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The "New" Performance Funding in Higher Education

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Over the past several years, public higher education, both in the U.S. and internationally, has increasingly been required to explain, defend, and validate its performance and value to a wide variety of constituents, including governors, legislators, students, parents, employers, and taxpayers. This trend is related to a number of converging factors:

- The economic crisis in state funding for higher education, and the belief that state funding will not recover to pre-crisis levels;
- Intense competition for extremely limited state tax dollars among all areas of government, and an increased focus on results and outcomes for public services;
- Increased societal needs and expectations for public higher education; and
- Increased skepticism and scrutiny of all social institutions.

In addition, in 2006, then U.S. Secretary of Education Margaret Spellings formed the bipartisan Commission on the Future of Higher Education that looked at the problems of higher education.[1] Among those problems the Commission addressed was the absence of accountability mechanisms to ensure that colleges succeed in educating students. Governors and legislators demanded that higher education provide some assurances that scarce dollars were not being wasted.

This focus on "accountability" led to the development of a continuum of performance-oriented mechanisms ranging from higher education "report cards" to performance-based funding for public colleges and universities. The latter is by no means a new concept in public budgeting, either in general or for higher education specifically. The federal government experimented with this kind of budgeting in the 1960s, and the state of Tennessee has had an ongoing performance-based funding program for higher education in place since 1979. In 2000, at the height of the old form of performance funding in higher education, more than three-fifths of all states, 35 in all, engaged in at least one form of performance-based funding.

However, the current wave of performance-based funding is quite different from that of a decade ago. State higher education leaders have begun to link calls for additional funding

to increased accountability and increased efficiency of operations. One of the main differences between performance-based funding then and now is the change in the focus from meeting the needs of higher education to meeting the needs of students, the state, and its economy.

Performance funding prior to 2000 generally was linked to and a component of the funding formula for higher education institutions. State-level funding formulas or guidelines for public higher education have been in use in the United States for over 60 years, and their original purpose was to distribute public funds for higher education institutions in a rational and equitable manner. Funding formulas have continually evolved into often-complex methodologies for determining institutional funding needs and allocating public funds, and have included performance components in many states. Perhaps the only constant during this period has been the ongoing controversy among participants in the state budgeting process surrounding the design and usage of these funding mechanisms.

In the first part of the 21st century, however, funding formulas for public higher education have undergone a radical change. State after state has shifted its funding formulas from the old methods to a new wave of formulas that examine the need for public resources for colleges and universities in a fundamentally different way.

As the national economy went into a period of recession in the last half of the first decade of the 21st century, state appropriations for higher education declined, and in some cases, declined more than 20%. Because higher education enrollments are countercyclical, enrollments increased while state appropriations decreased, putting significant pressures on institutional budgets. At the same time, there was a national focus on performance and in increasing the numbers of college "completers" as a means of improving the economy. From the White House to state houses to foundations such as the Bill and Melinda Gates Foundation and the Lumina Foundation, the demand was made for increased graduation rates at lower costs for students and at a lower cost to taxpayers. The economic crisis of the states led to demands for graduation of more students, with higher quality educations, more efficiently, and more quickly.[2]

This shift in focus away from the "needs" of the college or university to allocation methods that are student-centered, or based on measures of "success," is a sea change in college and university formula funding. Measures of success in this case relate to student success and institutional success in meeting the needs of the state or local community. In this time of financial crisis, there appears to be a much greater recognition of the fact that higher education is a major driver of the economy and that the state and local community need higher education to provide educated citizens with their greater earning power and ability to pay more in taxes, as well as the other benefits of higher education, including the transfer of knowledge. Policymakers appear to believe that higher education budgets are not aligned with state or local priorities and want institutions to produce graduates in high-demand fields like nursing or teaching.

Some of the measures in the new wave of funding formulas may sound like the old measures. For example, graduation rates used to mean the number of full-time, first-time freshmen who complete within 150% of the traditional time to degree, i.e., six years for a four-year institution and three years for a community college. The new measure of graduation rate includes students who take longer because of their part-time status or adults who have other responsibilities and are neither "first-time" nor "full-time." The new measure may be called "completions" and refers not only to graduations, but also to certificates, apprenticeships, and completion of the student's plans, which may be 12 hours of a computing programming strand, a teaching certificate, or some other credential.

The new funding models reflect the needs of the state and its citizens, not merely the needs of the institution. Instead of additional funding to educate more students and maintain quality, the economic crisis in states has led to reduced funding to educate more students and still maintain quality. This has been called the "upending of conventional ways" that are "out-of-touch with economic and demographic realities."[3] Instead of funding based on the level of resources needed to maintain the "market basket" of courses, programs, and degrees, given the make-up of the student body, the new funding mechanisms shift to funding based on results as measured by course completions (not enrollments), degrees, and other "completions" as defined above, as well as other measures of institutional success in meeting the state's and the students' needs.

