TYING FUNDING TO COMMUNITY COLLEGE OUTCOMES
MODELS, TOOLS, AND RECOMMENDATIONS FOR STATES

EDITED BY DAVID ALTSTADT

REFLECTIONS ON OHIO’S NEW PERFORMANCE-BASED FUNDING SYSTEM, BY ERIC FINGERHUT

DESIGN PRINCIPLES FOR AN EFFECTIVE PERFORMANCE-BASED FUNDING SYSTEM, BY RICHARD KAZIS

CHARACTERISTICS OF PERFORMANCE-BASED FUNDING SYSTEMS FOR COMMUNITY COLLEGES IN ELEVEN ACHIEVING THE DREAM STATES

APRIL 2012
The Developmental Education Initiative consists of 15 Achieving the Dream community colleges that are building on demonstrated results to scale up developmental education innovations at their institutions. Six states are committed to advancing their Achieving the Dream state policy work in the developmental education realm. Managed by MDC with funding from the Bill & Melinda Gates Foundation and Lumina Foundation, the initiative aims to expand groundbreaking remedial education programs that experts say are key to dramatically boosting the college completion rates of low-income students and students of color. The innovations developed by the colleges and states participating in the Developmental Education Initiative will help community colleges understand what programs are effective in helping students needing developmental education succeed and how to deliver these results to even more students.

WWW.DEIONLINE.ORG

MDC's mission is to help organizations and communities close the gaps that separate people from opportunity. It has been publishing research and developing programs in education, government policy, workforce development, and asset building for more than 40 years. MDC was the managing partner of Achieving the Dream: Community Colleges Count for six years and was responsible for its incubation as a national nonprofit and is the managing partner of the Developmental Education Initiative.

WWW.MDCINC.ORG

Achieving the Dream, Inc. is a national nonprofit that is dedicated to helping more community college students, particularly low-income students and students of color, stay in school and earn a college certificate or degree. Evidence-based, student-centered, and built on the values of equity and excellence, Achieving the Dream is closing achievement gaps and accelerating student success nationwide by: 1) improving results at institutions, 2) influencing public policy, 3) generating knowledge, and 4) engaging the public. Conceived as an initiative in 2004 by Lumina Foundation and seven founding partner organizations, today, Achieving the Dream is the largest non-governmental reform movement for student success in higher education history. With 160 community colleges and institutions, more than 100 coaches and advisors, and 16 state policy teams—working throughout 30 states and the District of Columbia—Achieving the Dream helps 3.5 million community college students have a better chance of realizing greater economic opportunity and achieving their dreams.

WWW.ACHIEVINGTHEDREAM.ORG

Jobs for the Future identifies, develops, and promotes new education and workforce strategies that help communities, states, and the nation compete in a global economy. In more than 200 communities across 43 states, JFF improves the pathways leading from high school to college to family-sustaining careers. JFF leads the state-policy and capacity building efforts for both Achieving the Dream and the Developmental Education Initiative.

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ABOUT THE AUTHORS

David Altstadt, the principal of David Altstadt Consulting LLC, conducts research and analysis of education and skills development systems in order to advance evidence-based policies and practices that are effective at preparing low-skilled adults for family-sustaining careers. Altstadt has written about innovations in adult and postsecondary education, welfare, workforce development, apprenticeship, financial aid, and labor market information systems. He has written a number of publications for JFF, most recently Aligning Community Colleges to their Local Labor Markets. He holds a Master of Arts in liberal studies with a concentration in social and public policy from Georgetown University and a Bachelor of Science in journalism from Ohio University.

Eric D. Fingerhut, formerly chancellor of the Ohio Board of Regents, is a nationally recognized leader in education and economic development policy. Chancellor Fingerhut currently serves as an education advisor to the Battelle Memorial Foundation, the largest nonprofit research and development organization in the world, as a senior advisor to Jobs for the Future, and as a Distinguished Visiting Professor at Wright State University.

As chancellor, Fingerhut led a system consisting of 14 universities, 23 community colleges and dozens of career/technical education and adult literacy programs serving over 600,000 students per year. He was also responsible for the state's broadband, supercomputing, and online higher education library systems, and chaired the Ohio Third Frontier Commission, one of the nation's best funded state efforts to promote innovation and entrepreneurship through research and development partnerships between business and industry.

Before being appointed chancellor, Fingerhut was on the business administration faculty of Baldwin-Wallace College, and also served the college as the Director of Economic Development Education and Entrepreneurship. He has served as a senior lecturer in political science, law, and management at Case Western Reserve University. Fingerhut had a distinguished career in elected office, serving for ten years in the Ohio Senate and two years in the U.S. House of Representatives. He has practiced law privately and was an attorney for the Legal Aid Society of Cleveland. He has worked for nonprofit organizations focused on welfare-to-work programming and advocacy on health and human services issues. In 2008, Chancellor Fingerhut was the recipient of the “Outstanding Public Service Award” from The Ohio State University John Glenn School of Public Affairs.

Chancellor Fingerhut is a graduate of Northwestern University and the Stanford University School of Law.

Richard Kazis, senior vice president of Jobs for the Future, leads JFF’s policy and advocacy efforts, including overseeing JFF’s role leading state policy efforts for Achieving the Dream, the Developmental Education Initiative, and Completion by Design. Since joining JFF in the early 1990s, his areas of focus have included: school-to-career models and policy; strategies for improving outcomes for low-income community college students; state policies to promote college and career readiness for struggling students; policies to promote low-wage worker advancement; and the emerging role of labor-market intermediaries in workforce development. Kazis serves on the boards of the Institute for College Access and Success and the Workforce Strategy Center, and is a graduate of Harvard College and the Massachusetts Institute of Technology.

