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The Demise of Higher Education Performance Funding Systems in Three States

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Over the past three decades, policymakers have sought ways to secure better performance from higher education institutions, whether in the form of greater access and success for less advantaged students, lower operating costs, or improved responsiveness to the needs of state and local economies. As a result, great effort has gone into designing incentives for improved college performance. One of the key incentives that state governments have tried is performance funding, which ties state funding directly to institutional performance on specific indicators, such as rates of retention, graduation, and job placement.

One of the great puzzles about performance funding is that while it has been popular, it has also been very unstable (Dougherty & Hong, 2006; Erisman & Gao, 2006). States that have enacted performance funding have often and sometimes substantially changed the amount of funding they devote to it and the criteria by which they award that funding. Moreover, the number of states enacting performance funding has waxed and waned. Between 1979 and 2007, 26 states enacted performance funding, but 14 of those states dropped it over the years (with 2 reestablishing it recently) (Burke & Minassians, 2003; Dougherty & Reid, 2007).

We are now entering a period of renewed interest. In the past few years, a variety of prominent higher education commissions and researchers have called for greater focus on performance accountability, though often taking forms different from past practice (Blanco, Jones, Longanecker, & Michelau, 2007; Shulock & Moore, 2005, 2007). Moreover, several states have recently enacted or readopted performance funding, including Virginia (in 2005) and Washington (in 2007), and other states, such as Texas and Arizona, have been considering it.

Despite its apparent popularity, however, performance funding has experienced only limited and unstable institutionalization in the years since it was first introduced. This Brief, which draws on a longer report, examines this instability. Based on an analysis of three states that enacted and then eliminated performance funding systems, we identify factors that may lead states to let their performance funding systems lapse.

To understand the experiences of the three states — Florida, Illinois, Washington — we drew upon interviews and documentary analyses that we conducted in these states. We carried out interviews with state and local higher education officials, legislators and staff, governors and their advisors, and business leaders. The documents we analyzed included state government legislation, policy declarations and reports, newspaper accounts, and analyses by other investigators.

Findings

How do we explain why performance funding has often failed to be sustained over a long period of time? To shed light on this, we investigated what happened in three states, each of which experienced program cessation.

Illinois established and then relinquished performance funding and has not reinstated it. Its short-lived performance funding system — known as the Performance Based Incentive System (PBIS) — was created by the Illinois Community College Board in 1997 in a budget proviso. The system was in operation for four fiscal years (1998-99 to 2001-02) before lapsing in 2002.

Washington established performance funding for its public universities and two-year colleges in 1997, via a proviso in the state budget for the 1998 and 1999 fiscal years. This budget proviso was not renewed in 1999. However, the state reestablished performance funding for community colleges in 2007 and began exploring in 2008 the possibility of reestablishing it for four-year colleges.

Florida, meanwhile, established two performance funding systems in the mid-1990s that ran concurrently for several years: the Performance Based Budgeting system and the Workforce Development Education Fund. It then abandoned the WDEF after 2002. The fact that Florida abandoned one system but kept the other is very helpful in understanding the factors that affect whether performance funding systems are retained or not.

The Case of Florida

Florida's performance funding system consisted of two distinct programs. The Performance Based Budgeting (PBB) system, which still exists today, was created in 1994 and took effect two years later. The second performance funding program, the Workforce Development Education Fund (WDEF), was enacted in 1997 and took effect the following year. The WDEF applied to the community colleges and the vocational-technical institutes run by the K-12 districts, while the PBB applied only to the community colleges. The state universities were subject to neither, although the PBB was originally supposed to apply to them as well. PBB typically has amounted to about 1 percent of total state appropriations for the community colleges, while the WDEF accounted for as much as 5.6 percent (Wright, Dallet, & Copa, 2002, p. 163).

Unlike PBB, the WDEF did not provide institutions with additional incentive funding over and above regular state appropriations. Instead, the state withheld 15 percent of the prior year's workforce appropriations, and the colleges and vocational institutes were required to earn those monies back based on their performance on designated indicators.

While PBB continues to this day, the Workforce Development Education Fund ceased after 2002. The demise of the WDEF is attributable to the joint effect of several forces. Our data indicate that state appropriations for higher education were being held down and even cut under the administration of the new governor, Jeb Bush, in order to cope with dropping state revenues and to free up monies to pay for increasing Medicaid costs, to fund new initiatives by the governor, and to allow for tax cuts. Faced with these changes in state spending, the community colleges preferred to take cuts in their performance funding — particularly the WDEF — rather than in their main enrollment-based state funding. They regarded the enrollment-based funding as more likely to grow and be more stable than performance funding, particularly the WDEF, of which they had many criticisms.

In the years since it was launched, the colleges had indeed become quite unhappy with several features of the WDEF program, including its use of a holdback feature to reward community colleges; the lack of increases in funding for WDEF as time passed, despite improvements in community college performance; the program's method of measuring institutional performance against other colleges rather than against a college's own past history; the opaqueness and perceived political nature of how the WDEF funding formula was applied; the use of a questionable means to calculate what a college's workforce funding baseline was; and a perceived lack of sufficient consultation with the colleges in designing the WDEF to begin with.

