



MISSION-BASED AND PERFORMANCE-BASED FUNDING

HIGHER EDUCATION

ISSUE BRIEF

During the 2011 General Session, the Utah State Legislature approved Senate Bill 97, “Higher Education Mission Based Funding” (Urquhart). This bill requires the State Board of Regents to develop its budget request to include mission based funding in addition to the other budget categories. Mission based funding includes enrollment growth and strategic priorities. The strategic priorities should improve the availability, effectiveness, or quality of higher education in the state. The bill also requires that if mission based funding is approved, the board and the institutions report the use of those funds, including performance outcomes relating to the strategic initiatives approved by the board.

No mission based funding was approved during the 2011 General Session, but the bill provided the framework for the board’s budget development and submission for the 2012 General Session. The board’s FY 2013 budget request included nearly \$34 million categorized as “Mission Based Funding.” Of this total, Enrollment Growth accounted for \$10 million, Equity Funding accounted for \$8 million, and Historic Unfunded Enrollment Growth was included at \$6 million. The remaining \$10 million was designated as Distinctive Mission and included funding to increase participation, completion, and economic development initiatives.

The Legislature approved \$4 million for Mission Based Funding (Institutional Priorities) and \$4 million to address Equity issues among the institutions. This funding, together with other approved funding is included in H. B. 2, “New Fiscal Year Supplemental Appropriations Act”. At the board’s July 13th meeting, the institutions proposed initiatives for the funding to improve/ increase participation, completion, and economic development initiatives. The proposals also were presented as being consistent with the following intent language approved by the legislature:

The Legislature intends that appropriations in this item be utilized by institutions to implement provisions in accordance with Senate Bill 97, Higher Education mission based Funding (2011 General Session). Consideration should be given to: student plans and tracking of student progress, requirements that students take general education courses early in their college experience, increasing the availability of courses to meet students’ schedules and situations, arresting the inflationary cost of increases of tuition, fees, books, and retention and completion measures.

The approved distribution of the \$4 million for Mission-Based Funding is as follows:

University of Utah

Completion

Early, Proactive Intervention to Boost Retention	300,000
Undergraduate Research Opportunity Program	300,000

MISSION-BASED AND PERFORMANCE-BASED FUNDING

<i>Economic Development</i>	
Electronic Post Award Management	602,200
Utah State University	
<i>Participation</i>	
Summer Initiative	304,800
STEM Initiative	290,200
<i>Completion</i>	
University Retention Initiative	173,700
<i>Economic Development</i>	
Price, Utah Clean Coke Technology Project	75,000
Weber State University	
<i>Participation</i>	
Additional Distance Delivery Courses	12,400
Nursing Partnerships	400,000
Southern Utah University	
<i>Participation</i>	
Need-Based Financial Aid	40,000
<i>Completion</i>	
Enhanced Retention Initiatives	50,000
Academic Internships	41,300
<i>Economic Development</i>	
Community Internships Coordination	57,000
Utah Valley University	
<i>Participation</i>	
Recruiting and Retaining Female Students	70,939
<i>Completion</i>	
Implementation of Structured Enrollment	232,404
Expansion of Evening/Weekend Degree Programs	65,000
<i>Economic Development</i>	
Economic Development/Entrepreneurship Program Support	102,557

Snow College	
<i>Participation</i>	
Preparing Natural Resource Technicians for Rural Utah	20,797
<i>Economic Development</i>	
Establish a Placement Center	88,503
Dixie State College	
<i>Completion</i>	
DSC Student Services Degrees Works	156,000
Salt Lake Community College	
<i>Completion</i>	
Student Success Completion Initiatives	472,700
Board of Regents/Commissioner	
<i>Participation/Completion/Economic Development</i>	
Establish Appropriate Metrics and Develop Appropriate Mechanisms and Support	144,500

Several states are moving toward “Performance-based Funding,” which has been part of the funding scene for decades. The basis for this funding links state funding for higher education institutions to their performance or outcomes. During the time Performance-based Funding has been on the funding horizon, it has had mixed reviews and results, but, according to the American Association of State Colleges and Universities, advances in student data systems and policy refinements have allowed the postsecondary financing strategy to re-emerge as a core component of the productivity and college completion agendas.¹ Recently, Performance-Based Funding has been considered as an option by the Lumina Foundation, the Bill and Melinda Gates Foundation, NCSL, NGA, and The Education Commission of the States.

