

The Forum for America's Ideas

**PERFORMANCE-BASED FUNDING FOR
HIGHER EDUCATION**
APPROPRIATIONS SUB-COMMITTEE ON HIGHER
EDUCATION

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OCTOBER 26,
2017



NATIONAL CONFERENCE *of* STATE LEGISLATURES

About NCSL

- Instrumentality of all 50 state and territorial legislatures
- Bipartisan
- Provides research, technical assistance and opportunities to exchange ideas
- Advocates on behalf of legislatures before the federal government

NCSL is committed to the success of state legislators and staff. Founded in 1975, we are a respected bipartisan organization providing states support, ideas, connections and a strong voice on Capitol Hill.



Overview

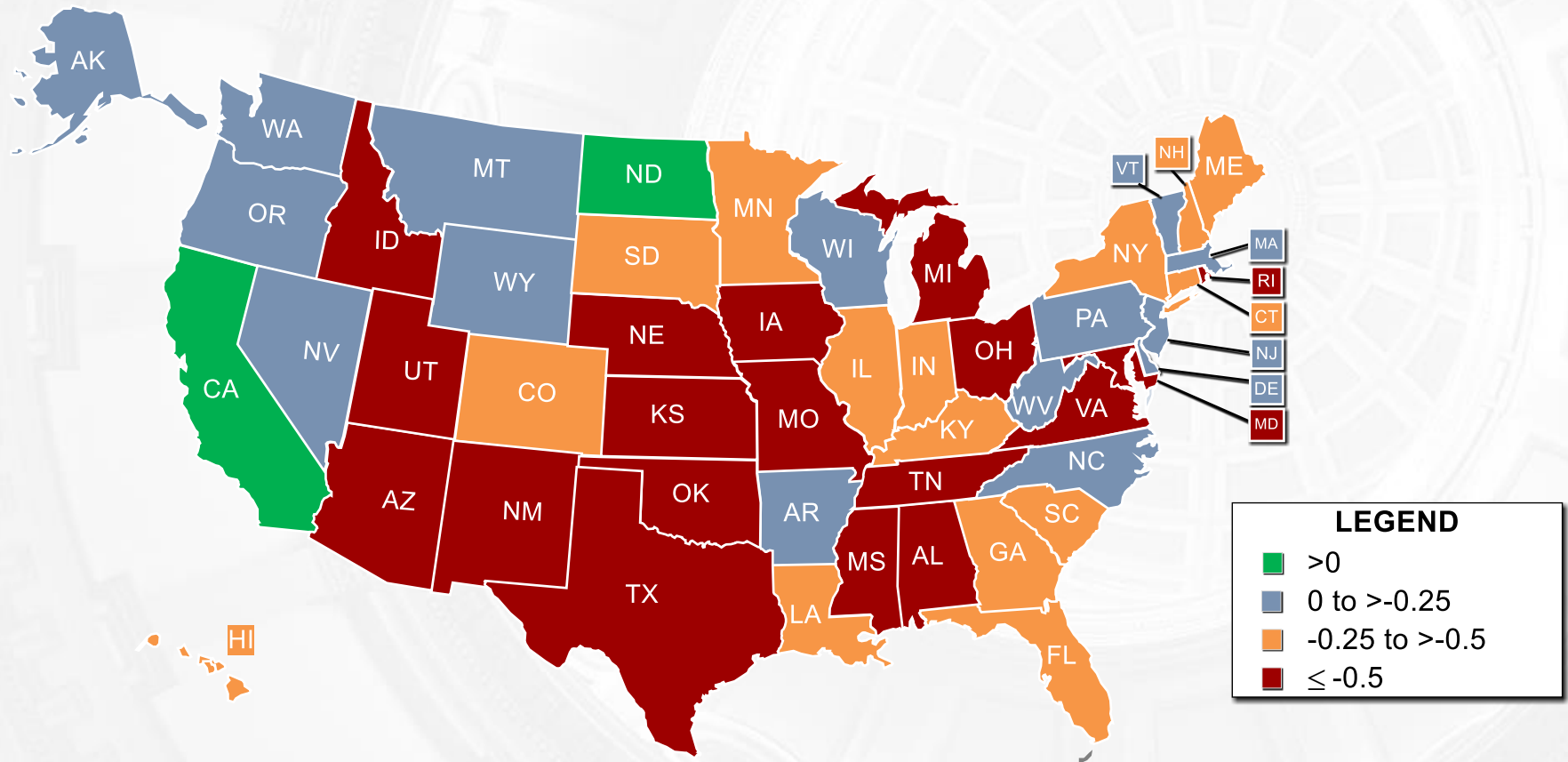
- Changing fiscal and higher education landscape
- Performance-based funding
 - ▣ Historical context
 - ▣ Importance of Goals
 - ▣ Design Tips
 - ▣ State examples
 - ▣ What the research says

