



# Insights from Performance-Based Funding in Public Higher Education

Critical Questions in Designing Formulas

# EAB University Systems Forum

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# Insights from Performance-Based Funding in Public Higher Education

Critical Questions in Designing Formulas

University Systems Forum

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the ones that work for **you**.<sup>SM</sup>

## ▶ Start with best practices research

- > Research Forums for presidents, provosts, chief business officers, and key academic and administrative leaders
- > At the core of all we do
- > Peer-tested best practices research
- > Answers to the most pressing issues

## ▶ Then hardwire those insights into your organization using our technology & services

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Members, including four- and two-year institutions, use the **Student Success Collaborative**<sup>™</sup> combination of analytics, interaction and workflow technology, and consulting to support, retain, and graduate more students.

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Our **Academic Performance Solutions** group partners with university academic and business leaders to help make smart resource trade-offs, improve academic efficiency, and grow academic program revenues.

1,100<sup>+</sup>

College and  
university members

10,000<sup>+</sup>

Research interviews  
per year

250M<sup>+</sup>

Course records in our student  
success analytic models

1.2B<sup>+</sup>

Student  
interactions

1

## Performance Funding 2.0 – Why It Might Work This Time

2

Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models

3

Limited Results – Many Questions Remain

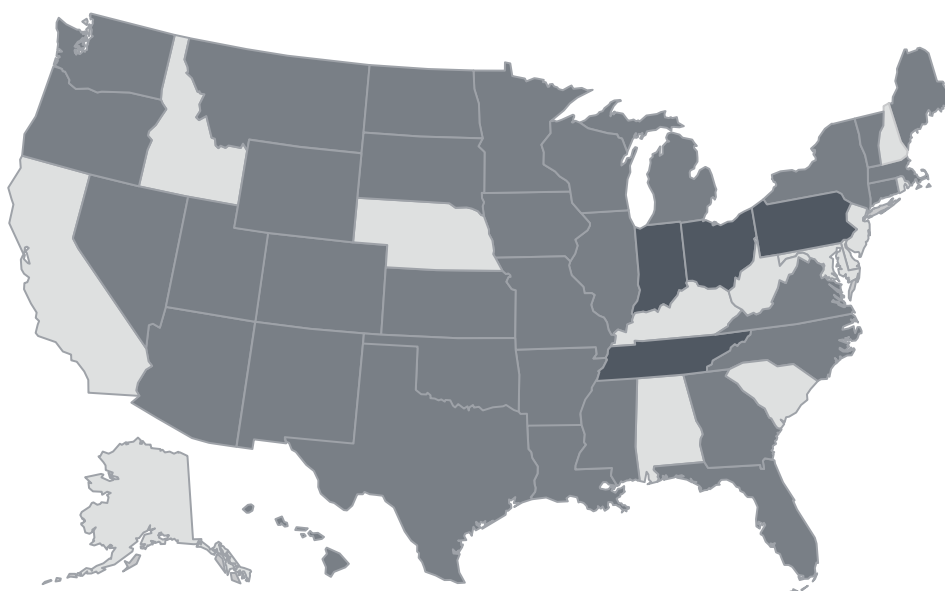
## Performance-Based Funding, Take Two



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Half the Country (and Counting) Piloting Success and Completion Metrics

### Performance Funding Spreading Across Nation (Again)



#### Before 2010:

- Pennsylvania
- Indiana
- Tennessee
- Ohio

#### Since 2010:

37 states approved or currently planning success-based funding models

# Defining Our Terms

## Setting on One Definition of PBF Proves Difficult

### Type I (Rudimentary)

- State does not have completion/attainment goals
- Bonus funding
- Low level of funding (under 5%)
- Some or all institutions in one sector included
- No differentiation in metrics and weights by sector
- Degree/credential completion not included
- Outcomes for underrepresented students not prioritized

### Type II

- State has completion/attainment goals
- **Base Funding**
- Low level of funding (under 5%)
- All institutions in one sector included, or some institutions in both sectors
- No differentiation in metrics and weights by sector
- **Degree/credential completion included**
- Outcomes for underrepresented students may be prioritized

### Type III

- State has completion/attainment goals
- Base funding
- **Moderate level of funding (5-24.9%)**
- **All institutions in all sectors included**
- Differentiation in metrics and weights by sector
- Degree/credential completion included
- **Outcomes for underrepresented students prioritized**

### Type IV (Advanced)

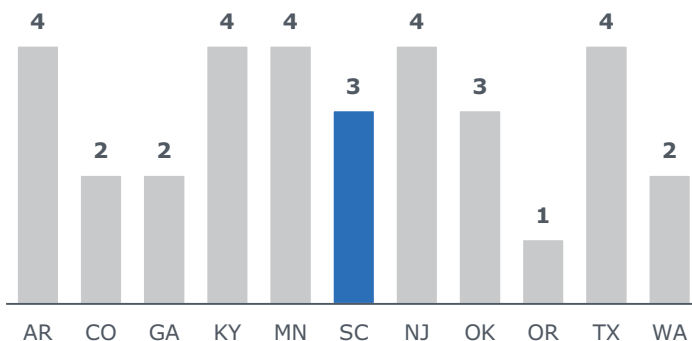
- State has completion/attainment goals
- **Base funding**
- **Substantial level of funding (25% or greater)**
- All institutions in all sectors included
- Differentiation in metrics and weights by sector
- Degree/credential completion included
- Outcomes for underrepresented students prioritized

# Why Will It Work This Time?

## Skepticism of PBF Staying Power Justified Given Past Record

### Spotty Implementation in the Last Decades

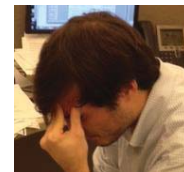
Duration of Selected State PBF 1.0 Initiatives



#### South Carolina's "Moving Target" PBF, 1996-99

- Lack of consensus over success KPIs = 37 indicators
- Share of state allocation dropped from 38% to 3% in one year after budget shortfall

### Ongoing Confusion



#### ASHE Report, 2013

"State officials not infrequently disagree in their understanding of what PBF is, and whether their state has it..."