The three main components of Performance-Based Funding include goals, measurements, and incentives. These components need to be aligned and the goals must be consistent with state priorities. Examples of measurements could include graduation rates; STEM, nursing graduates; transfer rates, course completions, number of students in specific subgroups, etc. Incentives generally reward action that indicates movement toward the designated goals.

Three models have been identified which link state funding to institutional outcomes. These include **Output-base systems**, which links state funding to outputs, such as the number of students who complete courses or college; **Performance contracts**, which are negotiated agreements between a state and an institution for specific results; and **Performance set-asides**, which reflect a specific allocation beyond the regular state appropriation, for improvements.

The attached NCSL document, "Performance Funding for Higher Education" shows where states are in their implementation of Performance-Based Funding. As can be seen on the first page, seven states have Performance-Based Funding in place, eight other states are moving toward Performance-Based Funding, 15 states have had discussions in this area, and the remaining 20 states and Washington, D.C. have not had any formal activity.

The following summarizes the efforts made by the seven states with Performance-Based Funding in place:

Indiana: Sets aside 5% currently, moving to 7% by 2015 for improving degree attainment (60% weighting), improving credit hour completion (25% weighting), and improving university research (15% weighting).

Louisiana: Funding amount of 25%; 15% distributed based on performance in student success (graduation rates, program completion rates, partnerships to prepare students, increase passage rates on licensure and certification exams.

Ohio: At universities, all instructional funding is based on course completions, phasing in degree completions; at community colleges, 5% of funding is based on success points, including progression from remedial courses, associate degree completions, and transfers to four-year institutions.

Oklahoma: Most funding is still enrollment-based. New funding will be focused toward student retention, graduation and degree completion.

Pennsylvania: 2.4% of higher education budget is based on performance and available only to four-year institutions. Metrics include degrees conferred and closing achievement gap, close access gap and faculty diversity, and increasing private support. Additional (optional) metrics are also available for institutions.

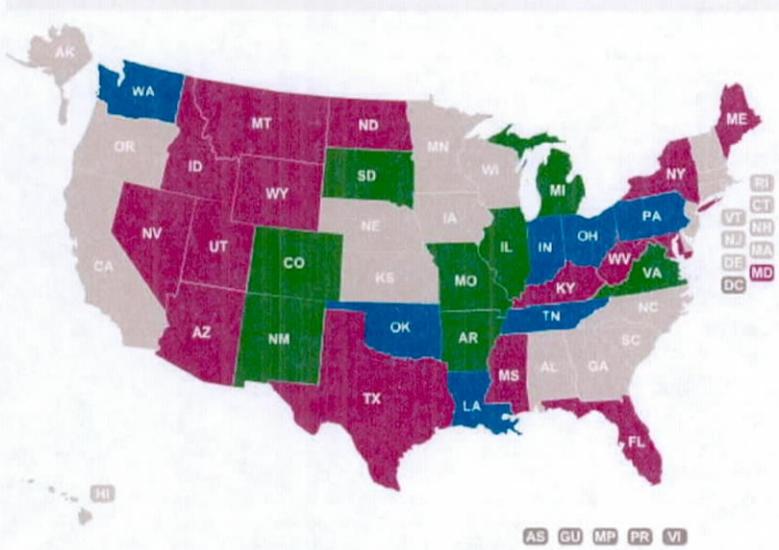
Tennessee: All funding is Performance-Based, using course completion, credit accumulation, and degree completion as main factors. Outcomes are weighted differently for each institution and its specific mission. Tennessee also has a universally transferable general education core and a 19-hour pre-major pathway for 38 baccalaureate degree majors. Remedial and developmental courses are only offered at community colleges.ⁱⁱ

Washington: Funding of \$3.5 million mainly for community and technical colleges, based on first-year retention rates, completion of entry-level college courses, and certificate and degrees achieved.

