



PERFORMANCE-BASED FUNDING

HIGHER EDUCATION
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ISSUE BRIEF

SUMMARY

On August 16, 2012, the Higher Education Appropriations Subcommittee met for an interim meeting. One of the topics of discussion was Performance Based Funding. The Analyst provided an article from NCSL that showed which states have implemented some form of performance-based funding. (see <http://www.ncsl.org/issues-research/educ/performance-funding.aspx>)

DISCUSSION AND ANALYSIS

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).

¹Thomas L. Harnisch, “Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing” (2011).

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 students 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.²

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.

During the Subcommittee meeting, the Analyst was asked to follow up on this discussion and ask these states about the results of their efforts. The Analyst contacted the legislative staff in each of the seven states, and got a response from four of them. Most provided what the initiative is and how the formulas work. Because these initiatives are fairly new, results are still somewhat minimal.

The following is the report:

Louisiana: Louisiana approved its “Louisiana Granting Resources and Autonomy for Diplomas Act (GRAD Act), where student retention and graduation rates are spelled out.

The formula includes two components – cost and performance. The formula stipulates that 85% of the total state general funds will be based on the cost model and the remaining 15% will be distributed based on performance. The law also gives campuses permission to raise tuition by up to 10% each year if they meet their annual GRAD Act targets for a total performance component of 25%.

Colleges signed six-year GRAD Act agreements in 2010 in which they set performance goals for themselves. The Louisiana Board of Regents certified that the targets were neither too easy to reach nor too high.

The first casualties of the GRAD Act were released in late June when the Regents announced LSU at Eunice and Southern University at Shreveport had not met their targets and would lose a large chunk of revenue.

Both schools are two of the better-performing schools in the state.

² Complete College Tennessee Act Summary, http://tn.gov/thec/complete_college_tn/ccta_summary.html.

LSU-E, which consistently has a higher graduation rate than its peers around the state, stands to lose out on nearly \$1.5 million, according to the Regents.

Ohio: Ohio began phasing in its performance based formula in FY 2010. At that time, many of the performance components were assigned provisional performance measures because of insufficient data. In FY 2012, the performance measures were adjusted slightly to accommodate new, reliable data collected in FY 2010 and FY 2011. However some areas still did not have adequate data by the time the budget was enacted. Performance measures such as 'grant activity' and 'quality' were to be determined over the course of the biennium through a collaborative effort by the institutions and the Board of Regents. Because of the changing measures and the short time-frame since the formula's initial implementation, Ohio has not been able to reliably determine results of the performance based measures.

The Ohio Board of Regents created the performance based formula with extensive input from the institutions, through many months of meetings.

Tennessee: As part of the Complete College Tennessee Act (CCTA) of 2010, Tennessee introduced an outcomes-based funding formula model that rewards institutions for the educational attainment and productivity. The outcomes represent broad activities across various types of institutions from four-year research universities to community colleges filling workforce development needs. The outcomes measures are grouped into categories of student progression, degree production, efficiency, and other important institutional functions. The outcomes are weighted according to institutional mission, reflecting an institution's Basic Carnegie classification. Institutions with similar missions have the same weights applied, providing a framework for grouping similar institutions together. Metrics that play a larger role in institutional mission are weighted more heavily in that institution's formula.

The outcomes-based model does not include student enrollment data. Instead, two sets of outcomes were identified — those for four-year universities and those for two-year community colleges — that best reflected the purposes of each type of institution. Outcomes for universities include progression (at 24, 48 and 72 hours), bachelors', associates', masters' and doctoral degrees, research and service, student transfer, degrees per 100 full-time enrolled student and graduation rate. Outcomes for community colleges include progression (at 12, 24 and 36 hours), dual enrollment, associate and certificate degrees, job placement, remedial and developmental education, student transfer and workforce training. Student progression measures the accumulation of credit hours, reflecting course completions.

The outcomes based model provides several distinct advantages to an enrollment-based methodology. The outcomes model is productivity based and provides more stability by spreading financial incentives across more variables. The outcomes based formula does not have annual targets or benchmarks, so does not punish institutions for failure to achieve a predetermined goal.

Washington: Washington State has implemented a policy that uses intermediate performance measures and incentive funding to encourage the state's community and technical colleges to adopt practices that increase rates of student progression and completion. Under this policy, called the Student Achievement Initiative (SAI), colleges earn points when students achieve one or more educational milestones, or achievement points, which are organized along a continuum from remedial programs (which include adult basic education and pre-college "developmental" education) through the completion of credentials and training programs.

Part of the design is to ensure that students who have traditionally been less prepared, less successful or under-represented in higher education (from low incomes, and certain race and ethnic backgrounds) are still served.

According to the data, the baseline average number of points per college was 8,684. In 2009, this rose to 10,365; in 2010, it was 11,598; then dipped to 11,465 in 2011. During the same time period, the average points per student rose by 29%. Enrollments were flat, indicating that more students were enrolled for more hours.

This is not codified in state statute and was developed by the Washington State Board for Community and Technical Colleges. Budget provisos have provided support drawn from the colleges' base funding.

Conclusion

Each of these states has implemented some form of performance-based funding. It appears that there are some successes and some shortfalls. **Louisiana** uses 15% of the state funding for performance. The colleges set their own targets, which seems to have the potential for problems. As cited above, two of the better-performing institutions face losing funding because they did not reach their targets. It appears that **Ohio** is still trying to iron out its measurements, data, and formulas. The **Tennessee** model is probably the most advanced and progressive of the performance-based models. It claims that its funding is tied 100% to performance, with no regard for enrollment. The formulas are very complex. Unlike Louisiana, failure to reach a target does not result in a loss of funding. **Washington's** model is the one that appears to have the best results. The data show an increase in the average number of points per college and per student over the three-year time frame. However, the model applies only to community and technical colleges and is not part of the state statute.