# The Federal Ratings System That Wasn't

## College Scorecard Differs Greatly from Original Proposal

DEC 2014

SEPT 2015

### What was proposed

New College Ratings System

#### Access

- Percent of Pell students
- EFC gap
- Percent first-generation
- Family income quintiles

#### Affordability

- Average net price
- Net price by quintile

#### Outcomes

- Completion rates
- Transfer rates
- Labor market success
- Graduate school attendance
- Loan performance outcomes

### The big risk:

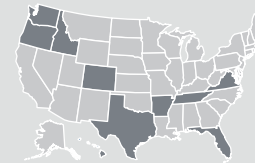
Proposal to tie \$150M in annual federal aid to performance against these metrics

### What we got

College "Scorecard"

- A repackaging of data available in IPEDS and other sources
- New visibility into financial aid and debt
- Retention and completions data limited to only first-time, full-time students
- ▶ No clear institution ratings or ability to compare institutions

### Not Quite Off the Hook



**At least 10 states** already promoting public comparison of alumni salary data

# Toward a Broader Definition of Success

## Scorecard Efforts Suggest that We Will Be Reporting More in the Future

### Federal Requirements



Large majority of students not tracked (PT and transfers)

### Many States in the Lead with Performance Metrics



Members finding useful for making quick corrections

Access to federal aid could be in the balance

Moving toward an accountable higher education ecosystem

What's the real ROI of college?

### But We Still Need Better *Leading* Indicators, Not *Lagging* Metrics...

**Process completion**

- Registration
- FAFSA completion

**Support service interaction**

- # advising interactions
- Tutoring appointments

**Interim outcomes**

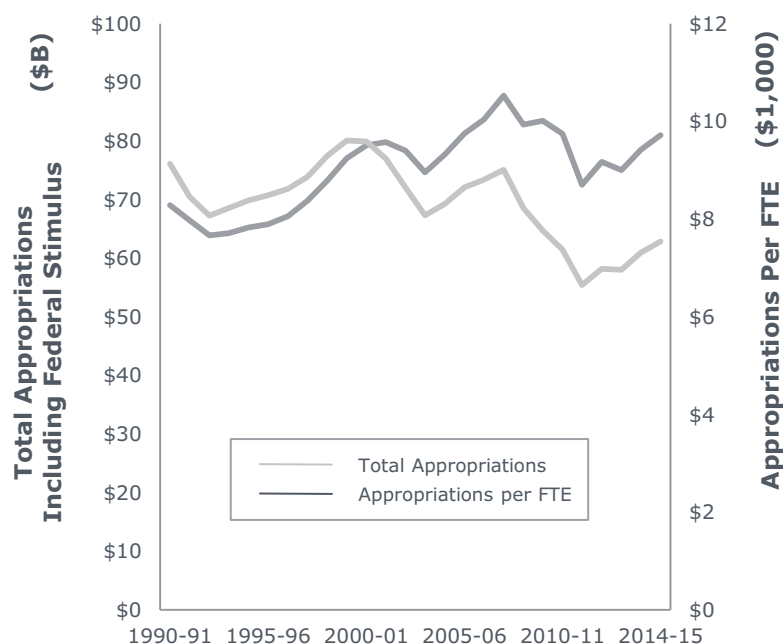
- Term-to-term persistence
- Term GPA change

# Another Means of Defunding Public Education?



## State Appropriations Firming Up, But...

Total State Appropriations per FTE



**Hope on the Horizon:  
Appropriations Are  
Coming Back**

- In 2015, state appropriations increased by 6% over the prior year.

Source: College Board, "Total and Per-Student State Funding and Public Enrollment over Time", <https://trends.collegeboard.org/college-pricing/figures-tables/total-and-student-state-funding-and-public-enrollment-over-time>; SHEEO, "The FY 2015 SHEF Report," [http://www.sheeo.org/sites/default/files/project-files/SHEEO\\_FY15\\_Report\\_051816.pdf](http://www.sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf)



### Harder-to-Detect Cuts?

"Some individual institutions see more funds under competitive PBF formulas, but in aggregate most schools will be losers and there may be less overall to go around. I wonder if a motive of performance funding is to continue the trend of defunding public higher education while avoiding the publicity fallout."

*Senior Administrator*  
Public Research Master's Institution

### Bigger Piece of a Smaller Pie

"If PBF doesn't get traction, it will be because the increase in outcomes-based funds will be dwarfed by decreases in overall funding. The pie overall is shrinking over time."