ⁱThomas L. Harnisch, "Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing" (2011).

ⁱⁱ Complete College Tennessee Act Summary, http://tn.gov/thec/complete_college_tn/ccta_summary.html.

Performance Funding for Higher Education



- Performance funding in place
- Transitioning to performance funding
- Formal discussions on performance funding
- No formal activity

If unable to see the map, or for additional details, refer to the table below.

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Please contact Brenda with any questions about or updates to the performance funding map.

Typically, colleges receive state funding based on how many full-time equivalent students are enrolled at the beginning of the semester. That model provides incentives for colleges to enroll students—but not necessarily to help them graduate. Many states are reconsidering the enrollment-based funding model and instead are allocating money to colleges based on the number of students who complete courses and degrees. The following states have had some recent activity with performance-based funding.

Seven states—Indiana, Louisiana, Ohio, Oklahoma, Pennsylvania, Tennessee and Washington—have a funding formula in place that provides some amount of funding based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates. Eight states are transitioning to some type of performance funding, meaning the Legislature or governing board has approved a performance funding program and the details are currently being worked out. Several more states have had “formal discussions” about performance funding. This means that there have been formal hearing held at the Legislature or meetings conducted by governing boards on the topic.

STATE	STATUS	FUNDING AMOUNT	METRICS	SUPPORTING DOCUMENTS
Arizona	Formal discussions	FY2013 - \$5 million of existing dollars will be reallocated by the Board of Regents based on performance metrics.	With Senate Bill 1618, the legislature required the Arizona Board of Regents to submit a report on a funding structure for performance and outcomes-based funding. Proposed fiscal 2013 funding includes performance funding for degree completion and credit hour completion with each weighted by level, cost, and research/public service.	2011 SB 1618
Arkansas	In transition	Begins with 5% in 2013-2014 school year, and increases in 5% increments until capped at 25% during the 2018-2019 school year. The remaining 75 percent of funding will be based on enrollment and institutional needs.	Act 1203 of 2011 directed the Arkansas Department of Higher Education (ADHE) to collaborate with college leaders to develop a funding formula that takes into account institutional performance in the following categories. The formula was approved by the ADHE in December 2012. The most important feature of the performance funding system is the requirement that the number of degrees awarded by higher education institutions double by the year 2025, while maintaining academic integrity and quality. ▸ Although technical certificates and associate degrees are included, significant weighting is placed on increasing the number of bachelor's degrees awarded. ▸ The performance funding measures of total credentials awarded, bachelor credentials awarded, STEM production and student progression will generate 40 percent (40%) of all performance funding with the remaining 60 percent (60%) generated by optional measures selected by each institution. Two-year colleges are open-door institutions that serve four major educational purposes: 1) technical skills education; 2) preparation for transfer to a four-year university; 3) remedial education and; 4) workforce training for business and industry. The two-year college performance funding model incorporates all four purposes. Considering the unique characteristics of two-year colleges, ADHE found it imperative to keep the model as simple as possible while also maintaining flexibility for individual colleges to account for regional missions and demographics.	2011 Act 1203
Colorado	In transition	25% of General Fund appropriation, beginning after FY15-16	The metrics are still under development by the Colorado Commission on Higher Education. Thus far, the following goals for the formula have been set: ▸ Increase attainment ▸ Improve student success ▸ Diversify enrollment and reduce attainment gaps Restore balance in postsecondary revenues and maintain productivity	2011 SB 52