This new paradigm may be called "performance funding" with a twist. Some states have been using performance funding to incent certain behaviors for over 30 years. States that had model performance funding under the old methodologies include Florida, Missouri, Ohio, and Tennessee. The new methodology does not do away with the underlying funding formula principles of equity, responsiveness, or adequacy, but rather calculates the amount of funding by including some different variables. The new methods have state goals as an important component, but give institutions flexibility in reaching the goals. A small proportion of the overall budget is allocated based on performance, but measures consider the differences between institutions and their students. These new models are phased in over time to give institutions time to change and realign their priorities.

States adopting new models have taken their longstanding formulas and adapted those formulas to emphasize results, such as graduation or course completions, and cost-effectiveness. In Ohio, for example, the measure of "enrollment" has moved away from the number of credit hours in which students are enrolled at the beginning of the semester to the number of credit hours for which students successfully complete the course. The weighting of the credit hours remains the same to recognize differences in the costs of providing courses in different disciplines and at different enrollment levels (undergraduate, graduate). Texas proposed to do the same for its four-year colleges and universities. However, the legislature rejected this proposal and directed the Texas Higher Education Coordinating Board to come back with a new formula based on completions for the four-year,

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nonmedical campuses. Other calculations in the funding model in Ohio and Texas remain the same, such as those for student services, academic support, and the physical plant. There is some concern on the part of faculty that counting only successful completion of a course will lead to grade inflation and pressure to graduate unqualified students. These are real concerns as is the concern that responding to state priorities that change results is trying to hit a moving target, making it impossible for institutions to be "successful."

In reality, most states using course completion credit hours are funding performance at the margins; that is, the state allocates only a small proportion of funds based on performance. South Carolina's performance funding system failed because it was based on 100% of the funds and was too complex. Other performance funding systems have failed when the political support from the governor or legislature changes, and state priorities change. Term limits and legislative turnover also were blamed for the failure of the South Carolina and Missouri performance funding systems.

In the sections that follow, this article examines the performance funding systems in use or proposed by several states. As of 2012, 32 states were either using a form of performance funding or had proposed performance funding. In many cases, the governor proposed a performance funding model based on the National Governors' Association Complete College America initiative. The Lumina Foundation and the Gates Foundation provided millions to jump-start performance funding in a group of states, including Texas, Indiana, and Arizona. The funding was designed to develop programs and funding for those programs that would increase the number of college completers, and, therefore, drive the economy.

Table 1 displays a comparison of the performance funding proposed or in use in six states, all of which had been using some form of performance or accountability measures before the new paradigm was proposed: Indiana, Louisiana, Ohio, Tennessee, Texas, and Washington (community and technical colleges only). Each of these states: (1) uses a new paradigm funding model at some point in the resource allocation process; (2) considers its funding model to be performance-based although "performance" may have different names; and (3) developed its funding model based on a set of guiding principles that were linked to a state master or strategic plan and involved and received support of the governor, key legislators, and other stakeholders.

The Texas and Ohio formulas are based on the "old" or traditional funding formulas that had been in use for many years in which credit hours weighted by varying factors related to the discipline and level are multiplied by a cost factor to determine the amount the college or university receives for instruction. The difference in the new formula is that the credit hours are credit hours *completed*, not credit hours *attempted or enrolled*. Ohio is phasing in the new formulas and has hold-harmless factors in effect for the next biennium. As mentioned earlier, the Texas legislature sent back the proposed funding formula for revision to degrees completed.

Table 2 displays the performance measures or accountability factors that have been included in the performance models of California (the California State University System), Colorado, Florida, Indiana, Louisiana, Ohio, New York, South Carolina, Tennessee, Texas, Washington, and Wisconsin. All of these states link at least a part of funding to performance measures.

The measures included vary from state to state. All of the states include the number of degrees awarded in some way in their performance funding. Indiana awards $5,000 for a baccalaureate degree and $3,500 for an associate's degree, and an additional amount for degrees awarded to adult learners and students classified as "at-risk." Tennessee, Louisiana, Ohio, Texas, and Washington include the number of degrees awarded in "momentum point" calculations.[4] Time to degree also is a concern in many states, as policymakers are asking students to graduate sooner and at a lower cost to the student. Graduation on-time is considered in performance models in Colorado, Florida, Indiana, Ohio, New York, South Carolina, and Wisconsin.