*Senior Administrator*  
Midwestern Regional Public Institution

- 1 Performance Funding 2.0 – Why It Might Work This Time
- 2 **Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models**
- 3 Limited Results – Many Questions Remain

## Balancing Competing Goods



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### Challenging Questions in Designing Performance Funding Models

#### How Can We Design a Fair and Effective PBF Model?



##### Right Measures

*Balancing Comparability and Mission Diversity*

- How Do We Account for Diverse Missions?
- What Student Populations and Programs Should We Overweight?
- Reward Intermediate Achievement, or Just Completions?
- Is It Financially Feasible to Track Career Outcomes?

**Current Pressures**



##### Right Change Levers

*Balancing "Consequential" Incentives and Stability*

- How Much Funding Should Be at Risk?
- How Do We Help Low Performers Manage Transition Risks?

**Future Needs**





# Fixing the Design Flaws in Past Formulas

## Limited Agreement around a Handful of PBF Features

### Performance Funding 1.0

#### Bonuses

In addition to enrollment-based allocation

#### Trivial Funds at Stake

Success metrics affect only 1-2% of total funding, changing year by year

#### Rates

Completions measured as percentages of cohorts



### Performance Funding 2.0

#### Core Funds

Success KPIs embedded in core funding formula

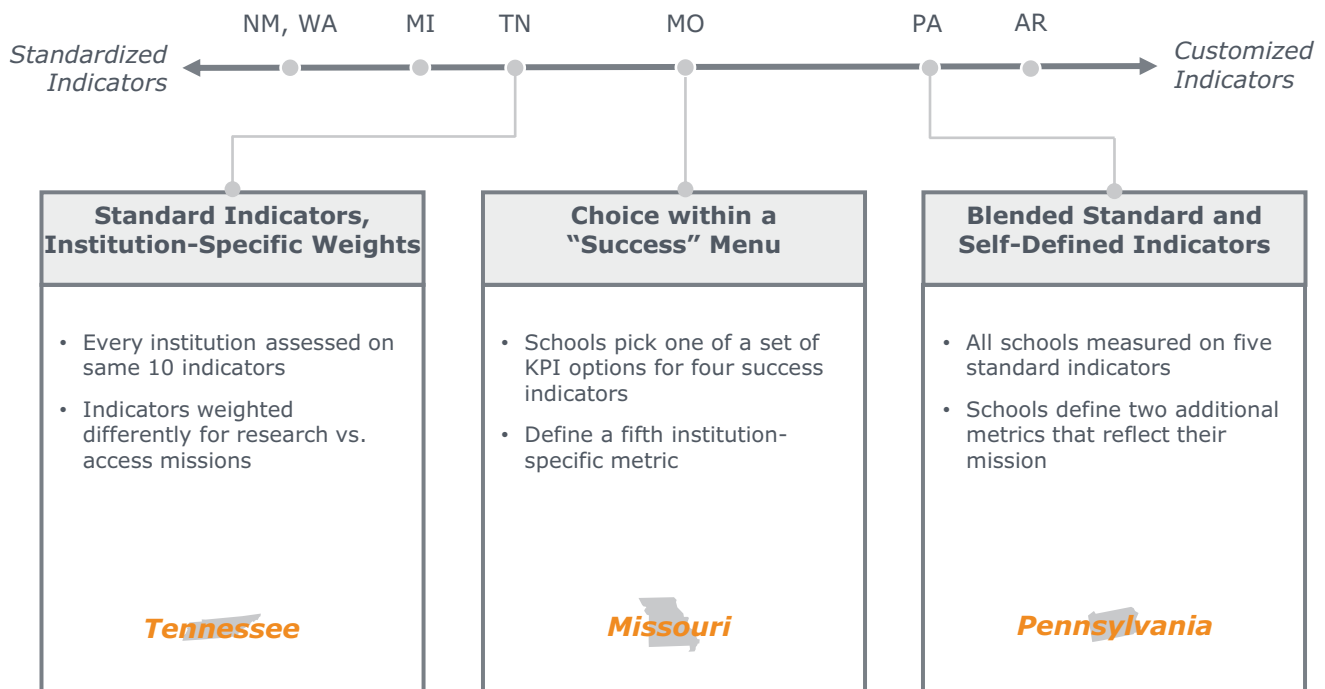
#### Meaningful Dollars at Stake

Success metrics apply to 8% to 100% of allocation in new formulas

#### Counts

Aggregate completion, regardless of student start date

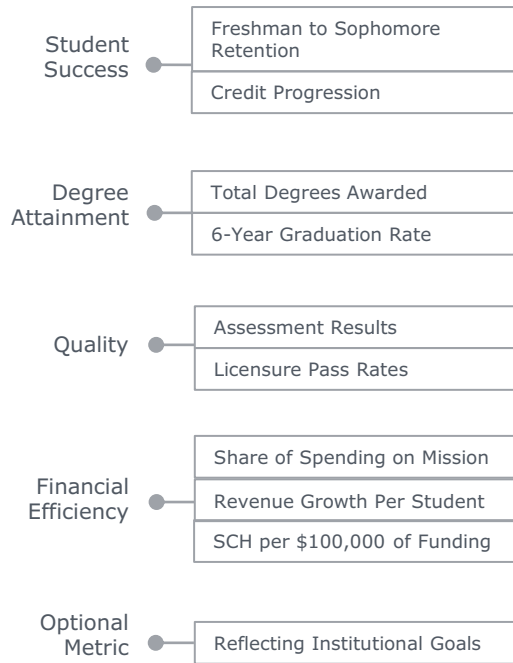
# How Do We Account for Diverse Missions?