The community colleges were joined in their lack of enthusiasm for the WDEF by the K-12 districts, which were also subject to the WDEF and which had their own criticisms of it. They found themselves in the unfortunate position of competing against and, by and large, losing to community colleges for WDEF funds.

The dissatisfaction shown by both community colleges and K-12 districts was not counterbalanced by strong enthusiasm on the part of the business community or by strong efforts to support the program by legislative champions of performance funding. In fact, several of the state senators who had been WDEF's main supporters when it was enacted were no longer in office and able to defend it (like all members of the Florida Senate, they were subject to term limits totaling eight years).

While the WDEF disappeared, the Performance Based Budgeting program survived. Certainly it was imperiled by some of the same factors that sank the WDEF, but PBB had a decisive advantage in not being roundly disliked by the community colleges and the K-12 system (which was not affected by PBB). The community colleges liked PBB because it did not hold back state funds but rather took the form of new money over and above their regular enrollment-based appropriation. Moreover, the PBB funds were distributed on the basis of a clear formula that the colleges had a major hand in creating and in later modifying as they saw fit.

The Case of Illinois

The Illinois Community College Board established a performance funding system — the Performance Based Incentive System (PBIS) — in 1997 by means of a proviso in its budget that was accepted by the state legislature. PBIS operated for four fiscal years (1998-99 through 2001-02) before lapsing after fiscal year 2001-02. The money allocated to colleges was in addition to the main enrollment-based state funding; the PBIS did not involve a holding back of funds as in the Florida WDEF program.

The amount of funding involved was small. Funding allocations for the PBIS were $1 million in fiscal year 1998-99, $1.5 million in fiscal year 1999-2000, and $2 million in fiscal year 2000-01. These funds amounted to just 0.4 percent of state appropriations to the community colleges in fiscal year 2000-01 and 0.1 percent of total community college revenues from all sources (including tuition, local tax revenues, and other sources) (ICCB, 2002, tables IV-5 and IV-14). Appropriation requests were made for the fiscal year 2002-03 and 2003-04 budgets, but were not granted, and further requests stopped after that time.

The PBIS sought to promote six statewide goals, for which 60 percent of the PBIS funding would be allocated, and one district goal for which 40 percent of the PBIS funding would be allocated. The six statewide goals were the following: (1) student satisfaction; (2) student educational advancement (number who earned a degree or certificate, transferred to a two-year or four-year institution, or were still enrolled at the end of a five-year period); (3) student success in employment/continued pursuit of education (number of graduates employed or currently enrolled in college); (4) student transfers (number who transferred to a four-year institution within five years of college entrance); (5) proportion of population served; and (6) academically disadvantaged students' success (percentage of remedial hours earned of total remedial hours attempted for the fiscal year). With respect to the one district-level goal, each community college district was to select one of the following areas on which to focus: workforce preparation; technology; or responsiveness to local need (ICCB, 2000).

Our data indicate that the primary cause of the demise of performance funding in Illinois was the state's dire fiscal crisis. Entering the new millennium, state revenues dropped sharply — from $47.3 billion in fiscal year 2000-01 to $41.1 billion in fiscal year 2001-02, a drop of 13 percent in only one year. As a result, the state dramatically reduced appropriations for higher education. State funding for community colleges decreased from about $324 million in fiscal year 2001-02 to $289 million in fiscal year 2003-04, and, by fiscal year 2007-08, funding had increased only to $298 million (ICCB, 2008, tables IV-2, IV-7). In the face of this drop, the state community college board instituted reductions in restricted, categorical funding (such as performance funding) for the purpose of protecting as much as possible the primary method for funding community colleges, which is based on enrollments.

While the fiscal crisis was certainly the primary reason for the cessation of the PBIS, other factors played a role in determining why PBIS was not saved or resuscitated as the state's revenues improved to some degree. The leaders of the Illinois Community College Board who had originally championed PBIS were no longer in office, and the new governor, Rod Blagojevich, appeared to have little interest in performance accountability in higher education. What is more, this evaporation of leadership was not counterbalanced by strong support from other quarters. The community colleges were not strongly supportive of the PBIS because it brought them little money but significant administrative burdens. And the PBIS had never attracted broad and deep support either in the legislature or in the business community.

The Case of Washington State

In 1997, Washington State adopted performance funding for its public higher education institutions through a provision in the state's higher education appropriation for the 1997-1999 biennium. Under this funding program, the state withheld a small portion of appropriations and required institutions to achieve specified performance levels to recover the full amount of withheld funding. The withheld sum consisted of $10.7 million for four-year colleges and $6.8 million for two-year colleges, amounting to 0.8 percent of the state's total appropriations for higher education (WSHECB, 2000; WSHECB, 2001, p. 75; WSHECB, 2006, App. 1, p. 1; WSBCTC, 1999a, 1999b).

