

# **PERFORMANCE-BASED FUNDING IN HIGHER EDUCATION: TRENDS AND DEVELOPMENTS**

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# POTUS COLLEGE AFFORDABILITY AND VALUE AGENDA

- **The Problem: Despite historic investments, college tuition keeps rising.**
- **President's Plan to Make College More Affordable: A Better Bargain for the Middle Class (August 2013)**
- **Ambitious new agenda to combat rising college costs and make college affordable for American families:**
  - **Paying for Performance**
  - **Promoting Innovation and Competition**
  - **Ensuring that Student Debt Remains Affordable**



# PAY COLLEGES AND STUDENTS FOR PERFORMANCE

- Tie Financial Aid to College Value
- Reward Colleges for Results with a Pell Bonus and Higher Accountability
- Demand Student Responsibility for Academic Performance
- Engage States with a Race to the Top for Higher Education that has Higher Value and Lower Costs
  - Funding to spur state higher education reforms and reshape the federal-state partnership by ensuring that states maintain funding for public higher education.
  - Special focus on promoting performance-based funding: paying for value as opposed to enrollment or just seat time.
  - Encourage states to provide accelerated learning opportunities, smooth student transitions, and strengthen collaboration between high schools and colleges.



# STATE HIGHER EDUCATION PERFORMANCE FUND

- New mandatory \$4 billion competitive 4-year grant program for States to **support, reform, and improve the performance** of their public higher education systems, with a dollar-for-dollar matching requirement.
- States would be required to match these resources dollar-for-dollar, for a total of \$8 billion over 4 years, to support:
  - Successful implementation of policy and **funding reforms** that encourage and reward improved college performance
  - Maintaining/increasing State expenditures in higher education
- To be eligible, States would need to adopt critical reform policies and allocate federal and State resources to institutions **through performance-based funding**.
- Priority to States with a strong record of investment in higher education, or states that commit to increasing their support for higher education.



# PBF IN THE STATES

- Historically, states have funded colleges based on enrollment.
- Incentives are focused on access, not on outcomes.
- Many states have implemented PBF in the past (starting in the 1970s) and several more are now considering aligning funding with state goals and priorities.
  - Shift from inputs (i.e. credit enrollment) to outputs (i.e. credit completion).
  - Influence institutional change toward improving performance through funding incentives.
- Three primary models:
  1. Output-based funding formula
  2. Performance set-asides
  3. Performance contracts