# Consistent Criteria, Different Emphases

## MO and TN Formulas Encourage "Self-Calibration" of Success Indicators

### Missouri's Success "Menu"



### Tennessee's Weighted Outcomes

| Success Indicator               | UT-Knoxville<br>Very High Research | UT-Martin<br>Master's |
|---------------------------------|------------------------------------|-----------------------|
| Students @ 30 Hours             | 2%                                 | 4%                    |
| Students @ 60 Hours             | 4%                                 | 6%                    |
| Students @ 90 Hours             | 6.5%                               | 10%                   |
| <b>Bachelors and Associates</b> | <b>20%</b>                         | <b>30%</b>            |
| Master's and Specialist         | 10%                                | 15%                   |
| <b>Doctoral and Law</b>         | <b>12.5%</b>                       | <b>0%</b>             |
| Research and Service            | 12.5%                              | 5%                    |
| Degrees per 100 FTE             | 17.5%                              | 10%                   |
| <b>6-Year Graduation</b>        | <b>15%</b>                         | <b>20%</b>            |

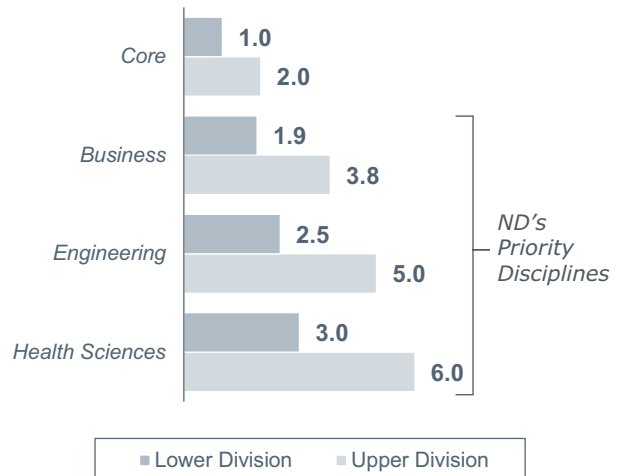
# What Students and Programs to Overweight?

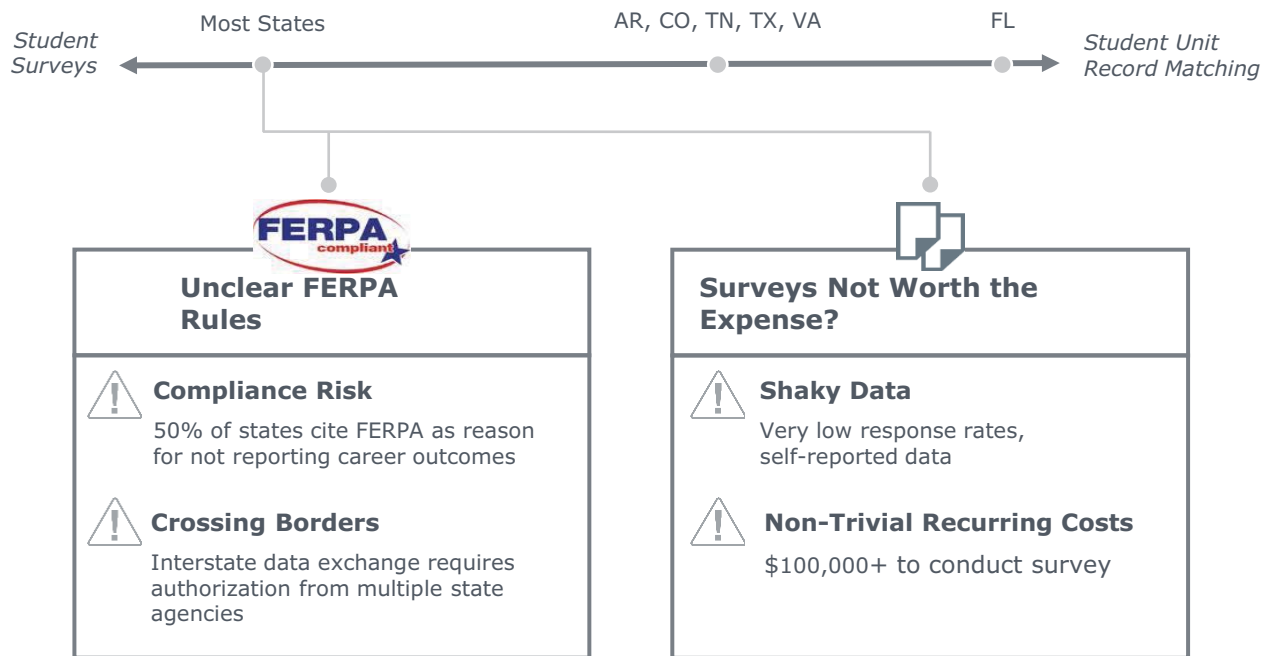


### Selected States' Funding Multipliers for Low-Income Completions

- Illinois** Pell-eligible completers = 1.4x
- Tennessee** 40% "completion premium" for low-income and adult completers
- Pennsylvania** 10% to 20% of total institutional success score tied to Pell-eligible completions
- Michigan** Institutions must comply with tuition increase restraints, participate in a transfer network, build articulation agreements, and limit double counting of dual enrollment credit

### North Dakota Rewards High-Priority Degree Attainment





## The Start of Performance Funding 3.0?

### Florida Political Leaders Push Higher Education to Focus on Employment

#### FL Governor Convenes Higher Ed and Business Leaders to Promote Job-Ready Degrees



Demonstrate that Florida graduates are job-ready upon graduation



Encourage higher education to align programs to workforce needs

#### Jobs Above All Else

"Gov. Scott believes our higher education system must be solely focused on preparing grads to get jobs in high demand fields when they graduate."