In order to receive performance funds in the first year the system was in place, colleges were required only to create an implementation plan; during the following year, institutions had to meet certain performance levels in order to receive back withheld funds. Four-year colleges were required to meet standards relating to persistence, completion, faculty productivity, graduation efficiency (proportion of credits earned to credits needed to graduate), and one measure chosen by the college. Two-year colleges were required to meet standards relating to transfer rates, course completions, wages of occupational graduates, and graduation efficiency.

In 1999, when it came time for the Washington state legislature to adopt a new budget for the following biennium, rather than simply renew the higher education performance funding proviso, the legislature removed the funding component and simply adopted a performance reporting system for the 1999-2001 biennium.

Our data indicate that several factors played a role in the rapid demise of the 1997-1999 performance funding system. First, as a result of the 1998 election, control of the Washington Senate switched from Republican to Democratic, while in the House each party held an equal number of seats. Democrats, who were now the dominant party in the legislature, were not as supportive of tying funding to institutional performance as Republicans had been, and they were more receptive to the preferences of the higher education institutions.

Second, for their part, higher education institutions — a somewhat powerful political force in Washington State — were displeased with the 1997-1999 performance funding system. Reasons for institutional opposition included the perceived punitive nature of the holdback funding design, the difficulty some institutions had in meeting performance criteria, an incongruity between the performance measures adopted by the legislature and the performance goals that institutions believed to be important, a belief on the part of institutions that the 1997-1999 system did not take sufficient account of the diversity of institutional missions and types of education in the state, and their belief that performance funding was duplicative of existing accountability mandates.

Third, the State Board for Community and Technical Colleges and the Higher Education Coordinating Board were frustrated by the fact they had not been given much time to deliberate on the performance funding measures before they were enacted. And, finally, the fact that the 1997-1999 performance funding system was established through a budget proviso rather than a statute made it relatively easy to eliminate.

Conclusion and Implications

One of the great puzzles about higher education performance funding is that it has been both popular and unstable. To shed light on the causes of the unstable institutionalization of performance funding we have examined the cases of three states — Illinois, Washington, and Florida.

The Florida case is very instructive because, while one performance funding program was terminated (WDEF), another one (PBB) was kept. Unlike the WDEF, PBB did not provoke strong opposition on the part of higher education institutions because it did not have a holdback feature and because the colleges had a strong voice in creating and later modifying the funding formula.

In analyzing the causes for the cessation of performance funding in these three states, we have certainly found relevant factors that are unique to each case. Nonetheless, the demise of performance funding systems in these states also exhibit important commonalities:

A sharp drop in higher education funding (present in Florida and Illinois). In Florida, this was due to a decline in state revenues, increasing Medicaid costs, and the governor's push to cut taxes and fund other initiatives of particular interest to him. In Illinois, it was due to a sharp drop in state revenues and seeming gubernatorial disinterest in higher education accountability. Faced with decreases in state funding, higher education institutions in both Florida and Illinois preferred to cut out performance funding in order to protect their traditional enrollment-based funding.

A lack of support by higher education institutions for the continuation of performance funding (all three states). In the case of Florida and Washington, criticism of performance funding by higher education institutions was founded in good part on their dismay over the form that it took. In both these states, the performance funding systems that were discontinued held back a portion of the state's appropriation to a college, with the college then having to earn back the withheld amount through improved performance over the following year. Many colleges disliked the funding uncertainty this caused because they feared (with some justification) that they would not be able to win back all the withheld funding.

The loss of key supporters of performance funding (all three states). In two states, legislators had been key champions of performance funding at its inception. But at the time of its demise, they either had left office (Florida) or lost power as their party moved into the minority (Washington). In Illinois, the key loss of support was on the part of the Illinois Community College Board. Its leaders had spearheaded the effort to establish performance funding, but were no longer in office six years later to make the case for preserving it.

Weak support by the business community (Florida and Illinois). In neither of these two states did the business community actively champion performance funding for higher education, and it never became a key backer.

The establishment of performance funding through a budget proviso rather than a statute (Illinois and Washington). Enacting performance funding through a budget proviso made elimination easy because it did not require repealing legislation; it merely required not putting a performance funding item into the next budget.

These factors point to three key tasks that advocates of performance funding must undertake if they are to create a sustainable basis for such a program. First, a way of financing performance funding must be found that insulates it from the ups and downs of the state revenue cycle and that provides funding that colleges regard as "new" money, rather than money that is being held back or coming at the expense of their enrollment-based funding. Without resolving these finance issues, performance funding is highly vulnerable to being jettisoned when state funding for higher education drops or plateaus.

Second, performance funding advocates need to find ways of better securing the support of public colleges and universities themselves. Their support might save performance funding in a time of fiscal trial, while their opposition will very likely doom it. Giving colleges and universities a role in designing the performance funding system makes it more likely that the funding structure will be one that they find comfortable, and it makes it more likely that the performance indicators used in the system will reflect missions the institutions value.

Third, if they wish to enhance the sustainability of performance funding, advocates need to expand the range of its supporters. One way to do this is to draw in social groups that are not moved primarily by the discourse of efficiency but instead are concerned more about educational effectiveness, particularly for underserved students. These equity-oriented actors may be attracted by performance funding if it includes measures that reward colleges for enrolling, effectively educating, and graduating students from underserved populations.

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