Putting students on a faster track to graduation, boosting degree completion rates, and accepting low-income students are all metrics many states are now scrutinizing as they decide where to funnel valuable public higher education dollars.

Across the country legislators are looking for a return on their investment in higher education by setting tangible goals for colleges and universities that often dovetail with state educational objectives. These performance-based funding models, sometimes also called outcomes-based funding models, are spreading from state to state and becoming part of the landscape of higher education financial support.

According to the September 2013 report “Performance-Based Funding: The National Landscape” from the Education Policy Center at the University of Alabama, 22 states had some form of performance-based funding in place at that time, seven states were transitioning to such a policy, and 10 states were having formal discussions surrounding the possibility. Only 12 states had no formal activity in the area.

University and college presidents need to be both aware of this funding model and proactive on this front, said Daniel J. Hurley, AASCU’s associate vice president for government relations and state policy.

“If performance-based funding has not yet come to your state, chances are good that it may be coming in the near future,” Hurley said. “It’s best if the higher education community...
A More Sophisticated Model

Generally, performance-based funding uses a formula with a varying number of performance indicators to decide the amount of public dollars that each state college and university gets. The goal is to influence institutions in a positive way and encourage them to reach or improve upon a variety of benchmarks, and a financial reward is used as incentive. Performance-based plans can vary widely from state to state, and are often revised over time. Some have had negative effects—creating disincentives for institutions to accept non-traditional students unlikely to graduate in four years, for example. But other states, like Tennessee, are swapping outdated policies for what some call “performance-based funding 2.0.”

These updated programs align a state’s goals for higher education with incentives for colleges and universities. They also take into account the differing missions and roles of various institutions and put enough dollars at stake to give the policies teeth.

“States are getting more sophisticated about what they’re doing and are crafting models that really reinforce institutional mission differentiation, rather than doing the same thing for everybody,” said Dennis P. Jones, president of the National Center for Higher Education Management Systems, whose October 2013 report, “Outcomes-Based Funding: The Wave of Implementation,” examines such policies. “They’re also putting a bigger share of the allocation into outcomes-based funding.”

Experts say educational leaders need to seek out several principals of a healthy performance-based system, as outlined below:

- **An Active Role for Stakeholders**
  Providing the leaders of higher education institutions with a voice in crafting the metrics that institutions will be measured by is crucial to success, said Kevin J. Dougherty, an associate professor of higher education and education policy at Columbia University’s Teacher’s College.

  “The way to get greater responsiveness from the institutions is to give them a greater role” in the development of policy and measurements used to gauge improvement or success. “If a university president is seeing a state discuss this, do not sit back and wait and say, ‘It’s out of our hands’ or refuse to engage,” he said. Otherwise, state leaders may come up with a process that is not well thought out, Dougherty notes.

  In Tennessee, former Austin Peay State University President Timothy L. Hall said he testified numerous times before lawmakers as they debated the state’s 2010 Complete College Tennessee Act, which is often pointed to as a model. Hall said his own involvement and that of other state educational leaders ensured that lawmakers had a grasp of the unique challenges faced by institutions like Austin Peay, which serves a mostly low-income or non-traditional student. “If you don’t take that into account you’re doing nothing but bagging up money from the poor schools and sending it to the richer schools,” Hall said.

  In Ohio, which had had a more limited performance-based model for decades, Gov. John Kasich revamped the program and started by asking university and community college presidents to devise their own formula, said Jack Hershey, the associate vice president for government affairs at The Ohio State University. That proactive stance also translated into legislative strategy, Hershey said. When the state looked for places to cut taxes, university presidents had drawn a “protective wall” around the program that lawmakers respected. “When you ask us to solve our own problems rather than trying to solve it for us, that’s a win,” Hershey said.

- **Differentiated Metrics and Rewards**
  A hallmark of some of these revised performance-based plans is acknowledgement that distinctive institutions have different, but equally important, functions. This mission differentiation may mean separate models for two- and four-year programs and different weights may be assigned to different metrics. In some states, like Pennsylvania, schools can choose from a list of metrics to be measured by, in addition to standard measurements. Tennessee measures student progression throughout college, and schools are awarded points for students who make it to 24, 48 and 72 credits, as well as for degrees and certificates granted. However, the formula identifies two important demographics—low-income and adult students—and provides extra weight for those students who make progress, Hall said. In the last few years, the University has garnered several million dollars in extra funding based on this formula, he said.