*Statement from the Office of Rick Scott, Governor of Florida*

#### Emphasis on Employment Codified in Performance Funding Formula Metrics

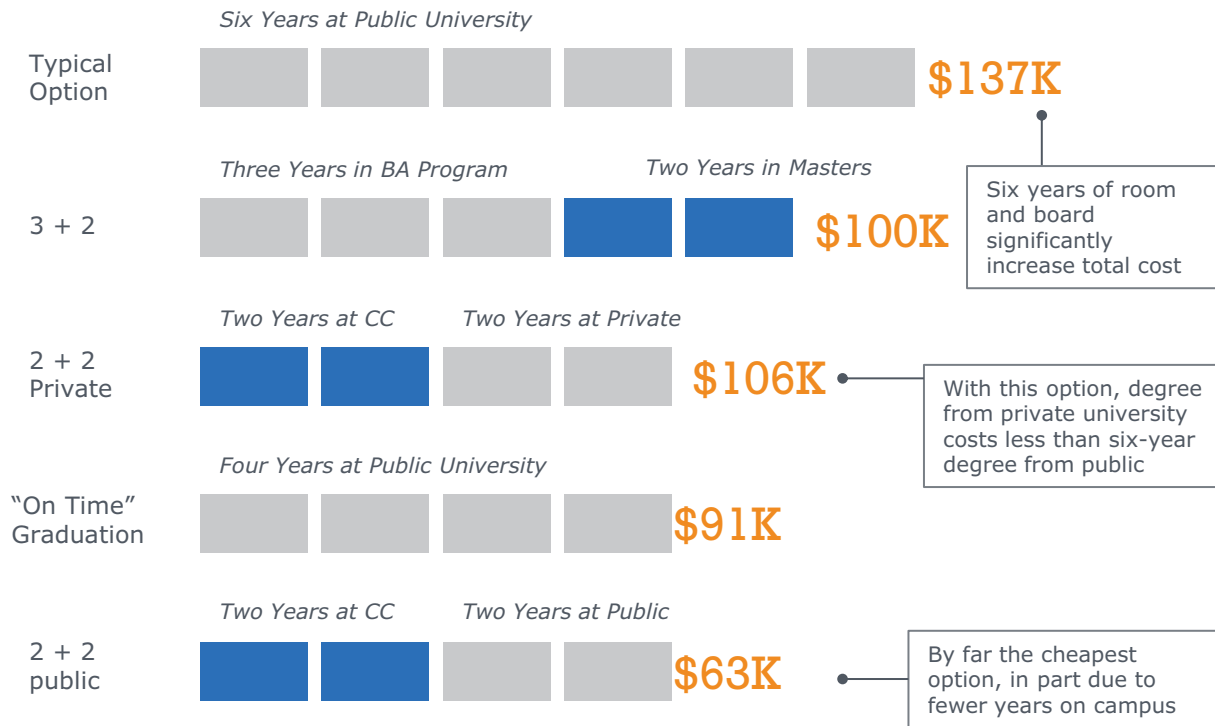
- Percent of bachelor's graduates employed and/or continuing their education further one year after graduation
- Median average full-time wages of undergraduates employed in Florida one year after graduation

#### Not an Isolated Phenomenon

**5** States (including Florida above) with employment and wage outcomes included in four-year institution performance funding formulas



# The Great Unbundling Begins







## Transfer-Friendliness as Success Indicator

### Michigan Considers Articulation with Two-Years for PBF Eligibility

#### Linking PBF Escalators to Transferability

**Michigan's SB-193 Performance Funding Eligibility Requirements**

-  Participate in Michigan's student transfer network
-  Reverse transfer agreements with three community colleges
-  Accept dual-enrollment credits
-  "Tuition Restraint"

Schools adopting these policies eligible for 3% increase in PBF

#### An Unintended Temptation to Raise Tuition?

##### Heard on the Street

"Another institution told us they realized they weren't going to meet the PBF eligibility requirements in time. They knew they'd lose the state funding boost no matter what, so they upped tuition 9% to offset the hole in the performance funds."