Of special importance in many states, given the need to award more bachelor's degrees, is transfer from a community college to a university campus. California, Indiana, Louisiana, Ohio, New York, South Carolina, Tennessee, and Washington include transfer as a component in their performance models. In Washington, Tennessee, Texas, and Ohio, transfers are counted in the momentum point calculation, and funds allocated to institutions based on the number of transfers.

Sponsored research activity also is an important component of the mission of universities, and is included in the performance measures in all the states except California and Colorado. Washington's performance funding is used for the community and technical colleges only, which do not have a research mission.

The newest components of performance funding are the use of momentum points and the counting of enrollment at course completion. Indiana, Louisiana, Ohio, Tennessee, and Texas all are counting enrollment not as course credit hours attempted but rather at successful course completion. Ohio, Tennessee, Texas, and Washington are initiating performance funding that relies on momentum points. These are significant changes in the spectrum of performance measures and performance funding. It is too soon to determine if these changes will incent behavior that leads to more efficient degree completion for more students. The performance funding in use (or proposed in Texas) in each of these states is described in the following sections.

Indiana

In Indiana, the funding method is being restructured to one that focuses on results, such as graduating more students on-time, successfully transferring students, increasing federal research dollars, and completing credit hours. Indiana's formula provides 65 percent of the marginal increase in appropriations to be based on performance, phasing in to completed credit hours rather than attempted hours. In 2010, 90% was based on attempted and 10% on completed hours. By 2014, 100% will be based on successfully completed hours. Also, by 2014, all new appropriations will be based on the performance factors. Currently, Indiana also is providing a "capitation grant" which can be either a decrease or an increase in funding, based on the change in total degrees

Table 1 | **New Paradigm Funding Models**

	Indiana	Louisiana	Ohio	Tennessee	Texas	Washington
Year began Performance Funding	2003	2008	1980s	1979	1990s	2007
Guiding Principles	yes	yes	yes	yes	yes	yes
Linked to State Master Plan	yes	yes	yes	yes	yes	yes
Basic Formula	7 performance based funding formulae: credit hours enrolled with 65% of the marginal increase in approp. based on performance indicators; starting in 2009, phase in to completed credit hours - in 2010, 90% of enrollment $ on attempted, 10% completed; by 2014 100% on completed; change in total degrees awarded, change in # of on-time degrees; low income # degrees;	6 parts in 2 components: instruction cost by discipline by level by type of inst; O&M based on APPA cost per GSF adjusted by FTES; IS and SS by % of core, research, and O&M; research by match of 50% of federal $; completers based on more degrees, sp. Fields, Pell, and other; workforce programs that meet state needs	separate for univ, regional, and cc: univ main and regional: course cr. Hrs completed at main - phase-in at reg'l, weighted by level and discipline, with extra for at-risk, multi-yr average phased in slowly, set asides for doctoral and medical; 99% hh in 2010, 98% hh in 2011; cc: enrollment, student success, institutional goals, enrollment in course averages for last 6 yrs. adjusted for student fees, by discipline extra wts for STEM; success component starting in 2011 at student success pts - 15, 30 cr hrs; remedial, degrees or 45 cr hrs, 5 cr hrs math, high school enrolled, transfers, with 3 yr. average.	changed enrollment base of 3-yr rolling average of fall enrollment; = 60% of formula with incentives focused on inputs and performance = 10% of funding; now focuses on outputs with more variables; base + "points" times average SREB salary by inst. Type+ performance funding	cc: 90% on attempted contact hrs with a matrix of 26 disciplines, 10% on momentum pts, with special amounts for critical fields; technical and state colleges: momentum pts and attempted hrs with wts for disciplines; univ (non-med): instruction and operations based on completed cr hrs, with teaching exp supplement and small inst. supplement phased in over 4 yrs. ; medical: headcount by program wts by base $ + research enhancement+ mission specific	base budget, plus $ for each momentum point in 1st yr; then base adjusted by increase in momentum points from previous year
Performance Funding	funding phased in; since 2003, 7% of total funding; in 2009, 100% of new $; for 2009-11, about 2% of all $, increasing	phased in	10% of funding phased in since '80s; 3 components - institutions, students, faculty; only institutions funded in 1st phase; then student incentives	outcomes weighted and linked to institution's mission	measures of student success funding at 100% of growth	momentum points, phased in over 5 years
Performance Indicators	increase in number of degrees $5,000 per bac, $3,500 per aa; completion on time - change funded at same as degrees; number of at-risk students same as degrees awarded to Pell recipients; community college transfers $875 per FTE for cr hrs transferred from VU or IT; , and for tech: provision of non-credit workforce training	completers overall, completers in sp. Fields, at-risk completers, graduation rates, cc transfers, course completions, adult (25+) completers, grad/prof completers; for cc: remedial completions, pass math, 15 cr hrs, 30 cr hrs, job placement, certificate, licensure pass rate	course completions, degree completions, sponsored research; lower tuition at access campuses, decreased time to ug degrees, increase in non-credit job-related training with specific reg'l needs given wts up to 5%of funding for cc	degree attainment, transfer activity, student retention, time to degree, research, first time students, etc. based on "points"	momentum points, course cr hrs completed	4 categories of momentum points: first yr retention (15 cr. Hrs.; 30 cr. Hrs.); 45 cr hrs.; completing college level math (5 college level math hrs); building toward college level skills (remedial math; remedial English, pass standardized test); and completions (degrees, certificates, apprenticeship training)