Changing State Role in Higher Education Policy

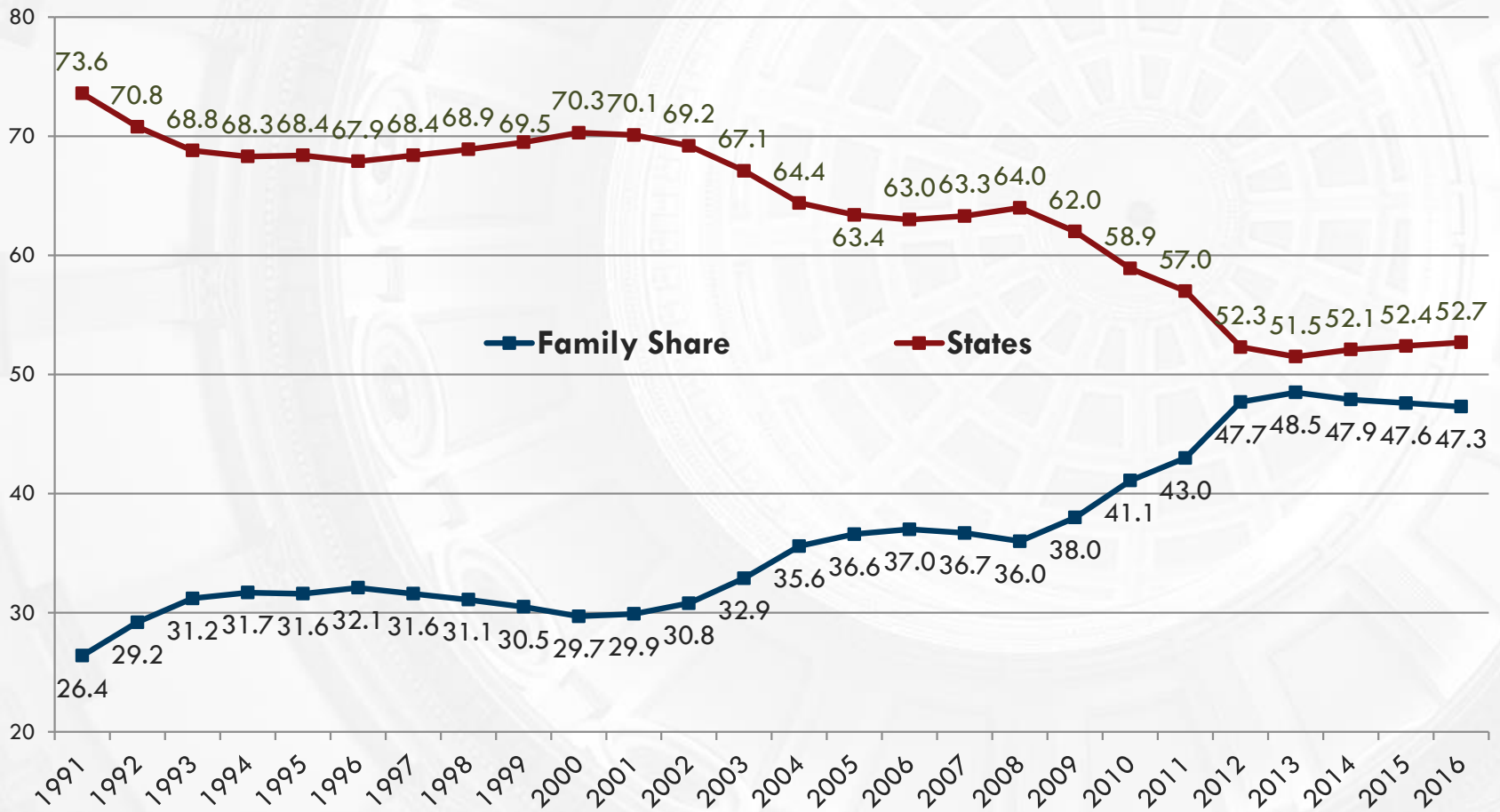
- Goals
 - ▣ From a focus on institutional goals and building capacity
 - ▣ To using this capacity to achieve state priorities
- Finance
 - ▣ From line item budgeting and cost reimbursement approaches
 - ▣ To paying for outcomes, not inputs
- Accountability
 - ▣ From accountability for expenditures – adherence to the budget
 - ▣ To accountability for producing outcomes of high priority to the state
- The fiscal environment
 - ▣ In many states, tuition has become the primary source of institutional funding
 - ▣ States have leverage only if they invest their resources strategically