Florida	Formal discussions		Florida used to have a performance funding program in place for their community colleges, but it has lapsed. Legislators have recently held discussions about reinstating a performance-based funding formula that would include the four-year sector.	
Idaho	Formal discussions			
Illinois	In transition	Less than 1% in FY2013, may grow in future years.	<p>Schools are scored on a variety of variables, including degree completions and the amount of money spent on each degree produced.</p> <ul style="list-style-type: none"> ▸ Schools receive bonuses for low-income and minority students, and for producing degrees in the critical science, technology, engineering and math fields. ▸ Community colleges also have a system, but theirs is based more on enrollment numbers. <p>The final results in the first year provided little drama, with no school gaining more than an extra one-tenth of a percent of funding, and no school losing more than one-fifth of a percent of its funding.</p>	2011 HB 1503
Indiana	In place	5% in FY2011-2013 budget; projected to be 6% in FY2014 and 7% in FY2015	<p>Institutions evaluated against the same benchmarks regardless of size or mission.</p> <p><u>Metrics (% Allocation)</u></p> <ul style="list-style-type: none"> ▸ Total Degree Attainment Improvement: 60 percent <ul style="list-style-type: none"> ▸ Change in overall degree attainment: 30 percent ▸ Change in on-time degree attainment: 15 percent ▸ Change in low-income degree attainment change: 15 percent ▸ Total Credit Hour Completion Improvement: 25 percent <ul style="list-style-type: none"> ▸ Successful completion of credit hours: 18.7 percent ▸ Successful completion of dual-credit credit hours: 5.5 percent ▸ Successful completion of "early college" credit hours: .8 percent ▸ Total Improvement in University Research: 15 percent 	CHE Presentation to House Ways & Means Cte, January 2011 (slides 4-10)
Kentucky	Formal discussions			
Louisiana	In place	25%	<p>Louisiana's revised (as of 2011) funding formula has two components: cost and performance.</p> <ul style="list-style-type: none"> ▸ 85% of the total state general funds will be distributed based on the cost model and the remaining funds will be distributed based on performance. ▸ The performance component has been simplified and aligned with the GRAD Act. State general funds will be awarded based upon an institution's performance on the following student success measures: <ul style="list-style-type: none"> ▸ Implement policies established by the institution's management board to achieve cohort graduation rate and graduation productivity goals that are consistent with institutional peers. ▸ Increase the percentage of program completers at all levels each year. ▸ Develop partnerships with high schools to prepare students for postsecondary education. ▸ Increase passage rates on licensure and certification exams and workforce foundational skills. <p>Campuses can achieve an additional 10% in tuition funding if they meet their annual GRAD Act targets for a total performance component of 25%.</p>	2010 GRAD Act
Maine	Formal discussions		Maine is currently developing recommendations on performance funding metrics and strategy.	
Maryland	Formal discussions		NCSL participated in discussions on performance funding with Maryland legislators and legislative staff in 2011 and 2012.	
Michigan	In transition	3.0% under FY 2012-13 enacted budget (\$36.2 million)	The legislature passed a higher education budget containing a 3 percent increase in funding over last year for public universities. The new funding will be tied to performance measures including graduation rates, the number of degrees awarded in science, technology, engineering, math and other critical area fields, and research and development expenditures. The formula also includes an incentive for universities to not increase tuition by more than four percent. To be eligible for the performance funding, universities must participate in the state's student transfer network, have reverse transfer agreements in place with at least three community colleges, and accept dual enrollment credits.	House Bill 5372
Mississippi	Formal discussions		House Bill 875 charges the Education Achievement Council, a group of political and educational leaders, with the duty of researching and developing a new funding formula for higher education institutions. The new formula will go beyond funding for enrollment to include funding based on how well institutions are meeting state productivity goals. The council must present its recommendations to the Legislature and governor by November 2012.	2011 HB 875
Missouri	In transition	Applies to new appropriations only. Funding earned through performance in one year will be added to an institution's base the following year. Total funding allocated on the basis of performance will not exceed approximately 2-3% of an institution's total state funding in any given year. Excepted to be in place by FY2014 budget.	<p>Performance measures are to be evaluated based on a three-year rolling average. Metrics vary by institutional sector and focus on the following areas:</p> <ul style="list-style-type: none"> ▸ Student success/progress: a) completion rates; b) retention rates; c) completion of developmental and first credit-bearing course; d) credit accumulation ▸ Degree attainment: a) total degrees awarded; b) graduation rates ▸ Quality: a) job placement; b) licensure/certification exam results and pass rates; c) assessment results in major field, general education ▸ Financial responsibility/efficiency: a) share of E&G spending on core mission; b) revenue growth per FTE student; c) completed credit hours per \$100,000 of state appropriations or E&G spending 	
Montana	Formal			

