

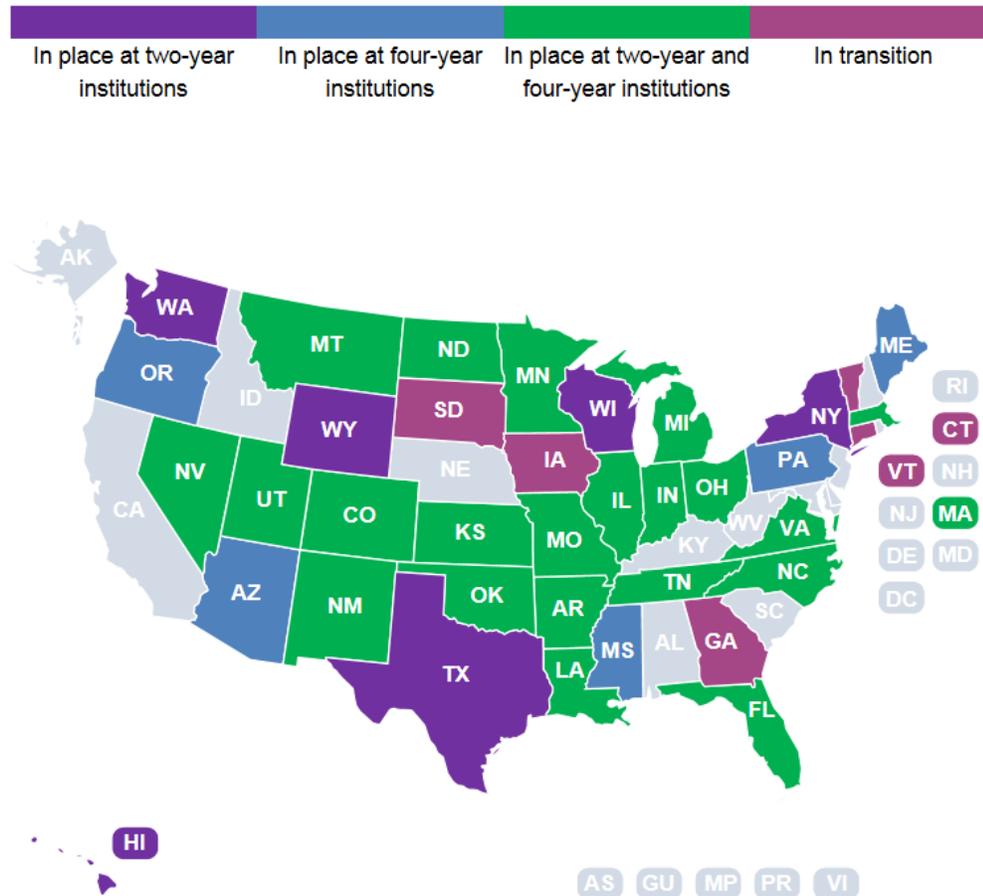
# NATIONAL CONFERENCE OF STATE LEGISLATURES

## Update on Higher Education Performance Funding

### PERFORMANCE-BASED FUNDING FOR HIGHER EDUCATION

7/31/2015

Historically, many colleges have received state funding based on how many full-time equivalent students are enrolled at the beginning of the semester. This model provides incentives for colleges to enroll students and thus provide access to postsecondary education, but this model does not necessarily provide incentives for institutions to help students successfully complete degree programs. Many states are reconsidering the enrollment-based funding model and instead are aligning funding models with state goals and priorities.



### State Activity

Thirty-two states—Arizona, Arkansas, Colorado, Florida, Illinois, Indiana, Kansas, Louisiana, Maine, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wisconsin, and Wyoming—have a funding formula or policy in place to allocate a portion of funding based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates. Five states—Connecticut, Georgia, Iowa, South Dakota, and Vermont—are currently transitioning to some type of performance funding, meaning the Legislature or governing board has approved a performance funding program and the details are currently being worked out.

State	Status	Funding Amount	Metrics	Supporting Documents
Arizona	In place at four-year institutions	For Fiscal Years 2013 and 2014, \$5 million per year was allocated through the performance formula. Beginning in Fiscal Year 2016 all budget requests and allocations above the base funding amount will be allocated according to the performance funding formula developed by the Board of Regents.	<ul style="list-style-type: none"> <li>■ Degrees awarded <ul style="list-style-type: none"> <li>■ 15% bonus for certain high demand degrees</li> </ul> </li> <li>■ Completed student credit hours measured in milestones of 24 completed credit hours</li> <li>■ External research and public service dollars brought into the university system</li> </ul> <p>Metrics are based on a three-year rolling average of data and are weighted based on institutional mission. Degrees awarded and completed student credit hours are also weighted by cost and degree level.</p>	<p><a href="#">Ariz. Rev. Stat. Ann. § 15-1626</a></p> <p><a href="#">Arizona Board of Regents Performance Funding Model</a></p>
Indiana	In place at two-year and four-year institutions	6% for FY 2014 and FY 2015	<p>Metrics for two-year and four-year institutions include:</p> <ul style="list-style-type: none"> <li>■ Degree completion</li> <li>■ At-risk degree completion</li> <li>■ High impact degree completion</li> <li>■ Persistence</li> <li>■ Remediation success</li> <li>■ On-time graduation</li> <li>■ Institution selected measure</li> </ul>	<p><a href="#">Indiana Commission for Higher Education performance funding website</a></p>
Massachusetts	In place at two-year and four-year institutions	<p>After an amount is set aside for operational support, 50% of the remaining funding is considered base funding and allocated according to the number of completed semester credit hours. The remaining 50% of funding is awarded based on performance metrics.</p> <p>At four-year institutions, \$5.6 million will be allocated through a performance-based formula for FY16.</p>	<p>Metrics for the community college formula include:</p> <ul style="list-style-type: none"> <li>■ Certificate completions</li> <li>■ Associate completions</li> <li>■ Transfers</li> <li>■ 30 credits achieved</li> <li>■ First full math and English courses completed</li> <li>■ Degrees and certificates per 100 FTE students</li> <li>■ Degrees and certificates awarded to Pell Grant recipients and in high demand fields are weighted more</li> </ul>	<p><a href="#">FY 2014 Budget --see 7100-4000</a></p>