  “It has had a tremendously favorable impact on the school, because finally the things we were already doing and focusing on were taken into account,” said Hall, who became the president of New York’s Mercy College in May. But that’s exactly what didn’t happen with Florida’s new performance-based plan, approved last year. This plan treats flagship schools like the University of Florida the same way it does the University of West Florida, a school not associated with a major
metropolitan area, which accepts many low-income students, said Judy Bense, the University of West Florida president. All 10 metrics in the plan carry the same weight.

Graduation rates play a significant role in the measurements being used to dole out funding, she said, without any weighted categories. “We have a mission of access and the University of Florida does not,” Bense said. “They’re not going to take the ‘D’ student from a poor background who needs tutoring and advising.”

She also noted that because of the makeup of her school’s student body, the University of West Florida focuses on smaller class sizes and more intensive support, making educational costs more expensive, per student, than in other institutions.

The performance-based policy inadvertently encourages schools like Bense’s to try to game the system, she said. “To improve our retention rate, our graduation rate, our progress rate, we would have to only take students who are academically elite, have higher grade point averages and higher test scores and turn away at-risk students,” said Bense, who plans to meet with Florida’s board of governors soon to lobby for changes to the policies.

- Make the Money Meaningful

If a plan does not involve a significant amount of dollars, it’s unlikely to have a significant effect. “States have to include enough dollars so it will actually motivate a change in institutional behavior,” Hurley said. “If it’s only four or five percent of the higher education dollars a school receives, that’s not going to change behavior.”

In Ohio, before the latest version of performance-based funding was adopted, lawmakers realized that because performance funding was low and not included in base allocations to institutions, it was not having an impact. This year, state college and universities’ funding is entirely based on performance rather than the number of students enrolled, Hershey said.

“In the past, nobody paid attention to the formula, because there wasn’t much you could do to change how much money an institution got,” Hershey said. “Now it’s much more meaningful.”

Ohio institutions are responding in creative ways. Cleveland State University instituted a tuition increase if a student attends part time, but implemented a tuition freeze for full-time students to encourage timely degree completion. Shawnee State University offered scholarships for students with less than a year left on their degree—but who had taken a semester or more off—to boost a return to school and graduation, Hershey said.

It’s important for funding to remain consistent, however, even during a sour economy, Jones said. “You don’t want to keep it one way forever, but you have to keep it stable,” he said. “You don’t pull up the carrot every week to see if it’s growing.”

States may have to get creative. In Tennessee, where 80 percent of total state higher education funding is allocated on a performance basis, lawmakers in the past had enough dollars to provide that on top of what they already delivered to institutions.

This year, however, Hall said, “the formula became a zero-sum game.” So any new money a school earned through progress on the plan’s metrics had to come from losses from another institution, Hall said, noting that while this scenario is not ideal, it’s reality. “Our tax revenue in the state is down this year and that caused choices to be made” continued Hall.

- Make Penalties Reasonable

While it’s important to tie funding to performance for impact, it’s also critical that performance-based funding doesn’t unduly penalize schools that struggle, said Hurley. “If there is going to be a loss by any institution, it should be limited,” he said. “Any penalty should recognize there are many external factors at play.”

Yanking significant dollars from an institution that hasn’t performed well in metrics can have the opposite effect of the intent of performance-based funding. A struggling school doesn’t need its resources sapped, said Dougherty, and the possibilities of penalties might need to be phased in over time. “States need to think about what might catalyze a greater institutional response and what might get into the way of institutional success,” he said.

Some states have stop-loss provisions that prevent any cuts from being so large they jeopardize the stability of the institution. Others have provisions that phase in penalties over time. A university or college president can use these performance- or outcomes-based funding models as effective motivators for garnering support for positive changes on a campus, Jones said. “Outcomes-based funding models are a powerful tool in the hands of a savvy president,” he said.

“They have changed the conversation to focus on the outcomes we want.”

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