



**Role of Performance Funding in
Higher Education Reform
Agenda's**
A Glance at State Trends

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North Dakota Legislature
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Overview

- Why Performance Funding
- Performance Funding Trend's: Past and Present
- Performance Funding 2.0: A look at state models
- Summary and Impact

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What is Performance Funding?

- *"PERFORMANCE FUNDING IS A METHOD OF FUNDING PUBLIC INSTITUTIONS BASED NOT ON INPUTS, SUCH AS ENROLLMENTS, BUT ON OUTCOMES, SUCH AS RETENTION, DEGREE COMPLETION, AND JOB PLACEMENT...."*
- *"THE PRINCIPAL RATIONALE FOR PERFORMANCE FUNDING HAS BEEN THAT PERFORMANCE FUNDING WILL PROD INSTITUTIONS TO BE MORE EFFECTIVE AND EFFICIENT, PARTICULARLY IN A TIME OF INCREASING DEMANDS ON HIGHER EDUCATION AND INCREASINGLY STRAITENED STATE FINANCES."*

CCRC Working Paper #22



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Why Performance Funding: The Degree Matters

- The United States is falling behind other countries in educational attainment
- For first time in nation's history, current generation of college-age Americans will be less educated than their parents' generation
- Estimates that nearly 2/3rds of jobs in American will require some form of postsecondary education or training by 2018



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Why Performance Funding? The Degree Matters

- By 2018 we will need to increase degree production by 10 percent a year to meet market demand
 - Colleges and universities will need to graduate nearly **23 million more students than they are currently on track to graduate**
 - This equals over 275,000 additional degrees per year



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Why Performance Funding? Money Matters

- Without **significant changes** to reduce costs and embrace less expensive ways of delivering higher education, it is estimated that it will cost an additional \$33 billion to meet the attainment needs.
 - State appropriations: 3 percent per year increases **or**
 - Tuition Increases: 4.4 percent annual increases in tuition



Source: National Center for Higher Education Management Systems and Delta Cost Project, "Investigating the New Normal: Lumina Productivity Conference Paper, 2010"
<http://www.collegeproductivity.org/sites/default/files/LuminaNewNormalRptEnlRv.pdf>

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Why Performance Funding

- Disconnect between higher education funding and statewide priorities
- Link dollars more directly to these priorities:
 - More graduates
 - High-needs fields
 - At-risk students
 - Meeting needs of state



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Toward an Integrated State Finance Policy to support student completion

Goal of Public Policy	Major financial policy levers	Align w/Completion
Institutions	State Subsidy	Course and degree completion At-risk students High need fields
Students	Student financial aid, tuition policy	Preparation Persistence Predictability Flexibility



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The ABC's of Performance Funding

Accountability:

- More graduates in high demand fields
- More focus on success of underserved populations

Better Performance:

- Efficient and cost effective instructional delivery focused on completions

Collaboration:

- Particularly among two and four year institutions



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Performance Funding Over the Years

- Performance Funding 1.0: 1980-2004
- Performance Funding 2.0: 2005-Present



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Performance Funding 1.0: Many States Tried It

- | | |
|--|---|
| <ul style="list-style-type: none"> • Arkansas* • California* • Colorado* • Connecticut • Florida* • Idaho • Illinois* • Kansas • Kentucky* • Louisiana* • Minnesota • Mississippi* • Missouri | <ul style="list-style-type: none"> • New Jersey • New Mexico* • North Carolina • Ohio* • Oklahoma* • Oregon • Pennsylvania* • South Carolina • South Dakota • Tennessee* • Texas* • Virginia* • Washington |
|--|---|



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South Carolina's 1.0 Experiment

- Very complex – large number of indicators and processes
- Threatening – some saw it as a way of shrinking or closing inefficient or ineffective campuses
- Terminated



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Performance Funding 1.0 v. 2.0

Version 1.0

- Multiple Priorities
- Complex
- Competed with access agenda
- Insufficient or poor data
- Lack of institutional buy-in
- Add on or insignificant amount of institutional funding

Version 2.0

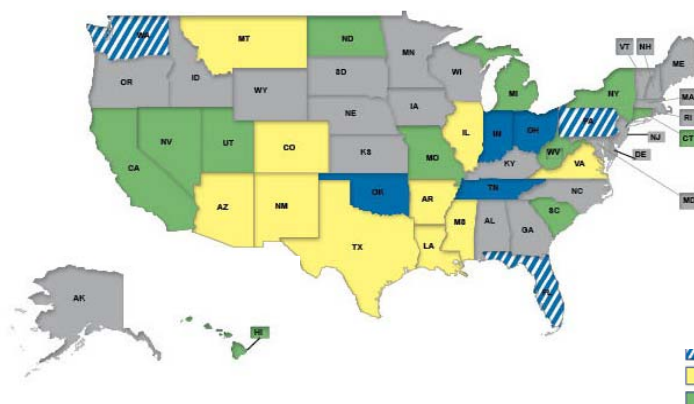
- Focused on completion
- Simple
- Supports access agenda
- Good data
- Process includes institutions
- Embedded in base or larger proportion of state support