Minnesota	In place at two-year and four-year institutions	5% of base funding is reserved until institutions meet three out of five performance goals.	<p>Performance goals for Minnesota State Colleges and Universities:</p> <ul style="list-style-type: none"> <li>■ Increase degrees, diplomas, and certificates by at least four percent</li> <li>■ Increase persistence and completion rate by at least one percent</li> <li>■ Increase employment rate for graduates by at least four percent</li> <li>■ Collect data on the number of Open Educational Resources tools and services offered and formulate a plan to actualize a one percent reduction in expenses directly related to the cost of instruction incurred by students</li> <li>■ Reallocate \$22,000,000 that became available through expense realignment</li> </ul> <p>Performance goals for the University of Minnesota system:</p> <ul style="list-style-type: none"> <li>■ Increase graduation rates for low-income students by one percent</li> <li>■ Increase total number of STEM degrees by three percent</li> <li>■ Increase graduation rates by one percent</li> <li>■ Decrease administrative costs by \$15 million</li> <li>■ Increase invention disclosures by three percent</li> </ul>	<a href="#">2013 SF 1236</a>
Montana	In place at two-year and four-year institutions	5% of base funding will be at stake during the FY2015 trial phase.	<p>Metrics for the FY15 trial phase include:</p> <ul style="list-style-type: none"> <li>■ Number of undergraduate and certificates awarded</li> <li>■ Retention defined as the percent of first-time, full-time freshmen returning for a second year of enrollment in the Montana University System</li> </ul>	<a href="#">Montana University System Performance Funding Website</a>
North Dakota	In place at two-year and four-year institutions	Nearly all base funding is calculated by the number of credit hours completed.	The funding formula is based on the number of credit-hours completed by students. A completed credit-hour is one for which a student met all institutional requirements and obtained a passing grade.	<a href="#">North Dakota Cent. Code § 15-18.2</a>

Oklahoma	In place at two-year and four-year institutions	Performance funding only applies to new appropriations	<p>The performance factors are:</p> <ul style="list-style-type: none"> <li>■ First-year retention</li> <li>■ First-year retention for Pell recipients</li> <li>■ 24 credits in first academic year</li> <li>■ Cohort graduation rates anywhere in the system</li> <li>■ Degrees granted</li> <li>■ Program accreditation</li> </ul>	
South Dakota	In transition		<p>Beginning in FY 2016, performance funding will be awarded based on criteria established by the newly created Council of Higher Education Policy Goals, Performance and Accountability. Until then, funds appropriated for performance funding will be awarded based on improvements in two areas:</p> <ul style="list-style-type: none"> <li>■ One-half of performance funding will be based on the number of new degrees awarded with special emphasis on degrees in science, technology, engineering, and mathematics (STEM) or other critical need areas.</li> <li>■ One-half of the funding will be based on the growth of expenditures for research.</li> </ul>	<a href="#">South Dakota Codified Laws Ann. §13-48A</a>

## Design Tips

Past experiences with performance funding have led to identification of best practices. States that are interested in developing a performance-based funding model may consider the following design tips.

- Put enough funding at stake to create an incentive for institutions to improve results, and decide whether the funding will come from new money or base funds. Most states are putting aside 5 percent to 25 percent of higher education dollars for performance funding.
- Allow postsecondary institutions with different missions to be measured by different standards. For example, research universities could be rewarded for research and development performance, while community colleges could be rewarded for workforce training results.
- Engage all stakeholders—policymakers, higher education leaders and faculty members—in the design of the funding system.
- Phase in the performance funding system to make the transition easier.
- Keep the funding formula simple, with unambiguous metrics, so expectations are clear to everyone.
- Maintain focus on the goal of improving college completion, while rewarding both progress and success. States can reward colleges not only for increased degree production, but also for retaining students year to year and for helping students transfer between institutions.
- Include a measure to reward colleges that graduate low-income, minority and adult students to ensure that institutions keep serving these populations.
- Align the funding formula with state economic and workforce needs by providing performance funding to those colleges that are graduating students in high-priority fields.
- Preserve academic quality by incorporating student learning measurements into the performance funding system.