Performance-Based Funding: The National Landscape

Presentation at Iowa Board of Regents Performance-Based Funding Task Force

January 21, 2014
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The recession and decline in state revenues has caused a shift in the proportion of public college revenues generated from state aid to tuition and fees.
Many policymakers are no longer satisfied with providing incremental funding increases or using enrollment-driven formulae for public colleges and universities.
Increasing accountability coupled with declining revenues has led many states to implement strategies to hold colleges accountable in meeting state needs and to ensure quality. These strategies range from uniform performance indicators to performance-based funding (PBF).
PBF is a key policy response to the call for greater transparency and accountability in public higher education.
What is PBF?

• “A system based on allocating a portion of a state’s higher education budget according to specific performance measures.”
  
  (Miao, 2012, p. 1)

• (PBF) “rewards institutions that meet state goals,...is based on outputs instead of inputs,...(and) the more goals that institutions meet, the more funding they receive.”
  
  (Blankenberger, 2011, slide 12)
Brief History of PBF

• The first state to attempt PBF was Tennessee in 1979, and as many as 30 states have implemented PBF or some consideration of performance in budgeting processes (Burke & Modarresi, 1999)

• Typical percentage of funding allocated based on performance ranged from 1-5% (Sanford & Hunter, 2011)

• South Carolina was the most extreme early example – 37 performance indicators and 100% of public funding (Alexander, 1998)
Three Models of PBF

• **Output-based Funding Formula**
  - Fiscal incentives for positive improvement in specific metrics. Utilized within the state funding formula as a portion of the annual base appropriations. Often weighted for institutional mission. Allows institutions to increase their total appropriations through improved performance on identified metrics.

• **Performance Set-asides**
  - A percentage of the state funding is reserved to be awarded to high performing institutions. May be a portion of the annual base appropriation or separate bonus funding. Institutions compete with each other for the set-aside funding by achieving a targeted measure of performance set prior to the year.

• **Performance Contracts**
  - Funding is awarded if the institution meets the previously agreed upon performance goals set forth in the contract with the state.

(Miao, 2012)
Types of Performance Indicators

- **General outcome indicators:** graduation rate, number of degrees/certificates awarded, number of degrees/certificates awarded per FTE, research or grant funding awarded, job placement rates, student success on licensing exams

- **Progress outcome indicators:** number of students completing 12, 24, 48 and 72 semester credits, developmental course completion, retention rates, gateway course completion, course completion after transfer, dual enrollment credit completion

- **Subgroup outcome indicators:** low-income status, at-risk status, Pell Grant recipients, nontraditional students, first-generation students, minority group identification

- **High-need subject outcome indicators:** STEM fields, nursing, job placement rates in high-need fields

# Comparing Design Types

<table>
<thead>
<tr>
<th>PBF 1.0</th>
<th>PBF 2.0</th>
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</thead>
<tbody>
<tr>
<td>• Often designed without input from higher education leaders</td>
<td>• Joint planning process</td>
</tr>
<tr>
<td>• Institutional goals and mission disregarded</td>
<td>• Alignment with the state’s agenda and institutional priorities</td>
</tr>
<tr>
<td>• Emphasis on outcomes measures, minor attention to progress measures</td>
<td>• Soft landing: learning year and/or stop loss</td>
</tr>
<tr>
<td>• Small percentage of <strong>bonus funding</strong> - often new money</td>
<td>• Progress and completion measures</td>
</tr>
<tr>
<td></td>
<td>• Weighted formula to ensure access and equity</td>
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<td></td>
<td>• Percentage of base appropriations</td>
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Performance-Based Funding: The National Landscape Policy Brief

As of September 2013, across the 50 states and the District of Columbia:

- Performance-based funding (PBF) is a key policy response to the call for greater transparency and accountability in public higher education.
- 39 states are currently active in PBF, 23 states have PBF in place, "as in transition for PBF," and 10 have had formal discussions about PBF.
- Many new PBF models, known as PBF 2.0, include intermediate measures, strategic positions of state funds dedicated to performance, and stakeholders input.
- Despite recent attention, there is not compelling evidence of the link between PBF and improved student outcomes at this time.
- States considering PBF implementation or modifications are encouraged to consider evidence-based research and stakeholder engagement, set specific measures, linking measures with state goals for workforce and economic development, gradual phase-in, and commitment to significant funding tied to PBF.

