 15, 2018, the UW System submitted for approval by the Committee the formula for the distribution of outcomes-based funding that was provided in 2018-19 under 2017 Act 59 (the 2017-19 budget).

### Background

Act 59 created s. 36.112 of the statutes governing outcomes-based funding for the UW System and provided \$26.25 million GPR of ongoing funding beginning in 2018-19 to be distributed to UW System institutions. Under s. 36.112, the Legislature established the following goals for the UW System: (a) growing and ensuring student access; (b) improving and excelling at student progress and completion; (c) expanding contributions to the workforce; and (d) enhancing operational efficiency and effectiveness. For each goal, the Board of Regents is required to identify at least four metrics to measure an institution's progress toward meeting the goal. The Board is authorized to specify different metrics for UW-Extension.

Act 59 required the Board to develop a formula for distributing the \$26.25 million among the institutions based on each institution's performance with respect to the metrics and submit it to the Committee by February 15, 2018. The Board can use the formula to distribute the funding only as modified or approved by the Committee. The Committee is required to consult with the appropriate standing committee in each house before modifying or approving the formula.

On February 27, 2018, the Co-Chairs of the Committee sent a letter with the UW System's formula submission attached to the Chair of the Assembly Committee on Colleges and Universities to fulfill this requirement for consultation. The Senate Chair of the Finance Committee, who also serves as the Chair of the Senate Committee on Universities and Technical Colleges, indicated at

that time that she would ensure that copies of the formula submission would be shared with the members of that committee.

## **Metrics**

The submission by the UW System describes the process they used to identify the metrics used in the formula. For each statutory goal, the four metrics are shown in Table 1.

**TABLE 1**

### **Metrics Identified for Formula**

#### **A. Goal: Grow and Ensure Student Success**

##### *Metrics*

- a. Wisconsin high school graduates enrolled as degree-seeking undergraduates
- b. Pell-eligible students enrolled as undergraduates
- c. Under-represented students enrolled as undergraduates
- d. Transfer students enrolled as undergraduates

#### **B. Goal: Improve and Excel at Student Progress and Completion**

##### *Metrics*

- a. Undergraduates who achieved 30 credit hours
- b. Undergraduates who achieved 90 credit hours
- c. Undergraduate degrees awarded
- d. Post-baccalaureate degrees awarded

#### **C. Goal: Expand Contributions to the Workforce**

##### *Metrics*

- a. Graduates in STEM disciplines
- b. Graduates in health-related disciplines
- c. Pell-eligible graduates
- d. Research and public service expenditures

#### **D. Goal: Enhance Operational Efficiency and Effectiveness**

##### *Metrics*

- a. Core expense ratio
- b. Average number of credit hours required for an undergraduate degree
- c. Average student debt on baccalaureate graduation
- d. Degrees awarded per 100 FTE

## **Proposed Distribution of Outcomes-Based Funding**

Under the proposal by the UW System, the starting point for the allocation of the \$26.25 million of outcomes-based funding would be the share each institution receives of total GPR/tuition revenues, after removing moneys associated with specific expenditure purposes such as energy costs and debt service. This base of adjusted GPR/tuition revenues would be used to establish each institution's initial percentage share of the outcomes-based funding. Because of the

ongoing restructuring of the UW System, UW Colleges and UW Extension were removed from consideration for the outcomes-based funding formula.

Each institution's initial percentage share would be modified by its relative performance on the metrics established under the proposal. For each metric, the UW System would compile baseline data for each institution by averaging the three previous years of data and scale the data so that it is comparable across metrics. To show the change in performance between years, data for the most recent year and the two previous years would be averaged and scaled, and the change in the total of each three-year rolling average would be calculated. Each of the four goals would be weighted at 25%, and within each goal institutions could assign weights to the four metrics for that goal that add up to 25%, with the limitation that institutions would have to assign at least a 1% weight to each metric. The three-year rolling average data for each metric would be multiplied by the applicable weight, and these weighted data would be added together to calculate an overall percentage change in the weighted and scaled data for each institution.

Once the percentage changes in the weighted and scaled data are determined for each institution, their initial percentage share of the outcomes-based funding would be multiplied by the percentage change in the performance data. The new percentage shares would be proportionally adjusted so that they add to 100%, and the outcomes-based funding would be allocated accordingly.

The UW System's submission to the Committee includes information on the weights chosen by each institution on the 16 metrics for the four goals established in Act 59. The submission also provides an illustration of allocating the outcomes-based funding, but notes that neither the starting point for the calculation nor the most recent year of data for the metrics is available. As a result, the actual distribution of outcomes-based funding will differ from the illustration included in the submission.

### **Joint Committee on Finance Action on Request**

As noted above, UW System can use the proposed formula to distribute the outcomes-based funding only as modified or approved by the Committee. In reviewing the UW System's proposal relating to outcomes-based funding, several factors warrant consideration. First, the four goals used in the proposal are specified in the law, and as required under Act 59, the UW System has identified four metrics for each goal.

Second, using three-year rolling averages in the calculation of metrics would smooth year-to-year changes in the underlying data, and allowing institutions to weight the metrics would allow them some flexibility as to how the formula would affect each institution.

Third, while the law governing this funding includes UW Colleges and UW Extension, the proposed formula excludes those institutions. This decision appears reasonable, given that the restructuring of the UW System directly affecting those institutions is still in process, and may not be fully implemented until 2019-20.

Finally, the standing committees dealing with higher education in each house have not suggested changes to the proposed formula.

### **Conclusion**

The request submitted by the UW System complies with the goals established by the Legislature in 2017 Act 59 regarding outcome-based funding. Given this, the Committee may wish to approve the request, unless members have modifications they may wish to propose.

Prepared by: Dave Loppnow