Estimated Percent Change in Higher Education as a Share of Total State Spending, FY 2014-2024



Family Share and State Share of Educational Revenue, Fiscal Years 1991-2016



Operating Appropriations: Traditional Approaches

□ Base Plus

▣ Advantages

- low cost to administer
- Institutional flexibility

▣ Disadvantages

- Not strategic
- As institutions change, wide disparities can develop

Operating Appropriations: Traditional Approaches

□ Formula Funding

▣ Advantages

- Operational costs of educating students main allocation driver
- More transparent; better knowledge of costs
- Incentive to increase access

▣ Disadvantages

- Not strategic
- Costly to collect and analyze the necessary input data

Early Performance Funding Efforts

- First implemented in 1979 in Tennessee
- Half of states ultimately adopted some form by late 1990s
- Bonus funding to encourage institutional improvement
- Many states discontinued systems after early 2000s recession



Early Performance Funding Efforts

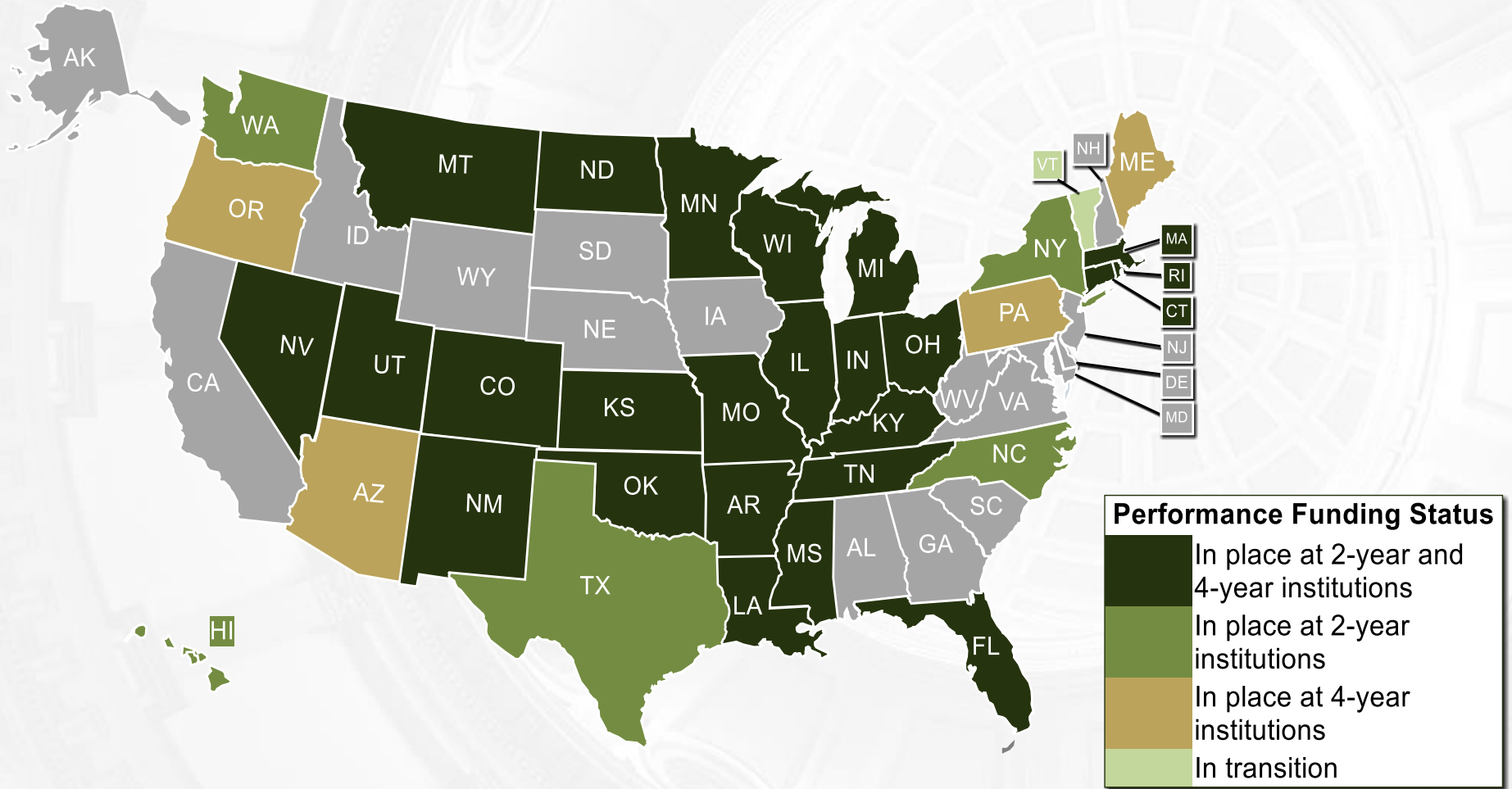
- Advantages
 - ▣ Strategic approach to influence institutional behaviors
 - ▣ Emphasis on developing goals and standards
- Disadvantages
 - ▣ Funding too volatile; abandoned during tight budgets
 - ▣ Formulas too complex—too many elements
 - ▣ Implemented without institutional buy-in
 - ▣ Did not recognize mission differentiation
 - ▣ Insufficient data—unavailable or unreliable

Reemergence of Performance Funding

- New wave of states implementing performance funding began around 2008
- More states establishing goals—most direct way to link funding to goals
- Way to encourage institutional change without micromanaging
- Focus on student success in addition to access
- No longer just bonus funding; more states tie base funding to institutional outcomes



Performance Funding Status FY 2018



It All Starts with Goals

- Goals are the anchor point for higher education policy
- States are the unit of analysis not institutions
 - This includes state political or geographic subdivisions and state populations and subpopulations
- State goals deal with the conditions of key characteristics of the state and/or its citizens
 - Educational attainment



Performance Funding Design Principles

- ❑ Get agreement on goals before putting performance funding in place.
- ❑ Construct performance metrics that are sufficiently broad.
- ❑ Design the funding model to promote mission differentiation.
- ❑ Include provisions that reward success with underserved populations.
- ❑ Include provisions that reward progress as well as ultimate success.

Source: National Center for Higher Education Managements Systems



Performance Funding Design Principles

- Limit the categories of outcomes to be rewarded
- Reward continuous improvement, not attainment of a fixed goal.
- Make the performance funding pool large enough to command attention.
- Ensure that the incentives in all parts of the funding model align with state goals.