(Table 1 continued on page 7.)

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Table 1 continued | **New Paradigm Funding Models**

	Indiana	Louisiana	Ohio	Tennessee	Texas	Washington
Incentive Funding	yes	included in formula components	"challenges"	separate from performance and base funding	for medical schools	incentives are the $ for momentum points
Incentives	based on federal research , funded at $10M; now linked to performance indicators; 2-yr transfer incentive; non-credit "eco-devo" incentive new formula	50% of federal research $; $ for workforce programs;	research funding; special needs of region	linked to state plan	1.28% of research funding	$500,000 for student achievement rewards; asked for $7M for 2009-11
Used in Times of Budget Cuts	yes: better performance meant lower cuts	yes, but differently for increase, stable, and decrease	yes	?	not yet	yes
Support of Governor and Legislature	yes	yes	yes	yes	yes	yes
Support of Business Community	yes	yes	yes	yes	yes	yes

awarded to in-state students or in the on-time graduation of (full-time, first-time) in-state students from one year to the next, of $5,000 per baccalaureate degree and $3,500 per associate degree. In addition, because of a perceived state need to increase the number of low income graduates, an additional $5,000 per baccalaureate degree and $3,500 per associate degree is earned for an increase in the number of degrees to low-income graduates, where "low income" is measured by being a Pell Grant recipient.

Indiana also provides incentive funds for both the college and university that transfer or receive transferred credits. Another incentive fund provides a 75% state fund match for sponsored federal research dollars, although the legislature did not provide funding for this incentive in 2010. A third incentive fund provides resources to ITCCI and VU to expand non-credit workforce instruction. All of these performance and incentive funds in Indiana make up about 10% of all state appropriations to Indiana's public colleges and universities.[5]

Louisiana

In Louisiana, the funding formula is designed for the equitable distribution of limited dollars. However, pay for performance has become the dominant topic, and a portion of funding has been allocated to performance measures and to more accurately base funding on the role, scope, and mission of institutions. At the same time, fiscal demands have reduced funding to higher education. The new revisions to the formula drive improved performance by measures of progression from one year to the next, completion, time to degree, and fulfilling state needs. In addition, the new formula equalized funding for associate degree and lower division course work, moved to end of semester credit hours completed as the basis of "enrollment," and established performance measures for each institution.[6]

For the 2010-11 year, 75% of funding was distributed based on the traditional, equity-based formula and 25% based on performance. The formula has two parts, cost and performance, where the cost portion has three components: instruction, general support, and plant operations; and the performance piece also has three components: student access and success, articulation and transfer, and competitiveness and workforce. In the cost components, amounts per credit hour are determined based on level and discipline of credit hours. For general support, a percentage of instructional costs depending on the SREB averages by type of institution is used. For physical plant, amounts per gross square foot (GSF) are allowed, depending on a calculation of the space the institution should have. These amounts are summed to get the cost component. State funding of the cost component is set equal to the SREB average percentage support by type of institution, plus 5%.

For the performance components, the count of the number of degrees awarded, undergraduate degrees awarded to individuals who are over 25 years old, and degrees awarded to minority and Pell Grant recipients is determined for each institution, and are weighted. For the articulation and transfer component, a count is made of the number of students transferring from a two-year to four-year institution with equal incentive given to the transferring and receiving institution. For the competitiveness and workforce component, the number of completers in health professions and STEM disciplines are counted. In addition, the three-year average of federal funding for research and development is calculated.

Percentages of the total performance pool are assigned to each component, and the total performance funding is then allocated to each institution.