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Performance Funding 2.0: State Activity



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Performance Funding 2.0

Some examples:

- Tennessee
- Indiana
- Ohio



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PF 2.0: Snapshot of State's on the

Louisiana GRAD Act

- 25 percent of state funds
- completion/ transfer and articulation/workforce/research, including graduates ages 25 and older, racial/ ethnic minorities, low income, STEM fields

Arkansas Senate Bill 766

- Beginning 2013-14; 5 percent increasing to 25 percent
- Course and degree completion, critical needs of state, success of economically disadvantaged students

Illinois HB 1503

- Formula must Encourage the success of low-income, minority and first-generation students, recognize unique missions and have extra considerations for two-year institutions.
- No percent specified



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Tennessee

Complete College Tennessee Act of 2010

- Comprehensive legislation
 - Outcomes based funding formula
 - 100 percent of state allocation
 - Metrics for 4-year and 2-year institutions
 - Weights vary across Carnegie Classification
 - Performance funding (since 1979)
 - Quality control
 - Bonus
 - Mission profiles and common course numbering



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Tennessee: Development Process

- THEC convened a Formula Review Committee to discuss and debate the new formula design.
- The Committee included representatives from higher education and state government.
- Meetings each month in spring and summer 2010.
- Throughout the process, THEC consulted outside experts.

Source: Tennessee Higher Education Commission



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Tennessee: Development Process

- Formula Review Committee
 - Broad membership
 - Multiple formal FRC meetings
 - Explicit institutional feedback and input
 - Regional town halls
 - Staff background briefings with UT, TBR, Constitutional officers and legislative members
 - External consultant input

Source: Tennessee Higher Education Commission



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Tennessee: Development Process

- Institutional Involvement
 - Institutions played a key role in the process.
 - Selected campus presidents, CFOs and provosts were members of the Formula Review Committee.
 - Presidents/chancellors were queried for their suggestions on what outcomes to include and the priority of the outcome



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Tennessee: Development Process

- Considering Institution Missions
 - Institutional mission is a critical component of the CCTA and the outcomes-based formula.
 - Some institutions do not focus on research and doctoral degrees, while others do.
 - Some institutions focus on student access and are less selective in admissions
- Resolution: **Weight outcomes differently based on institutional mission**



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Tennessee: Development Process

Weighting the Outcomes

- Gave each institution opportunity to prioritize outcomes
 - Four-year institutions weights are distributed based on Carnegie classification of institution
 - Two-year institutions weighting structure is uniform and reflects institutional priority of the various outcomes



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TN Outcomes Based Funding Four-Year Institution Outcome Metrics

Student Progress Metrics	Student Completion Metrics	Inst. Efficiency & Functions Metrics
Students accumulating 24 hours	Bachelor and Associate degrees	Research and service expenditures
Students accumulating 48 hours	Doctoral and Law degrees	Degrees per 100 FTE
Students accumulating 72 hours	Masters and Ed Specialist degrees	Six-year graduation rate
	Transfers out with at least 12 credits	



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TN Outcomes Based Funding Two-year Institution Outcome Metrics

Student Progress Metrics	Student Completion Metrics	Inst. Efficiency & Functions Metrics
Students accumulating 12 hours	Associates granted	Work force training
Students accumulating 24 hours	Certificates granted	Job placements
Students accumulating 36 hours	Transfers out with at least 12 credits	Dual Enrollment Students
Remedial and Developmental Success		Awards per 100 FTE



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Tennessee: Implementing the Formula

- Phase-in Factor
 - Start where enrollment formula left off
- It includes any outcome achieved by any student at any time (part time, returning students, transfers, etc.).
- All state funding is back up for grabs every year.
- No institution is entitled to some minimal level of appropriations that is based on prior-year funding.
- State appropriations have to be earned anew each year.



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Indiana: Performance Funding History

- Research incentive in 2003
- Budgets incorporating performance based allocations passed legislature in 2007, 2009 and 2011.
 - 2007: increase in # degrees completed, # degrees completed by low-income students, on-time graduation rate, transfer from two-year to four-year degree programs, research incentive, workforce training
 - 2009: Same indicators plus:
 - began shift from “attempted credit hours” to “completed credit hours”
 - Workforce training for Ivy Tech CC's and Vincennes University



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Indiana

- 2011: Formula maintained; report by CHE

"Before developing higher education biennial request instructions for the biennium beginning July 1, 2013, and ending June 30, 2015, the commission for higher education shall collaborate with the public state educational institutions on a study of the Indiana's performance funding mechanism. The study shall involve a review of performance funding models in other states, detailed consideration of the funding measures and methodology, and recommendations for use of different types of measures and weighting of such measures to better recognize the unique missions of the various types of campuses (e.g. research; four year comprehensive; two year; and community colleges). Such deliberations shall result in recommended revisions to the mechanism being used in the biennium beginning July 1, 2011 and ending on June 30, 2013..."