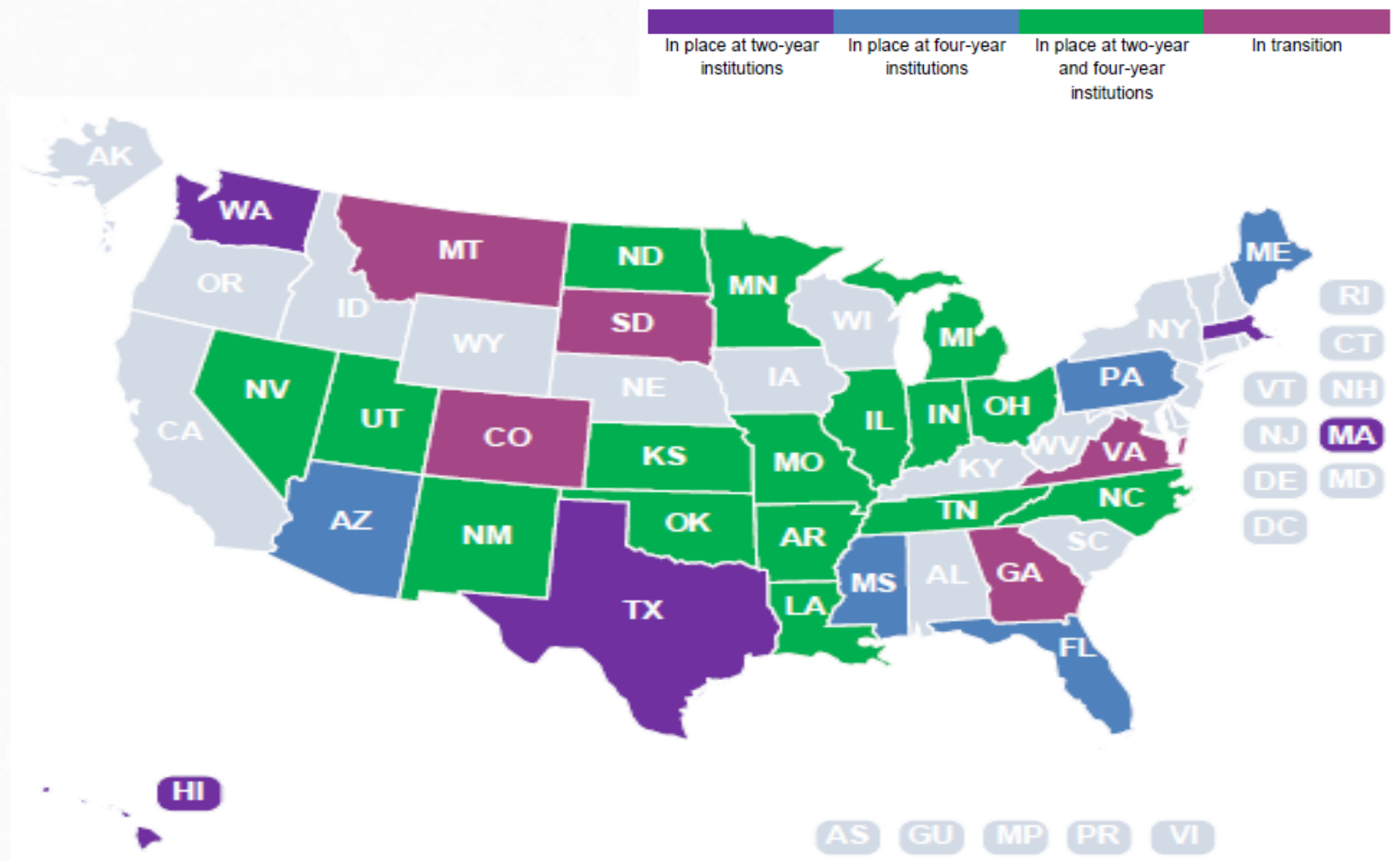
# LESSONS LEARNED FROM PBF 1.0

- Between 1979 and 2007, 26 states experimented with PBF, of which 14 abandoned their plans. The main reasons:
  - Inflexible to institutional differences
  - Failed to measure progress
  - Lack of stakeholder input
  - Inadequate funding
  - Non-durable during tough times
  - Lack of “transition” period
  - Did not align with state economic & workforce goals
- Fiscal environment, stagnant graduation rates and a rising demand for highly educated workers have fueled PBF 2.0





# PBF IN THE STATES



Source: National Conference of State Legislatures



# THE NEW WAVE OF PBF 2.0

- Wide variation in 1) funding, 2) goals and metrics, 3) formulas and 4) scope.
- **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.