Ohio

Ohio began its performance funding in the 1980s, and has recently modified its traditional performance funding model to the new paradigm of funding based on course completions, graduates, and goals aligned with the statewide plan. During

Table 2 | **Performance Measures Used In a Sample of States, 2011**

Performance Measure	CA	CO	FL	IN	LA	OH	NY	SC	TN	TX	WA	WI
Retention Rates	X	X										
Enrollment at End of Course				X	X	X						
Achievement of Core Competencies	X											
Degrees Awarded	X	X	X	X	X	X	X	X	X	X	X	X
Degrees Awarded to Adult Learners				X	X							
Graduation Rates	X	X	X		X		X	X			X	
Time to Degree		X	X	X		X	X	X				X
Transfer Rates	X			X	X	X	X	X	X		X	
SAT/ACT Scores of High School GPA							X	X				X
Faculty Workload		X					X	X		X		X
Remediation	X				X						X	
Pass Rates on Professional Licensure Exams	X	X			X		X					
Student Opinion Surveys							X					
Faculty Opinion Survey							X					
Alumni Satisfaction Survey												X
Employer Satisfaction Survey								X				X
Graduate Job Placement					X			X				
Number of Licenses or Patents							X					
Sponsored Research Funds			X	X	X	X	X	X	X	X		X
Workforce Development				X	X	X	X	X			X	
Meeting State Needs						X						
Momentum Points:												
For Community or Technical Colleges						X			X	X	X	
For Universities						X			X			
Indicators Chosen by the Institution		X	X			X				X		

the 20th century, Ohio had a number of performance-based incentives (called "Challenges") as components of its funding model: Access Challenge, Success Challenge, Economic Growth Challenge, and Jobs Challenge. Total funding for the challenges equaled about 10% of total state appropriations. Success of the performance funding of the 1980s and 1990s led to new changes in 2010.[7]

Ohio's new model was mandated by the legislature and contained explicit goals for Ohio: enroll and graduate more Ohioans, increase state aid, improve efficiency, lower out-of-pocket costs for undergraduates, increase participation and success of first-generation students, and increase participation and success by adult students. As a result, there has been a major shift in the funding model to success-based formulas, one for the university main campuses, one for regional campuses, and one for community colleges, all of which were endorsed by the Governor and approved by the Ohio legislature.

The model for university main campuses shifted from enrollment based calculations to course and degree completions, using a three-year average, weighted by discipline and level, and adjusted for the costs of at-risk students. The degree completion component is being phased in slowly, as are hold harmless adjustments to course completion from enrollment. Set-asides were made for doctoral and medical education. For university regional campuses, the shift to course completion also is being phased in over time, although the plan is to add the degree completion component in two years, to allow regional campuses to adjust their missions.

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For the community colleges, the funding model consists of three components: an enrollment component, a student success component, and an institutional goals and metrics component. In addition, each college received an amount equivalent to the FY2009 Access Challenge and Tuition Subsidy allocation. The new formula will be phased in over several years. Community colleges receive extra funds for STEM enrollments and graduates.

The student success component is based on "success points" which in the Washington, Tennessee, and Texas models discussed in the remaining sections are called "momentum points." Success points are intended to measure the significant steps that students take toward higher education achievement.[8] Points are counted or earned at each institution for earning the first 15 semester credit hours, the first 30 semester credit hours, completing remedial credit hours, completing an associate degree or 45 credit hours, earning the first 5 credit hours of college level mathematics, being dually enrolled, or transfer to a university. The three-year average is used to calculate each community college's share of student success funding. Amounts are prorated to ensure that each institution does not lose a disproportionate share of funding in any one year.

In addition, for the community colleges, 5% of funding was set aside for meeting specific regional or community needs. Each institution negotiates with the chancellor to determine if it has met the criteria to receive these funds.

Tennessee

Tennessee has used performance funding since 1979, and had set aside 5% of funding for performance. The prior funding model was linked to the Tennessee Master Plan, and focused attention on student retention, enrollment of adult students at community colleges, research funding, and enrollment. Approximately 60% of the traditional formula was enrollment-driven and the incentive or performance factor was heavily focused on inputs.

In 2010, the formula was redesigned to focus on outputs, with broad agreement on the activities and outcomes higher education ought to pursue. The new formula strengthened links to the master plan, enhanced incentives for student retention and research, and focused on productivity linked to each institution's mission. Outcomes such as degree completion, transfer, retention were identified and data compiled. Points are awarded for those outcomes, weighted by the institution's mission. For example, for a university, the number of bachelor's degrees, graduation rate, time to degree, research expenditures, number of first-time students, number of sophomores, juniors, and seniors, doctoral degrees, masters degrees, adult student enrollment, and transfers in from community colleges, were counted, awarded points, and weighted to come up with a total number of points. These points were then multiplied by the average SREB salary for the type of institution, added to an amount for fixed costs, and added to performance funding to get the total allocation for the institution. For community colleges, the outcomes included the number of associate degrees, certificates, job placements, remedial and developmental success, first time students, adult student enrollment, and transfers out to a university.

