

**PERFORMANCE CONTRACT**  
**Regent Information Item & Discussion**  
**November 18, 2004**

**TOPIC & PURPOSE**

State of Washington/University of Washington Relationship: Performance Contract Discussions:  
**This is an information item for Regent discussion.**

Regent comments are sought on:

- Comments on any specific elements of the discussion draft outcomes and funding.
- Overall comments and guidance on developing potential specific legislation options.

Context, Background and Purpose are provided as a reminder in Appendix F.

**PERFORMANCE CONTRACT STATUS**

The current performance contract prototype, edited for any commentary received, will be submitted to the Legislature by the Governor to fulfill the directive contained in the 2004 supplemental budget.

The Governor's Office has agreed to a process of developing a specific contract that could be considered by either the Governor as he prepares his budget and recommendations to the Legislature or by legislators in the 2005 session.

There are several elements of a contract that must be specified during this process:

- Resource levels to support obtainment of the expected outcomes – see Appendix A.
- Outcomes and expected performance targets for the contract period – see Appendix B.
- Desired choice(s) of enrollment levels, general fund investment and tuition – see Appendix C.

We are currently in a process to develop feedback from both the internal UW communities and the external stakeholders to determine what combination(s) of outcomes, resource levels, enrollment, general fund investment and tuition are desirable and acceptable.

As a part of these discussions, we are also providing additional context for the contract – although we do not at this time expect to see these items incorporated in a contract:

- A summary of the results and use of additional funding provided in the context of a performance contract – see Appendix D.
- A summary of the impact of the contract on tuition, affordable access and financial aid – see Appendix E.

**Appendix A**  
**State UW Performance Contract Scenarios**  
**November 2004**

**FIRST DECISION: DESIRED LEVEL OF RESOURCES**

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Funding Per Student: UW Performance Contract (assumes 3% inflation)	\$17,400	\$18,609	\$19,854	\$21,137	\$22,458	\$23,819	\$25,220
Funding Per Student: Top Public Research Universities (assumes 3% inflation)	\$21,400	\$22,042	\$22,703	\$23,384	\$24,086	\$24,808	\$25,553

This funding per student assumes that we will close the current \$4,000 per student funding gap with the top public peers over a six-year period.

The chosen competitive funding target aligns with the expected outcomes where the UW is expected to perform at or above the performance levels of the top peers.

**Appendix B**  
**State UW Performance Contract Scenarios**  
**November 2004**

**SECOND DECISION: SET OUTCOMES-CONTRIBUTIONS TO STATE GOALS**

**Prepare A Skilled Workforce**

<u>Key Indicators</u>		<b>2001 Benchmark</b>	<b>2004 Current Level</b>	<b>Target 2011</b>
1.	UW undergrads with professional/graduate degrees	30%	36%	40%
2.	"High Demand" degrees awarded	2,700	2,891	3,200
3.	Graduate and Professional degrees awarded	3,300	3,704	4,000

**Provide High Quality Programs, Scholarship and Service**

<u>Key Indicators</u>		<b>2001 Benchmark</b>	<b>2001 Current Level</b>	<b>Target 2011</b>
1.	Total federal research funding, rank among public competitors	1	1	In Top 5
2.	Number of nationally ranked UW programs above the median of competitors	13 of 30	13 of 30	15 of 30
3.	Number of Undergraduates who have:			
	a. Intensive research experience	300	3,531	5,000
	b. Substantial public service experience	500	3,769	5,000
	c. Diversity learning experience	5,943	9,354	15,000
4.	Number of international learning experiences	70	185	500
5.	Instructional quality - percentage of courses rated good or better	-	94%	>or= 95%
6.	National Academies Faculty - Rank among public institutions	3	3	Remain In Top 7
7.	Research Citation Impact Rank - Public AAU, Most Recent Five-Year Period	2	2	Remain In Top 5
8.	Faculty Awards - Public Institutions Rank: Arts, Hum., Science, Eng. & Health	3	3	Remain In Top 7