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Indiana: Cumulative Effect

- Distributed 2009 ARRA funds based on performance indicators
- 2010 mid-term budget cuts
 - \$150 million (6 percent)
 - Cuts distributed based in part on student persistence and degree indicators
- At least 5 percent of allocation distributed based on performance formula
- All new dollars will be allocated based on performance indicators



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Ohio: PF 1.0

- Ohio's Challenge Programs
 - The first of the four "Challenges" began in the 1980s
 - Success, Research, Access, Jobs
 - Total funding for the Challenges equaled about 10% of total state operating subsidy for campuses by late 1990s
- The past successful implementation of performance funding helped set the stage for significant changes in FY 2010 and FY 2011



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Ohio: PF 2.0

- Strategic plan was mandated by the legislature
- Explicit goals for the new public agenda:
 - Enroll and graduate more Ohioans.
 - Increase state aid, improve efficiency, and lower out of pocket expenses for undergraduates.
 - Increase participation and success by first-generation students.
 - Increase participation and success by adult students.
- Each goal has a specific metric by which progress toward the plan is assessed annually.



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Ohio PF 2.0

- Major shift to success-based formulas
- Creation of three new formulas:
 - University main campuses
 - University regional campuses
 - Community colleges
- Endorsed by the Governor and approved by the General Assembly in H.B. 1 in 2009



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Ohio: PF 2.0 University Main Campus

- Shift from enrollment-based to course- and degree-completion based formula
 - Cost-based course and degree allocations
 - Empirically-based adjustment (extra weighting) for at-risk students
 - Degree-completion component to be phased in slowly
- Set asides for doctoral and medical funding
 - Doctoral and medical funding to become more dynamic and performance-based
- Effects phased in over time
 - 99% stop loss in FY 2010
 - 98% stop loss in FY 2011



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Ohio: PF 2.0 University Regional Campus

- Shift from enrollment-based to course-completion based formula
 - Cost-based course and degree allocations
 - Empirically-based adjustment (extra weighting) for at-risk students
- Plan to add degree-completion component in 2 to 4 years
 - Time to permit regional campuses to adjust their missions to focus more on upper-level undergraduate enrollments
- Effects phased in over time
 - 99% stop loss in FY 2010
 - 98% stop loss in FY 2011



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Ohio: PF 2.0 Community Colleges

- Enrollment remains major source of funding
 - 5 percent increasing annually
- “Success Points”
 - Ohio Association of Community Colleges Recs:
 - Developmental Education
 - 15 semester credit hours
 - 30 semester credit hours
 - Degrees earned
 - Transfer

Source: Recommendations to Chancellor Fingerhut on the use of Success Points in the community college funding formula, OACC (2010)



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Ohio: PF 2.0 Allocation in FY 2011

- FY 2011
 - Main Campuses
 - 68% course completion
 - 10% degree completion
 - 15% strategic plan
 - Regional Campuses
 - 90% course completion
 - 10% degree completion



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PF 2.0 Summary: Common Themes

- Begin with a State Goal
- Use a simple approach
 - Focus on completion
- Find ways to protect against large redistribution
 - Year-over-Year increases or multi-year averages
- Give Institutions Flexibility
- Take into account differences
 - Missions differ, so should performance measures
- Include incentives for graduating at-risk students



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PF 2.0 Summary: Common Themes

- Put it in the base
 - Not a bonus “add-on”
- Make the Money Meaningful
 - Cumulative Effect: Existing Dollars, New Dollars
 - Phase-in
- Consider Credentials
- Value of degree to state or student
 - STEM



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PF 2.0 Summary: Accounting for Mission Differentiation

- Formulas (OH)
- Metrics (OH, TN, IN, PA)
- Weights (TN)



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Performance Funding – Does it Work?

- Pennsylvania (Since 2002)
 - a nearly 10 point increase in overall four-year graduation rates, including increases of 6 and 9 points for African American and Hispanic students, respectively; and
 - a jump in second-year persistence rates, especially for Hispanic students, who saw a 15-point persistence improvement.



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Performance Funding: Does it Work?

- Ohio's Challenge Programs (1990s)
 - **Success Challenge**
 - Median time to degree for in-state bachelor's degree graduates fell: 4.7 years in 1999 to 4.3 2003
 - Increased the percent of in-state bachelor's degree graduates earning their degree in four years or less from 34 percent in 1999 to 43 percent in 2006



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Resources

- Lumina Foundation for Education
 - Four Steps to Finishing First in Higher Education (<http://www.collegeproductivity.org/4steps>)
 - Productivity Strategy Labs (<http://www.collegeproductivity.org/strategy-labs>)
- AEI:
 - *The Ohio Experience With Outcomes-Based Funding*, by Rich Petrick
(<http://www.aei.org/docLib/The%20Ohio%20Experience%20with%20Outcomes-Based%20Funding%20by%20Richard%20Petrick.pdf>)
- HCM Strategists:
 - Performance Funding in Indiana: An Analysis from the Research and Other State Models
(http://www.hcmstrategists.com/content/Indiana_Report_12.pdf)



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Questions?

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