This formula is being phased in over several years. This formula recognizes that each institution has a fixed cost, which is unrelated to the number of students enrolled. It will be interesting to see if the formula has the desired effect of incenting certain behaviors. Tennessee's formula is the most radical change of all the states, in that momentum points added to a "fixed cost" is being used to fund every institution. Although the research base for community and technical college momentum points is robust, it is unclear if there is a similar research base for determining the momentum points for regional and research universities, and for medical schools.

Texas

Texas has been the leader in funding formula development since 1950. Texas' formulas and models have been copied by many states, especially since Texas has done a cost study every other year since the 1950s. This long record of discipline costs, facility costs, and the relationships to other components of institutional costs is one of the best in all the states.

In 2010, the Texas Higher Education Coordinating Board (THECB) determined that it should move to the new paradigm of funding formulas. Although Texas had used several forms of incentive and/or performance funding since the 1990s, the 2012 and 2013 request budgets focused on student success and a comprehensive shared responsibility model. The state must provide adequate levels of support, the institutions must provide support services, the students and their families must enter college ready to benefit, aware of financial aid opportunities, the community must foster a college-going culture, and the K-12 system must prepare students academically.

The proposed new funding model aligned the formula to the mission of the institution based on measures of student success, and provided performance funding to recognize achievement in meeting student success. For the universities, funding was to be based on an instruction and operations formula that provides funding for the general operations of the institution, based on discipline and level, and a formula for facilities, with a supplement for teaching experience and for small institutions. In the new formula, the count of credit hours was to be based on enrollment at the end rather than the beginning of the semester, with weights for at-risk students. Performance incentive funding was to be continued to ensure institutions would continue to meet state needs. This was to be phased in over time to allow for institutions to plan.

For the community and technical colleges, funding was to be based on two formulas: Ten percent on momentum points and 90% on attempted contact hours. Attempted credit hours were weighted by critical fields, and by the difference in the costs of providing education. In addition the small institution supplement, and funds for alternative teacher certification, were continued.

For health-related institutions, five formulas were used to calculate the institution's allotment: instruction and operation, infrastructure, research enhancement, graduate medical education, and mission specific allowances.[9]

However, the Legislature rejected the proposal, and asked the Texas Higher Education Coordinating Board to return with

a proposal that would base funding on degree or program completions. Staff have been working with the institutions to revise the proposal, and will base the 2014 and 2015 request on a modified proposal.

In addition, in late April 2012, the Texas Technical College System proposed to tie 45% of their operating funding to the employment rates and salaries of their graduates. The system, which includes four colleges and 11 centers around the state, is collaborating with the Texas Higher Education Coordinating Board on the formula. The basic idea is to use job data captured by the state to compare graduates' salaries to an earnings baseline for high school degree holders in Texas. Also factored in will be overall employment rates for alumni, and other measures of their value to the state's economy. The colleges would see cuts if employment outcomes sag, and no new money will be tied to the plan. Roughly three-quarters of the technical colleges' operating budget comes from the state. The proposed formula will determine the instructional portion of the state's contribution, which is currently 45% of that budget.

This is a rather radical proposal, both in the percentage of the budget that would be determined by performance, and in that salaries of graduates can be the result of many factors beyond the control of the colleges. It is unclear how and if such a formula would work, when the factors included are not those over which the institution has any control.

However, this type of linking of funding to the average salaries made by graduates is being touted by many of the Republican governors as true "performance." In December 2012, Texas became one of the first states to report by field of study the first-year salaries of graduates of its public institutions. Florida indicated that it would soon follow. Both Texas and Florida have extensive data bases that make such reporting possible, but there are many difficulties with these reports. Self-employment income is not included, for one difficulty; another is salaries of graduates who moved out-of-state also are not included, or if they are, are self-reported. Many difficulties will have to be overcome to make this measure of first-year salaries a meaningful performance indicator.

Washington

In 2006 the Washington State Board for Community and Technical Colleges (WSBCTE) adopted a new performance funding system for the community and technical colleges. The system was based on work done by Teachers College Columbia University funded by the Bill and Melinda Gates Foundation that identified "momentum points" which are times in a student's college education that lead to continued success. These points have also been called "tipping points."