Table 1: PBF Activity by State

<table>
<thead>
<tr>
<th>Performance-Based Funding Activity</th>
<th># of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBF as Planned</td>
<td>32</td>
</tr>
<tr>
<td>Transition to PBF</td>
<td>7</td>
</tr>
<tr>
<td>Formal Discussions of PBF</td>
<td>10</td>
</tr>
<tr>
<td>No Formal Activity Planned</td>
<td>2</td>
</tr>
</tbody>
</table>

Notes: the following brief is embargoed until 19 September 2013 at 12:01 CDT


IOWA STATE UNIVERSITY
PBF is a Moving Target
### Updates to PBF State Activity Table

<table>
<thead>
<tr>
<th>State</th>
<th>Status</th>
<th>Amount of Performance Based Funding</th>
<th>Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>Formal discussions</td>
<td></td>
<td>The Alabama Department of Postsecondary Education (overseeing community and technical colleges) commissioned a study in 2013 to propose a new funding formula to allocate state appropriations.</td>
</tr>
</tbody>
</table>
| Hawai‘i | In place 2008 HB2978 | Up to 2% of annual appropriations | Using 5 year averages as baseline data, public universities and community colleges metrics include the following:  
- Number of transfer students  
- Number of graduates  
- Number of job placements in major workforce shortage areas |
| Iowa | Formal Discussions | | The Board of Regents has formed a Task Force to review the effectiveness of the current funding formula. Performance-based funding options will be discussed. |
| Kansas | In place Statute 74-3202d Performance agreements | New funds, in excess of total appropriations received the previous fiscal year, are available for performance funding | Institutions submit performance agreements every three years, which are evaluated annually for funding. Performance indicators for all sectors include:  
- First year to second year retention rates  
- Number of certificates and degrees awarded  
- Graduation rates  
- Student performance on institutional assessments or quality measures.  
  Additional sector-specific measures are also in place.  
  Public universities:  
  - STEM field degrees and certificates  
  - Peer-related quality measures  
  - Selected regional and national rankings  
  Community and technical colleges:  
  - Percentage of employed and transferred students  
  - Graduate wages  
  - Third-party technical credentials |
# State Activity

<table>
<thead>
<tr>
<th>PBF Activity</th>
<th>Number of States</th>
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<tr>
<td>PBF in Place</td>
<td>25</td>
</tr>
<tr>
<td>Transitioning to PBF</td>
<td>5</td>
</tr>
<tr>
<td>Formal Discussions of PBF</td>
<td>10</td>
</tr>
<tr>
<td>No Formal Activity Found</td>
<td>10</td>
</tr>
</tbody>
</table>

Updated from Friedel, Thornton, D'Amico & Katsinas (2013).
Current PBF Status Across the States

Updated from Friedel, Thornton, D'Amico & Katsinas, 2013.
Future Updates

• National Conference of State Legislatures
  • http://www.ncsl.org/research/education/performance-funding.aspx
Proposed Advantages

- Increased awareness and alignment of the institutional mission and goals with the state’s agenda
- Increased college self-awareness of actual outcomes
- Increased healthy competition between colleges
- Increased use of data during institutional planning and decision making

Possible Disadvantages

- Indicators measure only a portion of the entire institutional picture
- Potential negative effects on institutional quality, access, equity, mission, or stability
- Potential for additional loss of funds
- Disregard for institution-specific factors
PBF Policy Recommendations

• Engage stakeholders in the discussion and planning

• Align the measures with the state agenda, particularly workforce and economic development goals

• Allow for the differentiation of institutional missions

• Phase in the new model and funding with a “soft landing”

• Commit solid and significant state dollars to incentivize the PBF system

• Include both outcome and progress measures

• Continuously evaluate the PBF system and formula
A Note of Caution

- It is important to note that PBF is not the answer to the larger issue of declining support and funding for higher education, and thus should not be used to meet the greater funding issues of higher education.
A PBF Bandwagon?

- Despite recent attention, there is not compelling evidence of the link between PBF and improved student outcomes at this time.
PBF Questions for Further Study

- Does PBF work?
- What are the impacts of PBF on institutional policy? Impacts on institutional practice?
- What are the impacts of PBF on students? Impacts on programs?
- What organizational changes are made in response to state PBF policy?
- How is state PBF policy assessed and evaluated?
- How does PBF influence other state higher education policy?
References


References cont.


References cont.