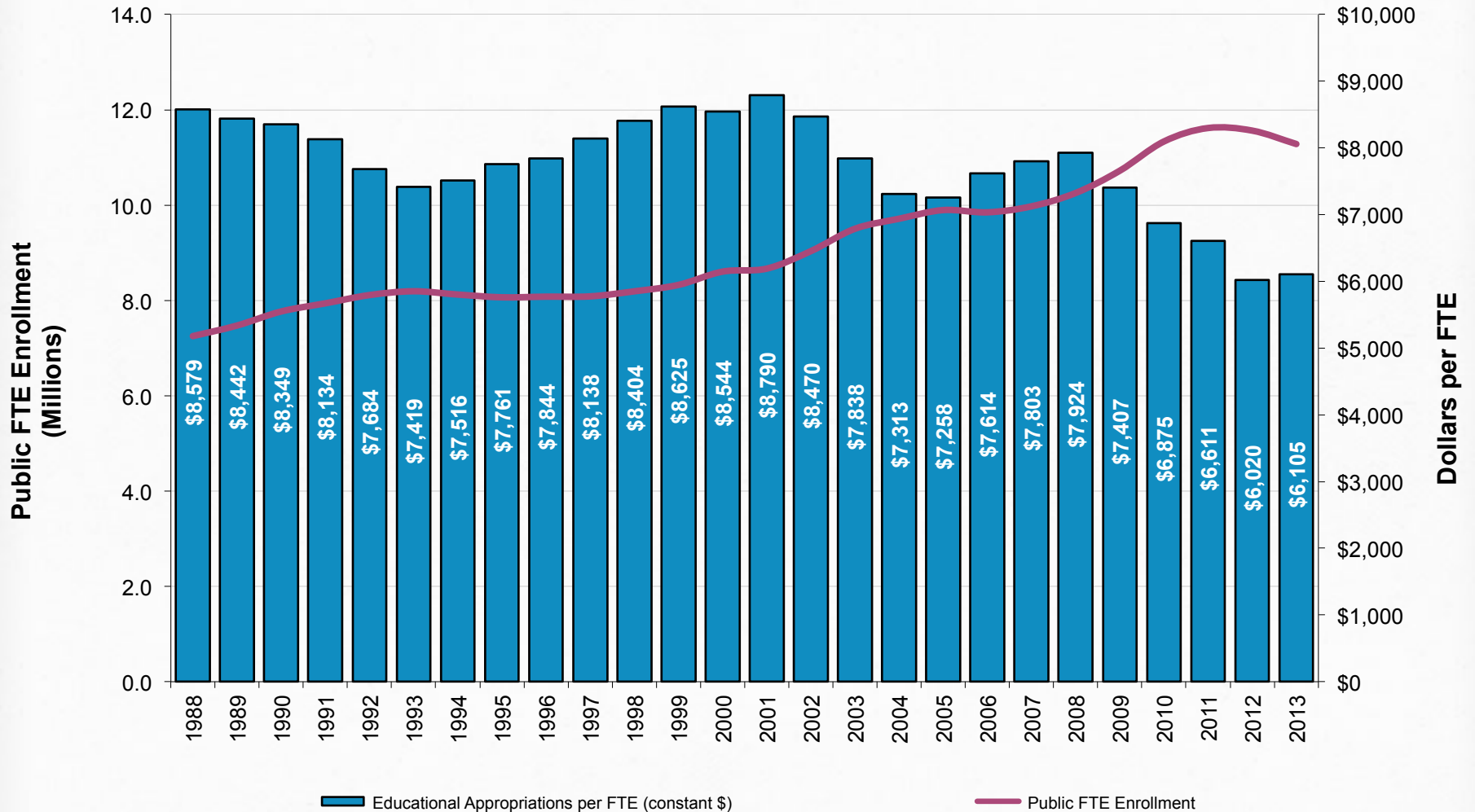
# TENNESSEE

- First PBF system in 1978, revised 8 times since then.
- Latest version formulated in 2010, boldest PBF in the nation.
- **Institutional differences.**
  - Two basic formulas for 2-year and 4-year colleges, with weights based on mission.
- **Measure progress.**
  - Measures progress (credit accumulation) and completion.
- **Stakeholder input.**
  - Extensive stakeholder input. Year-long talks with a bipartisan group of state lawmakers.
- **Funding.**
  - 100% PBF.
- **Durable.**
  - Regular appropriations, not “new” money.
- **Transition.**
  - Phased in over 3 years.
- **Alignment.**
  - 40% premium for low-income and non-traditional students.



# PBF NOT A SOLUTION FOR FUNDING CHALLENGES

Public FTE Enrollment, Educational Appropriations per FTE  
Fiscal 1988-2013



**Note:** Constant 2013 dollars adjusted by SHEEO Higher Education Cost Adjustment. Educational Appropriations include ARRA funds. (HECA)

**Source:** SHEEO



# ADDITIONAL THOUGHTS

- Effective tool for clarifying what a state expects from its public postsecondary institutions.
- Ensure it's student outcomes-driven funding, not just “performance.”
  - “Tying funding to achievement of particular objectives is not a new idea. It is the objectives being prioritized that are new, not the notion of paying for performance.”
  - Focus on the needs of students and the state, not the institutions.
- Include all public institutions.
- Offer “extra” rewards for the success of underrepresented students.
- Use a clear, limited set of metrics that are difficult to “game.”
- Implementation matters; consequences, not just rewards.
- Need for evaluation, continuous reassessment of design.