These points are key academic benchmarks that students meet that lead to successful completion of degrees and certificates. There are four categories of momentum points: building toward college levels skills, first year retention, completing college level math, and completion. These intermediate points in a college career provide "momentum" toward completion. Washington studied these measures, and in 2008 allotted $52,000 to each college to develop student success strategies. After the successful implementation, in 2011 and in 2012, $3.5 million was allotted to fund the momentum points.

Momentum points directly measure results. These measures have been used by WSBCTE: test score gains on basic skills tests, or earning a GED; passing a remedial math or writing course; earning 15 credit hours; earning 30 credit hours; completing five credit hours of college level math; earning a degree, completing an apprenticeship, or earning a certificate. Colleges are awarded one point for each momentum point earned above the previous year level of performance. Funding is set at a flat dollar amount for each point and if available funding does not cover all rewards, points are banked for the following year. All awards become part of the institution's base, and if the college's enrollment declines, momentum points are pro-rated.[10]

Another Notable Performance Funding Proposal

In April 2012, Missouri's higher education institutions proposed a new performance funding program, encouraged by Governor Nixon. Missouri has a history of allocating additional state resources on the basis of performance through its Funding for Results program from the late 1990s. However there has been no visibility or implementation strategy for performance funding since then.

The new proposal, which will have to be approved by the legislature, establishes five performance indicators for each institution. Each institution can earn one-fifth of its available increase in funding by demonstrating success on one of its five performance measures. If an institution demonstrates success on two measures, then it would earn two-fifths of the money, etc. while an institution succeeding on all five measures would receive 100% of its available increase in funding. The performance indicators are different for each of the sectors of higher education (technical college, community colleges, and research universities) and include common measures and one measure unique to the institution.

Consistent with the vision of the governor, FY 2013 would be established as the baseline year for data collection and building of support for establishing performance funding with funding first being requested for the FY 2014 budget. All performance measures will be evaluated based on a three-year rolling average with success being defined for each institution individually as improvement over that institution's performance from the previous year, or, when applicable, maintenance of a high level of performance in relation to a previously established and externally validated threshold. The base year for each measure will itself also represent a three-year average, and all numbers will be expressed in tenths.

Performance funding will apply to a portion of new appropriations from the state, and it will not be applied to existing base appropriations. Institutions will have the same complete flexibility regarding spending decisions with the money provided through performance funding as exists with current state appropriations. Furthermore, funding earned through performance in one year will be added to an institution's base the following year. Consequently, the recommendation is that total funding allocated on the basis of performance will not exceed approximately 2% to 3% of an institution's total state funding in any given year.[11]

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Table 3 | **Guiding Principles for Developing and Establishing Institutional Performance Indicators**

Guiding Principle	Definition
Credibility	The performance indicators should have internal and external credibility among all institutional stakeholders.
Linkage to Mission, Strategic Plan, and Policy Goals	The performance indicators should incorporate and reinforce institutional missions and strategic plans, as well as broad policy goals.
Stakeholder Involvement and Consensus	The performance indicators should be developed through negotiation and consensus among key stakeholders.
Simplicity	The performance indicators should be simple to convey and broadly understood.
Reliant on Valid, Consistent, and Existing Information	The performance indicators should be based on data that are valid and consistent and that can be verified by third parties when necessary. The indicators should also be based on established data sources *where possible* in order to maximize credibility and minimize additional workload.
Recognizes Range of Error in Measurement	The performance indicators should be established with wide recognition that there are certain unavoidable ranges of error in any performance measurement activity.
Adaptable to Special Situations	The system of performance indicators should accommodate special institutional circumstances where possible.
Minimizes Number of Indicators	The performance indicators chosen should be kept to the smallest number possible in order to minimize conflicting interactions among the indicators and to maximize the importance of each indicator.
Reflects Industry "Standards" and "Best Practices"	The performance indicators chosen should reflect "industry" norms and standards where possible in order to allow for benchmarking and peer comparisons.
Incorporates Input, Process, Output, and Outcomes Measures	The performance indicator system developed should have a balance of measures related to institutional inputs, processes, outputs, and outcomes.
Incorporates Quantitative and Qualitative Measures	The performance indicator system developed should incorporate both quantitative and qualitative measures in order to present the most complete picture of institutional performance possible.

Guiding Principles in a Performance Funding System

The Missouri proposal is noteworthy because it conforms to the best practice principles for a performance funding system. The driving force behind any performance-based funding model is the desire to establish a formal link between institutional performance and funding received. These are ultimately translated into a system of performance indicators on which the allocation is based. The concept of what is a "best practice" in measuring the performance of higher education institutions continues to evolve. However, there are a number of guiding principles that are generally accepted as "good practice" in the development of institutional performance measurement mechanisms. Table 3 outlines 11 guiding principles that are presented in no particular order of importance. The process for developing and establishing a system of performance indicators is unique to every enterprise; however, all of these principles need to be considered during this process to ensure a successful and effective outcome.

