Performance Funding 2.0
From Ideas to Action

Sacramento, CA

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Performance Funding

- New Wave
  - Finally, Evidence Based Funding for Higher Education

- Just another Fad
  - This, too, will pass
# The Western Landscape Outcome Based Funding

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<td>Arizona</td>
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<td>California</td>
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<td>Legislature, Coordinating Board</td>
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<td>Washington</td>
<td>2yr Coordinating Bd</td>
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<td>Wyoming</td>
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Principles for Performance Based Funding

1. Identify key stakeholders
2. Establish broad consensus on a public agenda
3. Assess viability of performance funding
4. Identify appropriate measures
5. Define adequate institutional progress
6. Allocate sufficient funds
7. Link with state appropriations
8. Foster favorable conditions for compliance
9. Prevent gaming the system
10. Evaluate and adjust
1. Identify key stakeholders

Performance funding models may encounter stiff opposition without the involvement of key constituencies

- Postsecondary institutions to be subjected to performance funding
  - Especially important for institutional leaders to be involved in design of performance funding model

- Equity-oriented non-profit organizations
  - Address concern that performance funding results in more selective admissions

(Dougherty, Natow, & Vega, 2012)
1. Identify key stakeholders

**Best In The West**

- **Arizona:** Imbedded in Lumina “Making Opportunity Affordable (MOA)” efforts; significant Governor involvement
- **New Mexico:** Created a broad based group to develop and accept concept – higher ed, state gov, business, community; significant Governor involvement
- **Nevada:** very significant buy in at all stages by education leadership; significant Governor involvement
2. Establish broad consensus on a public agenda

- A public agenda should drive postsecondary reform efforts
  - Goals are the horse; process is the cart
  - Put the horse in front of the cart
  - Goals must drive outcomes funding

- Performance funding model may fail without bipartisan acceptance

(Jones, 2012)
2. Establish broad consensus on a public agenda

Best In The West
- All pretty good
- New Mexico – neat and clean
  - Graduates for Economy of the Future
  - More
  - More strategic – Economic Development
  - Greater equity in student outcomes
  - Research for Economy of the Future

Colorado
- Completion agenda
- Reduce equity gaps

Not so good
- Oregon – cart before the horse
3. Assess viability of performance funding

- Take note that performance-based funding has not yet been empirically validated as an effective means of improving student outcomes (Fryar, 2011; Sanford & Hunter, 2011; Shin, 2010; Shin & Milton, 2004; Volkwein & Tandberg, 2008)

- But this research focused mainly on aspects of Performance Funding 1.0, not 2.0
- Also doesn’t recognize the most effective performance funding – enrollment based funding and status quo funding
3. Assess viability of performance funding

- Determine whether your state’s ultimate goals for postsecondary reform can be addressed through performance funding.

- Ensure you are adopting performance funding because it will be effective, not because it will be easier than other reforms (e.g., improving PK-12 education, increasing college affordability).
3. Assess viability of performance funding

If your happy, and you know it .....  
  Don’t abandon what is working

Best In The West

New Mexico
  Strategic Assessment of:
    Where they were/Where they wanted to be
    And, why more of the same wouldn’t get them there

North Dakota and Wyoming
  Why mess with a good thing
4. Identify appropriate measures

- Promote institutional focus on state priorities by identifying only 4-5 outcomes aligned with the public agenda (Jones, 2012)

- Consider both intermediate and ultimate outcomes (e.g., course completions, first-year retention, degree completions) (Jones, 2012)

- Account for differences in student characteristics
  - Graduation and retention: need to consider differences in student intent, transfer, and student background characteristics (e.g., academic preparedness, socioeconomic status, ethnicity)
4. Identify appropriate measures

- Preserve differentiation of institutional missions
  - Different measures for different types of institutions (Jones, 2012)
    - E.g., Community colleges: completion of 12/30 credits; completion of developmental education coursework; transfer-ready or work-ready status (Ewell, 2011)

- Use different resource pools for different types of institutions (Jones, 2012)
  - E.g., Ohio: main campuses, regional campuses, community colleges
4. Identify appropriate measures

- Maintain institutional focus on the success of underserved students
- Sole specification of broad outcome measures (e.g., “graduation rate”) can inadvertently incentivize selective admissions policies
- Ohio model: assigns greater weight to at-risk student completions
- Tennessee model: 40 percent bonus for low-income student completions

Challenge: properly defining “at-risk”

(Dougherty & Reddy, 2011)
4. Identify appropriate measures

Measures should reflect quantity AND quality: A sole focus on quantity of graduates can incentivize grade inflation and low academic standards (e.g., eliminating course requirements) (see Kiley, 2011)

- NGA recommendation: “require public colleges and universities to provide evidence that improvements in completion and attainment are not occurring at the expense of learning” (Reindl & Reyna, 2011)