**Appendix B (continued)**  
**State UW Performance Contract Scenarios**  
**November 2004**

**SECOND DECISION: SET OUTCOMES-CONTRIBUTIONS TO STATE GOALS**

**Provide Affordable Learning Opportunities**

**Key Indicators**

	<b>2000 Benchmark</b>	<b>2004 Current Level</b>	<b>Target 2011</b>
1. Proportion of undergraduate population with low income (Pell Grant awards as a percentage of undergraduates)	19%	21%	23%
2. Percent of undergraduate residents reporting family income below median	30%	36%	36%
3. Percent of new undergraduate student admissions from community colleges	37%	37%	37%
UW Seattle	32%	30%	
UW Bothell	89%	94%	
UW Tacoma	82%	90%	

**Provide Diverse Access**

**Key Indicators**

	<b>2004 Benchmark</b>	<b>2004 Current Level</b>	<b>Target 2011</b>
1. Graduation rate of underrepresented minorities	71%	61%	66%
2. SAT participation in targeted outreach communities	43%	28%	35%

**Contribute Toward State Economic Development Goals**

**Key Indicators**

	<b>2000 Benchmark</b>	<b>2004 Current Level</b>	<b>Target 2011</b>
1. Research jobs (FTE) at UW and its affiliates	4,654	5,420	6,000
2. Job creation associated with UW	22,024	31,341	35,000
3. New Technologies	815	1,028	1,500

**Provide Convenient and Efficient Educational Service Delivery**

**Key Indicators**

	<b>1996* Benchmark</b>	<b>2004 Current Level</b>	<b>Target 2011</b>
1. Entering freshman six-year graduation rate	71%	71%	72%
2. Transfers from CC three-year graduation rate	63%	70%	67%
3. Deferred renewal as % of facilities' value	NA	28%	20%

\*entering fall

**Appendix C**

**State UW Performance Contract Scenarios**

**THIRD DECISION: DESIRED LEVEL OF ENROLLMENTS, GENERAL FUND INVESTMENT & TUITION  
November 2004**

<b>NOTE: All 4 scenarios achieve the funding per student agreement:</b>							
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
<b>Funding Per Student Agreement (assumes 3% inflation)</b>	<b>\$17,400</b>	<b>\$18,609</b>	<b>\$19,854</b>	<b>\$21,137</b>	<b>\$22,458</b>	<b>\$23,819</b>	<b>\$25,220</b>

**Scenario 1: Primarily use enrollments to solve needs**

	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>
General Fund: 2% annual inflation	\$326	\$333	\$339	\$346	\$353	\$360	\$367
Tuition: 2% inflation	\$318	\$324	\$331	\$337	\$344	\$351	\$358
Total Core Funding	\$644	\$657	\$670	\$683	\$697	\$711	\$725
<b>Enrollment: limited Regent authority to balance</b>	<b>37,000</b>	<b>35,299</b>	<b>33,747</b>	<b>32,333</b>	<b>31,039</b>	<b>29,852</b>	<b>28,756</b>
Implied UG resident tuition	\$4,770	\$4,865	\$4,963	\$5,062	\$5,163	\$5,266	\$5,372
Percent Increase		2%	2%	2%	2%	2%	2%

**Scenario 2: Primarily use tuition to solve needs**

	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>
General Fund: 2% annual inflation	\$326	\$333	\$339	\$346	\$353	\$360	\$367
<b>Tuition: limited Regent authority to balance</b>	<b>\$318</b>	<b>\$356</b>	<b>\$395</b>	<b>\$436</b>	<b>\$478</b>	<b>\$521</b>	<b>\$566</b>
Total Core Funding	\$644	\$689	\$735	\$782	\$831	\$881	\$933
Enrollment, set at 37,000 FTE	37,000	37,000	37,000	37,000	37,000	37,000	37,000
Implied UG resident tuition	\$4,770	\$5,340	\$5,932	\$6,542	\$7,171	\$7,820	\$8,490
Percent Increase		12%	11%	10%	10%	9%	9%