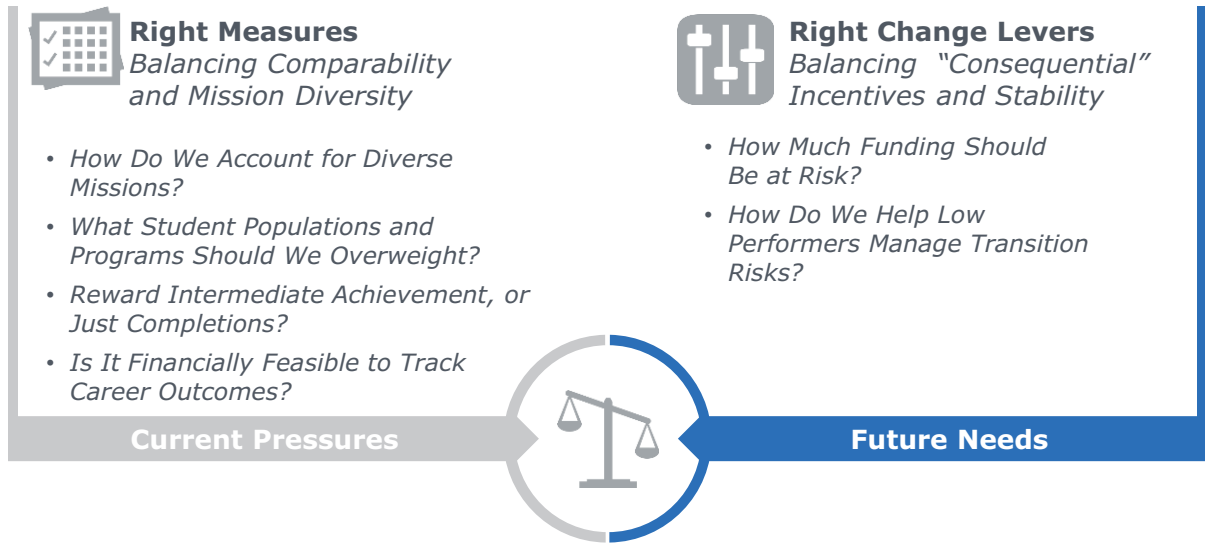
Senior Administrator  
Regional Public Institution

# Balancing Competing Goods



## Challenging Questions in Designing Performance Funding Models

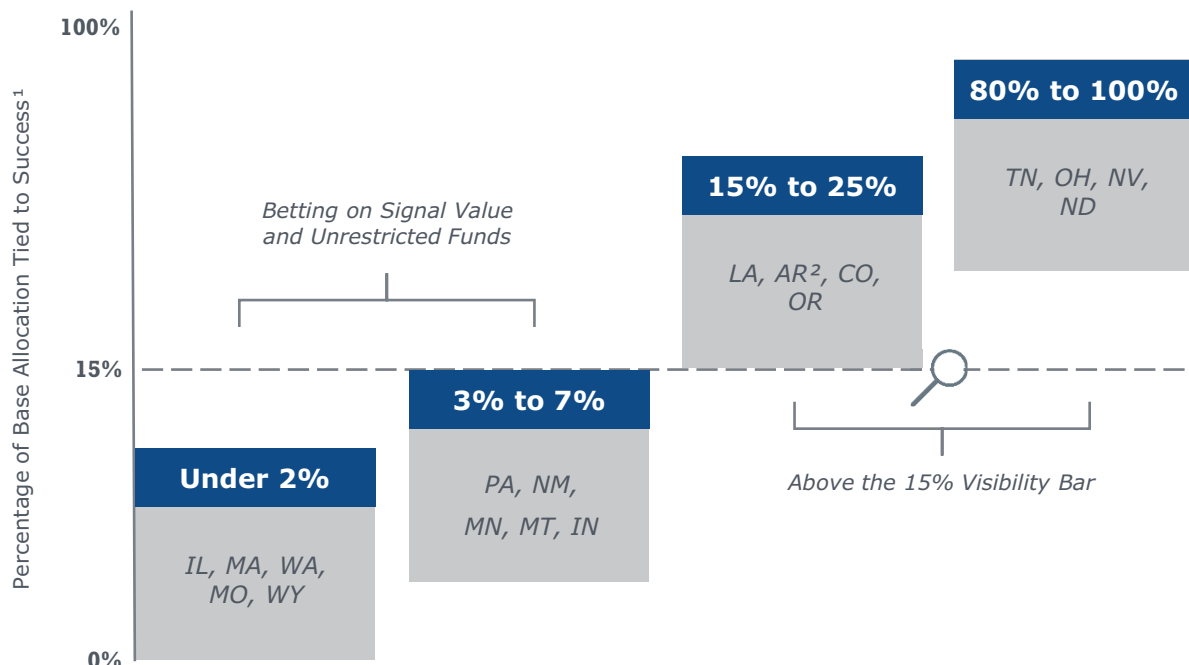
### How Can We Design a Fair and Effective PBF Model?



# How Much Should Be Put at Risk?



## No Consensus Yet on Minimum Needed to Spur Change



1) Does not include states treating performance funds as fixed-dollar pools or bonuses on top of base allocations.  
2) End-state PBF goals phased in over next years



## Learning Years

One-year data-baselining period to get buy-in for success KPIs and familiarize institutions with formula

(WA, MO)

## Escalating Risk Pools



Increase amount of funds subject to PBF in predetermined increments (e.g., 5% →10% →15%) until formula's steady-state cap achieved

(AR, IN)



## Stop-Loss Provisions

State sets floor of how much individual institutions can lose (usually 1-2% of previous year's allocation) in first year of PBF

(NM, OH)