Source: National Center for Higher Education Managements Systems



Common Performance Funding Metrics

- Educational attainment
 - ▣ Degree/certificates
 - Premiums for at-risk populations
 - Premiums for priority fields
 - ▣ Transfers
 - ▣ Momentum Points
 - Credits completed
 - Completion of first college credit courses in English and Math
- Productivity/Efficiency
 - ▣ Degrees per \$100,000 of “educational” revenue
 - ▣ Degrees per 100 Full-Time Equivalent student enrollment
- Economic development

Tennessee

- First performance-based funding model in 1979
- In 2010, the legislature passed the Complete College Tennessee Act (CCTA)
 - ▣ Directed the Tennessee Higher Education Commission to create an outcomes-based funding formula
 - ▣ Established goals of building the state's economic development and meeting national average in educational attainment by 2025.
- After a base amount for operational expenses is set-aside, 100 percent is performance-based (about 85 percent total)

Tennessee

- In 2015 the THEC established a new long-term Master Plan with the goal to:
 - ▣ Increase degree production and efficiency
 - ▣ Within available resources
 - ▣ Without diminishing educational quality
 - ▣ Improving community, county and statewide postsecondary attainment
 - ▣ To support improvements in workforce capacity and quality as well as economic and workforce development

Tennessee Performance Measures

- University and Community College Outcomes
 - ▣ Student Progression
 - ▣ Awards per 100 FTE
- University Outcomes
 - ▣ Bachelor's and Associates Degrees
 - ▣ Master's and Specialist Degrees
 - ▣ Doctoral and Law Degrees
 - ▣ Research and Service
 - ▣ Six-Year Graduation Rate

Tennessee Performance Measures

- Community College Outcomes
 - Associate Degrees
 - Dual Enrollment
 - 1 to 2 Year Certificates
 - Less than 1 Year Certificates
 - Job Placements
 - Transfers Out
 - Workforce Training

Ohio

- Ohio had a form of performance funding in the 1990s
 - ▣ Bonuses, not base funding
- New formula includes 80 percent base funding for 4-year institutions, 100 for community colleges
- New outcomes-based model increases amount tied to performance and aligns with state goals
 - ▣ Increased attainment
 - ▣ Completion
 - ▣ Economic development/workforce needs

Ohio Performance Measures

- Universities
 - ▣ Degree completion
 - ▣ Credit/course completion
 - ▣ Advanced degree completion (doctoral and medical)

Ohio Performance Measures

- Community Colleges
 - ▣ Degree completion
 - ▣ Credit/course completion
 - ▣ Developmental course completion
 - ▣ Transfers

Indiana

- Began in 2003 with a research incentive
- 2012 “Reaching Higher, Achieving More” Challenge
 - Primary goal is for 60 percent of people in Indiana to have postsecondary credentials
 - Workforce needs
- Small portion of base funding to outcomes measures
 - 5.25 percent of all operating funds are performance based in FY 2018

Indiana Performance Measures

- Degree completion
- On-time graduation rates
- At-risk student degree completion
- High-impact degree completion
- Student persistence
- Remediation success

Minnesota

- Passed a performance-based formula in early 1990s
 - ▣ Was never funded or implemented
- Legislature passed new performance-based funding goals in mid-2000s
 - ▣ 5 percent of each system's operations and maintenance appropriation tied to performance
 - ▣ Funded in every biennium except 2010-2011



Minnesota Performance Measures

- **Minnesota state colleges and universities**
 - ▣ Degree completion and academic progress
 - ▣ System efficiency and streamlining costs to benefit students
 - ▣ Post-graduate employment in related field
- **University of Minnesota**
 - ▣ Research Initiatives
 - ▣ Graduation rates
 - ▣ Racial & socio-economic diversity
 - ▣ STEM programming
 - ▣ Reduction in administrative costs

Pennsylvania

- First formula established in 2003 by the Pennsylvania State System of Higher Education Board of Directors and Chancellor
- Formula totaled 8 percent of state appropriations to the system
- Forced institutions into too much competition without clear rewards

Pennsylvania

- Revised the formula in 2010
- Tied to 2.4 percent of total system operations
 - ▣ Reduces volatility
- 10 performance indicators in three groups
 - ▣ Group 1: Mandatory, reflect core principles
 - ▣ Group 2: Universities choose 3-5 additional indicators based on individual missions and strategic plans
 - ▣ Group 3: Universities develop up to 2 institution specific measures

What the research says about performance funding

- Effective at influencing institutional behavior
- Need stability
- Mission differential critical for success
- Important to engage and get buy-in from stakeholders (especially faculty)
- There will be unintended consequences
 - ▣ Higher admission standards
 - ▣ Fewer low-income students enrolled at some institutions

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