- Incorporate value-added learning outcomes into performance funding or performance accountability reporting (see VSA, 2012)

- Specified learning outcomes should reflect preparation for vocation and citizenship (if that’s what you value)
4. Identify appropriate measures

**Best in the West**

South Dakota – Keep It Simple
- Credit Hours, Completions (Number, not Rate), Sponsored Research
- Weighted by level and cost
- Similar to Nevada, Tennessee, and Arizona

New Mexico
- Tiered: Research, Baccalaureate, and Associate
- Valid and Reliable measure of educational attainment and workforce development
4. Identify appropriate measures

Best in the West

- Washington
  - Momentum points for Community Colleges

- Oregon, New Mexico, Nevada
  - Completed Courses as an interim measure

Not so good:

- South Carolina
  - Measuring everything = Measuring nothing
5. Define adequate institutional progress

- Ideal performance levels should balance aspiration and viability

- Funding based on yearly progress maintains focus on continuous improvement (Jones, 2012)
  - Should allow currently high-performing institutions to compete for performance funding (ceiling effect)
5. Define adequate institutional progress

Best in the West

- Virtually all
  - Focus on “improvement” rather than “achieving the aspirational target”

South Dakota 2.0

- Focus on Increase in Numbers of Graduates, not just Number of Graduates (Do the numbers)

Not so good

- Oregon: Aspirational target – 40/40/20– is unachievable
6. Allocate sufficient funds

- 5 percent or less of state funding appears to be ineffective in increasing graduation rates (Sanford & Hunter, 2011)

- But excessive performance funding could yield strong opposition and unintended consequences (Dougherty & Reddy, 2011)
6. Allocate sufficient funds

**Best in the West**
- New Mexico
  - Base funding; but Base redefined
  - Modest start, but building to much more

**South Dakota**
- Shared sacrifice
  - Institutions in base reallocation
  - State in increased appropriation

**Tennessee** – 100% (phased in)

**Indiana** – Applies to both increases and decreases in funding
6. Allocate sufficient funds

- Not So Great
  - Colorado
    - 25% sounds great
    - But delayed implementation,
    - And only on increased appropriations
  - Arizona
    - Only on new money
7. Link with state appropriations

- The Conundrum

  - Performance funding is susceptible to budgetary cuts during fiscal shortfalls if it is not embedded in regular state appropriations.
  
  - Institutional support is highest when performance funding is treated as a new pot of money beyond regular base funding.

- South Dakota has broken this juggernaut

  (Dougherty, Natow, & Vega, 2012)
7. Link with state appropriations

- Best in the West
  - None, really
- No one really thinking **ATFA**
  - Integrating Appropriations, Tuition, and Financial Aid
  - Almost always tied only to appropriations; ignoring the others
  - Washington comes closest with nexus to financial aid
3. Foster favorable conditions for compliance

- Ensure adequate institutional resources (A governance responsibility)
  - Institutional research staff
  - Retention and graduation programs, student affairs staff
  - Technical assistance for identifying and adopting best practices

- Remove state regulations that may thwart institutional autonomy needed to adapt (A legislative/gubernatorial responsibility)
9. Prevent (or shape) gaming the system

Gaming the system: attaining performance funding without institutional improvement
- Setting low institutional goals
- Deceptive practices

- Clearly articulate “valid” responses to accountability demands
- Monitor institutional responses
- Foster faculty support for performance funding model

(Dougherty & Reddy, 2011)
9. Prevent (or shape) gaming the system

- Best in the West

- Nevada and Colorado: Ensuring the sum of the parts equal the desired whole

- Most
  - Clear goals driving desired behavior

- Not so much
  - Colorado 1.0 – Institutional Compacts not aligned with state goals -- The snookered the state folks
10. Evaluate and Adjust

- Are institutions granted performance awards based on improved performance or some other factor (e.g., enrollment)? (Wright, Dallet, & Copa, 2002)

Evaluation necessitates adequate data collection capacities
- State Longitudinal Data System
- Value-added assessment tests of learning

Experimentation could reveal need for alternative incentive structures
- Increasing size of incentive
- Linking performance with institutional autonomy rather than funding
- Linking funding with institutional practices rather than student outcomes
Tennessee
The Favorite of Many

- **Metrics**
  - Progression
    - Remedial Success (2 yr)
    - Credit Accumulation (all institutions)
  - Completion
    - Certificates, Transfers, Degrees
  - Economic Development
    - Job Placement
  - Process Efficiency
    - Workforce Training, Dual Enrollment, Awards/100 FTE
Design Features

- 100 Percent of Base Allocation

Phase in
- Began where old formula finished
- Phased in over 4 years
- Stop Loss Limit

Issues
- Complexity – doesn’t well fit a legislative component
- Is Process Efficiency, as measured, an outcome goal?
Performance Funding

- A good idea whose time has come

- But chose your medicine
  - Performance, or
  - Process

- No need for both