## Rolling Averages

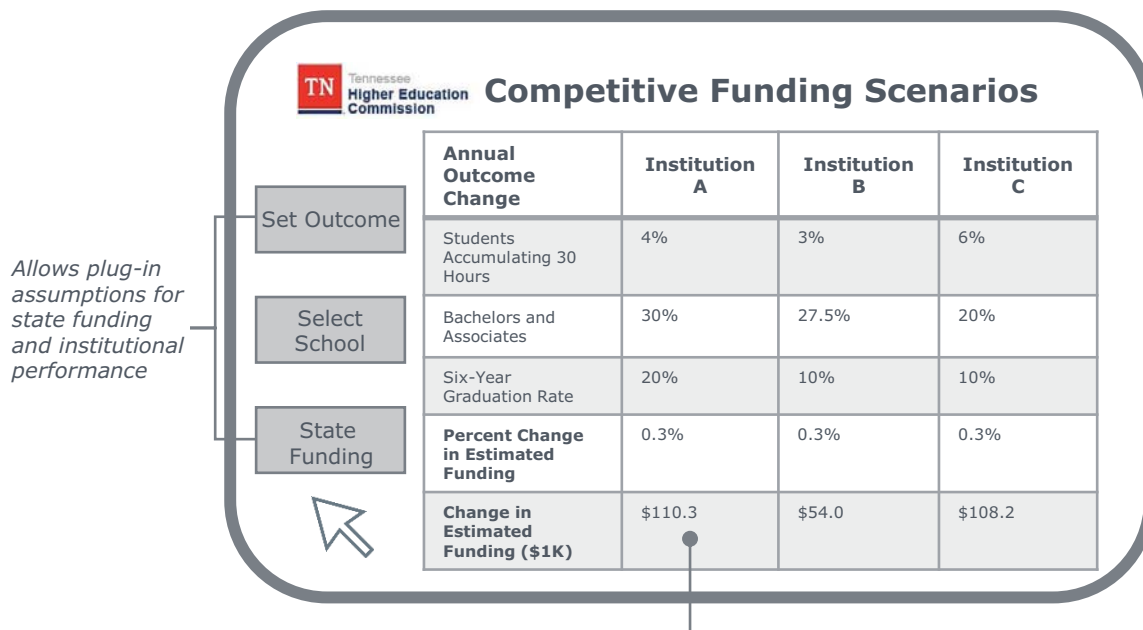


Formula uses 3-5 year average of success indicators to insulate institutions from economic cycles

(OH, TN)