	discussion			
Nevada	Formal discussions		The Nevada State Legislatures' Committee to Study the Funding of Higher Education is considering rewriting the funding formula to be based on completion and other performance indicators.	
New Mexico	In transition	New performance-based formula makes up 5 percent of total funding to universities.	The formula distinguishes missions between sectors, providing different metrics for each. The formula focuses on the following four outputs: <ul style="list-style-type: none"> Course completion rate; Number of certificates and degrees awarded Number of certificates and degrees awarded in state workforce priority areas; Number of certificates and degrees earned by financially at-risk students. 	Performance funding in effect in FY2013 budget (Laws 2012, chp. 19). Summary of formula.
New York	Formal discussions		The State University of New York is leading a task force on developing recommendations.	
North Dakota	Formal discussions		NCSL participated in discussions on performance funding with North Dakota legislators and legislative staff in 2011 and 2012.	
Ohio	In place	Universities – All instructional funding based on course completions instead of enrollments, with degree completions being phased in (began in 2010). Community Colleges – 5% of funding based on Success Points, 95% of based on FTE enrollment (began in 2011).	There is a stop loss provision in place to guarantee that institutions do not lose more than 1% of their funding per year, with the stop loss eventually being phased out. The formula heavily favors course completions in the beginning. University main campus have begun using degree completions as well, with more weight shifting from course completions to degree completion each year. University regional campus are using only course completions at this point; degree completions will be added in the future. At-risk students are more heavily weighted in formula, and there is a STEM course incentive. Funds allocated for graduate education will be based on success factors (e.g. degree completion and research expenditures). <u>University Main Campuses</u> <ul style="list-style-type: none"> Course and degree completion <u>University Regional Campuses</u> <ul style="list-style-type: none"> Course completion Degree completion will be added <u>Community Colleges/Success Points</u> <ul style="list-style-type: none"> Progression from remedial to college level courses Students earning 15 and 30 college level credits Students earning an associate degree Completion of 15 hours and transfers to four-year institutions 	Performance-Based Subsidy Formula Overview by Chancellor Fingerhut
Oklahoma	In place	Small percentage of the overall budget for higher education. Colleges and universities still receive the bulk of their funding based on enrollment. In 2008, performance-based funding averaged \$2.2 million a year	The focus of the incentives is on student retention, graduation, and degree completion. The Board of Regents in April 2012 voted to approve a revised and expanded funding formula for new money, or any funding the system receives beyond its current base level. The revised formula will reward schools for student retention and degree completion.	Revised performance-funding formula
Pennsylvania	In place	2.4% -- funded from education & general appropriations	Performance-funding only awarded to 4-year sector (Pennsylvania State System of Higher Education). Measures are worth 1 point for total of 10 points, which are weighted by the base appropriation. Weighted points divided into total performance funding pool creating a dollar per point value. 2011-2017 Revised Metrics Mandatory (5 measures) <ul style="list-style-type: none"> Student Success: degrees conferred and closing achievement gap Access: close access gap and faculty diversity Stewardship: private support dollars raised <u>Optional (choose 5)</u> <ul style="list-style-type: none"> Success: deep learning scale results; senior survey; student persistence; value added; and STEM degrees Access: faculty career advancement; employment diversity; student experience with diversity; and student diversity Stewardship: facilities investment; admin. expenditures as a % of educational costs; faculty productivity; and employee productivity University-specific: may create no more than 2 indicators 	
South Dakota	In transition	\$6 million	South Dakota's Board of Regents created a performance funding pilot program that uses \$3 million in one-time state funding approved by the Legislature to be matched by universities' base budgets. The \$6 million of funding will be allocated to universities based on three years of degree production data. The pilot program will award institutions more funding for producing graduates in high-priority fields	
Tennessee	In place	100%	Adults (over 25) and low-income students completing any of the metrics are more heavily weighted. Additional weights are applied to each outcome depending on the priority and institutional mission. Points are awards based on outcomes metrics, which are then multiplied by the SREB average salary to monetize the formula. Fixed costs and the Quality Assurance program funds (accreditation, student satisfaction, and licensure exam pass rate) are added on. <u>University Metrics</u> <ul style="list-style-type: none"> Students accumulating: 24, 48, and 72 hours Bachelor's, Master's, Doctoral, and law degrees Research/grant funding Transfers out with 12 hours Degrees per 100 full-time equivalent (FTE) Six-year graduation rate <u>Community College Metrics</u>	Complete College TN Act of 2010: Presentation on Outcomes Funding Model