**Scenario 3: Primarily use General Funds to solve needs**

	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>
<b>General Fund: 10% annual inflation</b>	<b>\$326</b>	<b>\$359</b>	<b>\$394</b>	<b>\$434</b>	<b>\$477</b>	<b>\$525</b>	<b>\$578</b>
Tuition: 2% inflation	\$318	\$324	\$331	\$337	\$344	\$351	\$358
Total Core Funding	\$644	\$683	\$725	\$771	\$822	\$876	\$936
Enrollment, if GF-S @10% & tuition @ 2%	37,000	36,701	36,532	36,494	36,580	36,783	37,099
Implied UG resident tuition	\$4,770	\$4,865	\$4,963	\$5,062	\$5,163	\$5,266	\$5,372
Percent Increase		2%	2%	2%	2%	2%	2%

**Scenario 4: General fund, tuition & enrollment increases**

	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>	<u>(\$ millions)</u>
GF-S: 7% annual inflation	\$326	\$349	\$373	\$399	\$427	\$457	\$489
GF-S new enrollments (\$7000/FTE; 3% annual inflation)		\$11	\$18	\$25	\$29	\$33	\$43
Tuition: 7% increase	\$318	\$354	\$389	\$426	\$462	\$501	\$555
Total Core Funding	\$644	\$714	\$780	\$851	\$918	\$992	\$1,087
Enrollment	37,000	38,500	39,500	40,500	41,000	41,600	43,000
Implied UG resident tuition	\$4,770	\$5,104	\$5,461	\$5,843	\$6,252	\$6,690	\$7,158
Percent Increase		7%	7%	7%	7%	7%	7%

**Appendix D**  
**University of Washington Performance Contract**  
**What Does Increased Investment Buy?**

First, the funding provides the ability to deliver the increase in the level of outcomes that are specified in the performance contract with respect to:

- Preparing a skilled workforce
- Providing high quality programs, scholarship and service
- Contributing to State economic development goals
- Providing affordable learning opportunities
- Providing diverse access
- Providing convenient and efficient educational service delivery

Second, where will the increased funding go to ensure the achievement of these outcomes?

	<b><u>Proportion of Need*</u></b>
• Faculty and staff – competitive compensation	40%
• Faculty/staff/program – increase in service levels	20%
• Equipment and technology investments	15%
• Research/scholarship support	15%
• Facilities renewal adaptation for current use	10%

*\* The stated proportion assumes a level of funding competitive with top public research universities. The overall level of funding will determine the priorities of where any incremental funding will be invested.*

**Appendix E**  
**University of Washington Performance Contract**  
**Tuition/Affordable Access Highlights**

**TUITION**

- All tuition and fee authority for all categories other than undergraduate residents will continue to be delegated to the Regents for the term of the contract.
- Undergraduate tuition authority will be established for each year of the contract based upon the final choices of enrollments and general funds incorporated in the contract.
- The tuition levels will be managed under the existing Regent tuition policy.

**Overall Tuition Policy:** Tuition policy is set in the core education resource context as one element of an integrated view of programs goals, value goals, funding goals and affordable access goals.

- Tuition is one element in determining a competitive and sustainable balance of program goals, programs size, state funding, tuition funding and development funding of the core education mission.
- The core assessment is what tuition can and should contribute to the efficient cost of delivering the chosen programs.

**Specific Tuition Levels:** In this context, specific tuition levels should be set in consideration of several factors, including: program quality, program cost, competitive position, value to students, and value to public, student demand, market demand and debt of graduates.

**Predictable, Multi-Year Plans:** To the extent possible, tuition plans should take a multiple-year view and should be communicated as early as possible to students.

**State Funding Contribution:** In the current context where State funding is below competitor levels, there will be continued pressure to have tuition at or above competitor levels in order to meet the program and funding goals.