# PBF Impact Modeling

## Tennessee Tool Helps Anticipate Financial Impact of Competitive Funding

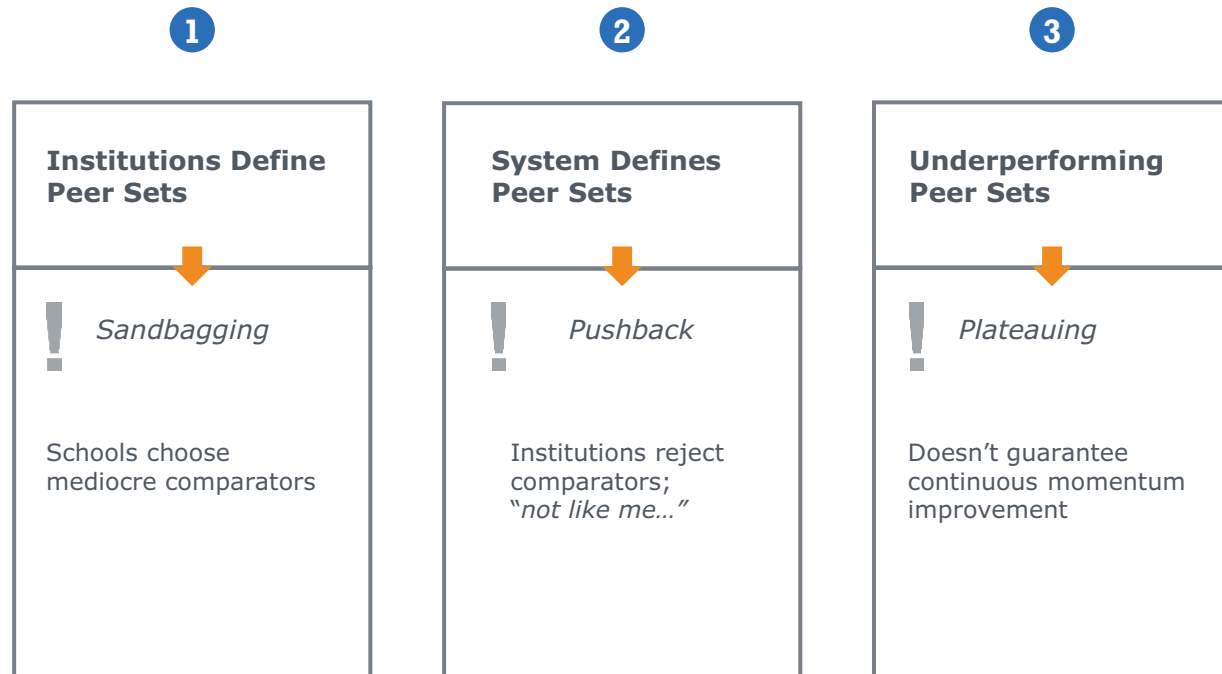


Models gains and losses in Tennessee's competitive funding system<sup>1</sup>

1) Illustrative gain and loss estimates

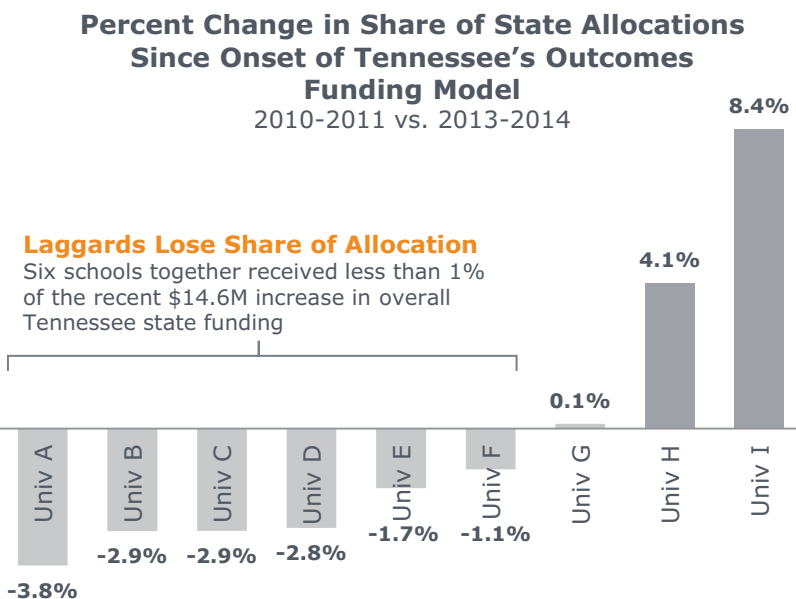
# Problems with Peer Benchmarks

Neither Systems Nor Institutions Happy Tying Targets to Peer Sets



# Competitive Funding

"Winners" Capturing an Increasing Share of Tennessee Resources



“This is a definitely a philosophical shift. We decided to push money to where it was earned rather than distribute it evenly to all. Our model is rewarding those who outperform the rest.”

*Tennessee Higher Education Commission representative*

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## Shifting Institutional Financial Behaviors



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Slight Shift Toward Selectivity and Increase in Student-Focused Spending

### -2% Pell Grants per FTE

- Decline in one of the major markers of a student body's income and the selectivity of the institution
- Trend holds over multiple years, not just the first year after PBF implementation

### Student Services Expenditure Per FTE

\$24

- Increase in spending here shows intended outcome of PBF occurred for many states
- Limited research fails to explore which areas of student services received more funds

### 5% Increase in Institutional Grant Aid Per FTE

- Typically merit-based aid increases after PBF implementation
- Without test scores, GPA, and other data, difficult to determine if this shift represents growing selectivity or simply more aid to more students

### Instructional Expenditure Per FTE

\$198

- Under PBF, instructional spending rises after two years
- Other areas, such as auxiliary enterprises and institutional support, show signs of decreasing



# Mixed Results Across the United States

Limited Research on Effects of PBF Reveals Few Trends

## PBF's Effects on Completion Over Time, 1990-2010

|    | Effect on 2-Year Completions | Effect on 4-Year Completions |
|----|------------------------------|------------------------------|
| ID | Negative                     | Negative                     |
| MN | Positive                     | None                         |
| AR | Mixed                        | None                         |
| IN | None                         | Positive                     |
| OK | Mixed                        | None                         |
| TX | Negative                     | Negative                     |
| NM | Negative                     | Positive                     |

## Qualitative Evidence More Positive for PBF

- ✓ Increased awareness of state priorities and institutional performance
- ✓ More funding dedicated to instruction
- ✓ Improved student services
- ✓ Higher quality developmental education and tutoring
- ✓ Increased professional support services to improve teaching
- ✓ Changed course sequence and curricula
- ✓ Data used to inform decision-making more frequently

Source: Snyder, M. (2015). Driving better outcomes: Typology and principles to inform outcomes-based funding models. *Washington, DC: HCM Strategists*; Tandberg, D., & Hillman, N. (2013). State performance funding for higher education: Silver bullet or red herring. *WISCAPE Policy Brief, 18*; EAB Interviews and Analysis.

# Not a Quick Fix for Completions

Where They Occur, Positive Effects Take Several Years to Appear

## Performance Funding's Effects Over Time

| Number of Years | Effect on Four-Year Completions |
|-----------------|---------------------------------|
| 1               | None                            |
| 2               | None                            |
| 3               | None                            |
| 4               | None                            |
| 5               | None                            |
| 6               | None                            |
| 7               | Positive                        |
| 8               | Positive                        |

Many PBF initiatives fail as states initially inject new funding but cut back after several years



## Setting Expectations for the Improvement Timeline

"States ought to exercise significant caution in pursuing performance funding as a quick fix...States should also expect a long wait before performance funding has any impact on degree completion at four-year institutions."

*David A. Tandberg, Assistant Professor of Higher Education  
Florida State University*

*Nicholas W. Hillman  
Assistant Professor, Department of Educational Leadership and Policy Analysis  
University of Wisconsin-Madison*

Source: Tandberg, David and Hillman, Nicholas (2013). State Performance Funding for Higher Education: Silver Bullet or Red Herring? (WISCAPE POLICY BRIEF). Madison, WI: University of Wisconsin-Madison, Wisconsin Center for the Advancement of Postsecondary Education (WISCAPE): EAB Interviews and Analysis

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**Current Pressures**



**Future Needs**