			<ul style="list-style-type: none"> ▸ Student accumulating: 12, 24, and 36 hours ▸ Dual enrolled students ▸ Associated degrees ▸ Graduates placed in jobs ▸ Remedial and development success ▸ Transfers out with 12 credit hours ▸ Workforce training (contact hours) ▸ Award per 100 FTEs 	
Texas	Formal discussions	10%	<p>House Bill 9 of 2011 directs the Higher Education Coordinating Board to propose an outcomes-based funding methodology. They have proposed two different formulas to be considered by the Legislature in 2013:</p> <p>General Academic Institutions An outcomes-based allocation methodology would be funded outside of the instruction and operations formula with 10 percent of the funding that would have been allocated to undergraduate weighted semester credit hours.</p> <ul style="list-style-type: none"> ▸ The model would allocate funds based on a three-year rolling average of institutions' performance on the below metrics. ▸ All metrics would be weighted the same, except for the critical field metric which would receive a double weight. ▸ All metrics are based only on undergraduates – graduate and professional students are excluded from the calculation. <p><u>Metrics</u></p> <ul style="list-style-type: none"> ▸ Total Undergraduate Degrees ▸ Time-to-Degree Factor ▸ Institutional Mission Factor ▸ Cost-to-Degree Factor ▸ Critical Fields Factor (STEM and health fields) ▸ At-Risk Factor ▸ Persistence Factor <p>Community and Technical Colleges The Commission recommends that funding equal to 10 percent of the base enrollment formula funds be allocated under the outcomes-based methodology in each year of the biennium.</p> <ul style="list-style-type: none"> ▸ Institutions would earn momentum points for the number of students annually completing each of the following metrics. ▸ Funding would be allocated to an institution in proportion to its share of the total momentum points earned statewide. <p><u>Metrics</u></p> <ul style="list-style-type: none"> ▸ Developmental Education ▸ Gateway Courses ▸ College Credit Hour Attainment ▸ Credentials Awarded ▸ Transfers to a Four Year Institution 	2011 House Bill 9
Utah	Formal discussions		<p>Senate Bill 97 establishes "mission based funding" as a basis for higher education appropriations in Utah. Instead of funding institutions based solely on enrollment growth, mission-based funding will consider both enrollment growth and the strategic priorities for colleges and universities. For example, a strategic priority for research universities would be research and development, while a priority for community colleges would be open access. Legislators hope that allocating funding based on missions will give colleges an incentive to focus on their core priorities.</p>	2011 Senate Bill 97
Virginia	In transition		<p>The Virginia Higher Education Opportunity Act of 2011 creates performance funding incentives for institutions that meet the goals of the legislation, which include:</p> <ul style="list-style-type: none"> ▸ increased enrollment ▸ increased degree completion ▸ improved retention and graduation rates ▸ increased research output ▸ increased degree production in STEM fields ▸ increased efficiency gains through: <ul style="list-style-type: none"> ▸ year-round use of campus facilities, ▸ online courses, ▸ resource sharing, and ▸ better use of technology. <p>The formula is under development.</p>	Virginia Higher Education Opportunity Act of 2011
Washington	In place	2009-2011: Proposed budget included \$3.5 million with \$500,000 set aside for first year	<p>The Student Achievement Initiative program allocates some funding to community and technical colleges based on their accumulation of momentum points, which are acquired through the following:</p> <ul style="list-style-type: none"> ▸ Building College Level Skills: adult literacy/English language proficiency test score gains; GED or H.S. diploma; and passing pre-college writing or math ▸ First-year Retention: Earning 15 and 30 college level credits ▸ Completing College Level Math: passing courses required for technical or academic associate degrees ▸ Completions: certificates; Associate degrees; and apprenticeship training 	
West Virginia	Formal discussions			
Wyoming	Formal discussions			