These guiding principles have a number of corollaries that should be considered as well:

- The expectations for institutional performance should be clearly understood and stated at the outset. Organizations can only "improve" if there is an understanding of the priorities for organizational performance. Clearly, the priorities should grow out of organizational mission and goals, however it is important that these be understood and agreed to by key participants at the beginning of the process.
- The starting place for institutional performance measurement and benchmarks for success varies among institutions. Because each institution operates within its own context, the beginning point for institutional performance measurement will also vary depending on the specific performance indicator. Using "graduation rate" as an example, one institution may be at 45% for a six-year graduation rate while another may be at 85%. Because

these types of variances can be due to a variety of potentially valid reasons, no value judgment should automatically be attached.

- "Continuous improvement" is not infinite. A related issue that must be dealt with in establishing performance measurement mechanisms is the fact that the rate of "improvement" in any given area is non-linear. Institutions may be able to make great strides toward improving certain operational or programmatic areas initially, but then come to a standstill. Or, an institution may move forward in another area and then falter for a period of time. In short, it is important to realize that the process of enhancing institutional performance is imprecise at best and that to expect institutions to "continuously improve" is unrealistic.
- Performance measures should not be developed only with available data systems in mind. Implementing a system of institutional performance measurement requires data to be available. In fact, most institutions develop performance measures with this in mind. This practice has both positive and negative consequences. The ability to work with existing data systems reduces the start-up time and cost to implement a performance indicator system. It also improves the comfort level of those involved, and thus the credibility of the process. On the other hand, limiting an institution's performance measures according to data availability may not result in the most appropriate or meaningful set of measures in the long run. Thus, notwithstanding the benefits of using existing data systems, the development of performance measures should recognize the current availability of data where appropriate, but should be primarily driven by the questions, "what are we trying to measure", and "why"?

The Missouri task force developing this proposal considered all of these factors in its deliberations, and proposed a system that meets the criteria for an excellent system of performance. In addition to that, the measures developed in Missouri are sensitive to the political realities of the 21st century funding for higher education.

Conclusion

Not all state performance funding systems meet the best practices criteria mentioned above. They are products of political compromise with all of the inherent problems in compromises. Some of the earlier performance funding initiatives adopted by states were not continued for various reasons, including both political and financial. However, there are some characteristics that are common to successful "new" performance-based funding programs:

- Involvement and input from state governing or coordinating boards;
- Involvement of legislative and executive branches of state government;
- Recognition of the state's financial capacity and economy;
- Accent on both institutional improvement and accountability;
- Sufficient time allowed for both planning and implementation;
- Involvement of the faculty and staff in assuming responsibility for "success" in meeting the goals;
- Excellent data systems that provide defensible and accurate information;
- Indicators related to state or local goals and needs:
- Recognition of and measures related to meeting student needs;
- Use of a limited number of indicators;
- Recognition and protection of institutional diversity and mission.

Only time will tell if the new performance funding will be successful in meeting the needs of the state, the local economy, and simultaneously the needs of students. This will be a continuing challenge in the next ten years.

Endnotes

[1] U.S. Department of Education, *A Test of Leadership: Charting the Future of U.S. Higher Education*, a report of the commission appointed by Secretary of Education Margaret Spellings (Washington, DC: The Secretary of Education's Commission on the Future of Higher Education, 2006).

[2] Brenda Albright, "Reinventing Higher Education Funding Policies: Performance Funding 2.0 – Funding Degrees," a paper for the Making Opportunity Affordable Initiative of the Lumina Foundation (Indianapolis, IN: 2010).

[3] Ibid., 1.

[4] Momentum points are specific times in a student's college experience where completion or passage of that point gives the student the "momentum" to move on to achieve greater goals.

[5] Indiana Commission for Higher Education, *Final Report on 2009-11 As-Passed Higher Education Budget* (Indianapolis, IN: August 14, 2009).

[6] Louisiana Board of Regents, "Learn More, Earn More, Be More: The Formula for Enriching Louisiana," paper presented to the Louisiana Association of Institutional Researchers (Baton Rouge, LA: August 4, 2010).

[7] Richard Petrick, *Funding Based on Course Completions: The Ohio Model* (Columbus, OH: Ohio Board of Regents, April 22, 2010).

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[10] Washington State Board for Community and Technical Colleges, "Student Achievement Initiative," http://www.sbctc.ctc.edu/college/e_studentachievement.aspx.

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