**AFFORDABLE ACCESS / FINANCIAL AID**

**Affordable Access Goals** are set by both the State and the University. These goals are implemented through State and UW financial aid policy and goals – these goals would be incorporated into a performance contract:

- The UW would make a commitment to minimum levels of low and middle income undergraduate students attending the University – this is of critical importance to both the State and the University.
- The State would make a commitment to continue to fund the State Need Grant program and to fund the program to address the level of need for students.
- The University would continue to provide financial aid for undergraduate residents that meet the increased needs created by increases in tuition. This incremental aid would be in the form of grants so that the proportion of grant aid will not decline.
- The University is considering a policy where we might be able to provide a commitment to a maximum level of required debt for undergraduates.

## **Appendix F**

### **Performance Contract Context, Background & Purpose**

#### **CONTEXT**

In 1992, the University of Washington's core funding (General Fund – State and Tuition) was comparable to competitor institution funding levels. Since that time a combination of factors has made it so the UW is now over \$4,000 per student behind the competitors (HECB 75<sup>th</sup> percentile in 2002-03 was \$20,544 core funding per student; UW in 2002-03 was \$16,388 core funding per student), see Attachment 1.

The situation has developed without an explicit policy debate or decision. This is largely because the State's processes to determine scope and number of enrollments, state general fund investment, tuition levels, financial aid and capital investments makes each decision largely independent of the other decisions. As a result, the decline in competitive quality level has been a result of the cumulative effects of these decisions rather than a purposeful public policy choice.

The University of Washington (Seattle, Bothell, and Tacoma) contributes in several important ways to the needs of the citizens of the State of Washington. The University is:

- The largest provider of bachelor, professional and graduate education in the State;
- The sole provider of many significant educational, outreach, and research programs;
- An instructional laboratory for research, service and civic engagement;
- Experienced in working with diverse populations and ideas that provide the basis for post graduation engagement of our students with the diverse world in which they will work;
- A source for new knowledge that addresses society's challenges and opportunities;
- A locus for high quality new jobs through its attraction of research support to this State;
- A driver for economic development through new technologies and new companies that create new jobs;
- A provider of targeted educational opportunities to students in the South Puget Sound and North King/South Snohomish counties, enhancing the economic development opportunities for these communities.

The University of Washington community believes that it is imperative for the future of our citizens and for our economy that the UW sustain and expand these vital contributions to the State. Restoring the competitive position of the UW is essential.

#### **PERFORMANCE CONTRACT BACKGROUND**

For three years, the UW has been promoting the observation that Washington has been in a collective state of denial about our public higher education system. The system has been performing at a high level, but a continued reduction in resources makes this continued level of performance unsustainable. The fundamental relationship between the State and the University must be adjusted to change the current path of deteriorating competitiveness.

In the FY 2003 session, the legislature became engaged in understanding and discussing this situation. Eventually, HB 2111 was introduced to initiate pilot performance contracts as a vehicle for redefining the current relationships that have created an unstable situation.



**Appendix F (continued)**  
**Performance Contract Context, Background & Purpose**

In response to the discussions of HB 2111, the 2004 Supplemental State Budget directed OFM to work with the HECB, WSU and UW to develop a prototype performance contract for a research university to be submitted in November to the legislature.

In the July Regents meeting, we had a discussion update on the status of the development of the prototype as an information item for the Regents.

**PERFORMANCE CONTRACT PURPOSE**

The overall purpose of a performance contract is to provide a respectful forum to discuss holistically the common expectations of the State for the contributions of the UW:

- Specify key outcomes for the UW & State: quality, scope, size and impact of programs;
- Provide management authorities that allow the institution the capability to succeed;
- Provide resource plans that match the level of expected outcomes;
- Provide accountability for achieving the outcomes.

A successful contract will provide a vehicle that allows the UW to continue to successfully compete as a national quality public research institution and provides assurance to the citizens that key public outcomes will be achieved.