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FOREWORD

Since the 1970s, the share of jobs requiring postsecondary credentials has more than doubled, spurring significant growth in the number of Americans entering two- and four-year institutions. Amid swelling enrollments, however, graduation rates have remained stubbornly low. Over the next decade, economists predict a continued upswing in jobs requiring postsecondary credentials—and many warn that there will be too few college graduates to fill these positions. Recognizing the economic and educational imperatives, public policymakers, higher education leaders, and philanthropic and advocacy groups are mobilizing aggressive national and state campaigns to bolster college completion.

Campaigns to improve student success are particularly concerned about the performance of our nation’s community colleges. Community colleges have experienced a nearly three-fold increase in enrollment since 1970 and now educate about 40 percent of all postsecondary students. These institutions are the primary point of access to postsecondary learning and credentials for disadvantaged and nontraditional students. Moreover, jobs requiring an Associate’s degree are expected to grow faster than any other education and training level. Community college performance is critical to long-term economic vitality across our nation, yet the colleges report low completion rates. According to U.S. Department of Education statistics, in 2008 only 26 percent of first-time beginning community college students attained a degree or certificate within five years.

In response to this challenge, state governments are testing the power of several policy levers to change individual and institutional behaviors in ways that increase and accelerate college completion. One of these is the formula used to allocate public funding to institutions. Typically, states fund public colleges and universities based on their enrollments. Recently, however, several states have experimented with new performance-based funding models. These systems allocate some percentage of state support on the basis of institutional progress in improving student retention, progression, or completion of credentials, not just on enrollment levels.

Performance-based funding is not new. In recent decades, many states have experimented with performance-based funding systems for two- and four-year colleges. Most past efforts were abandoned fairly quickly after encountering resistance and failing to produce intended results. Today, though, many state policymakers and advocates believe that funding models can be designed to avoid the pitfalls of the past. Additionally, state fiscal constraints and deepening employer concerns about workforce readiness are driving states toward greater accountability in public higher education—to more transparency in reporting institutional performance and, ultimately, toward tying funding to institutional results.

Columbia University’s Kevin Dougherty has highlighted the factors that undercut prior state efforts, including ill-designed incentive formulas, unstable funding, loss of original champions in government and business, and opposition from higher education leaders. Policy experts also underscore the risks to the access and equity mission inherent in any performance funding system. If not properly designed, performance funding can create incentives for institutions to “cream” applicants or to lower academic standards, hurting the very students the new formula should help.
States are now building performance-based funding systems that they hope will minimize unintended negative consequences. The design challenge is particularly pronounced in the community college sector, but the emergence of “Performance Funding 2.0” models in Washington, Ohio, Indiana, Tennessee, and other states is providing rich examples of how states can use changes in the funding formula to: redirect state priorities and investment; drive institutional adoption of best processes and practices to help more students succeed; and promote significant changes in institutional behavior and resource allocation that do not require intrusive, inflexible mandates.

Jobs for the Future, and more than a dozen states we work with through Achieving the Dream and the Developmental Education Initiative, understand that people and institutions respond strongly to incentives that are well-designed and well-communicated. We also know how important it is to get the incentives right, because the unintended consequences of poorly conceived and implemented policy changes can be devastating to intended beneficiaries.

JFF has produced this set of policy “tools” to help states understand the opportunities and challenges presented by Performance Funding 2.0—and to inform the development of funding systems more aligned with the critical public priorities of persistence and completion. We present several tools designed to describe existing models and to draw out key policy and political lessons from past and current state experiences with performance funding. We believe this compendium will be a useful guide to state policymakers and key stakeholders as they explore and implement strategies for aligning funding more directly with desired educational and economic outcomes for a state and its residents.
INTRODUCTION

This brief presents a set of JFF-produced tools that can help states design performance-based funding systems that can influence student and institutional behavior, avoid unintended consequences, and withstand shifts in political and economic climates. These tools are based primarily on the experience of states participating in Achieving the Dream and the Developmental Education Initiative.

SECTION 1

REFLECTIONS ON OHIO’S NEW PERFORMANCE-BASED FUNDING SYSTEM: DEFUSING A TICKING TIME BOMB

This first-hand reflection on the origins, design, and implementation of Ohio’s new performance-based funding system is written by its lead architect, former chancellor of the Ohio Board of Regents Eric Fingerhut. An introduction to Chancellor Fingerhut’s piece describes the specifics of Ohio’s new system.

Chancellor Fingerhut concludes his reflections with five recommendations to other states considering a performance-based funding plan:

> Move quickly on the basic decision to shift to performance-based funding.

> Be clear, inclusive, and patient in the process of shifting to performance funding.

> Proactively make the case for the need for performance-based funding and its potential benefits.

> Calculate the formula and publicize it in year 1, even if the impact only phases in gradually.

> Remember that presentation and process are critical to winning the debate.
SECTION 2
DESIGN PRINCIPLES FOR AN EFFECTIVE PERFORMANCE-BASED FUNDING SYSTEM

At the request of the Campaign for College Opportunity in California, JFF’s Richard Kazis prepared recommendations for California policymakers as they debated whether and how best to implement performance-based funding. His recommendations can guide state leaders as they think through design and implementation issues—and as they seek to address challenges related to equity, sustainability, and political buy-in. Kazis recommends that states:

> Reward both progress and completion.
> Protect the academically and economically vulnerable.
> Make the incentive big enough to change institutional behavior.
> Implement the new formula gradually and with predictability.
> Get buy-in from key stakeholders, including faculty.
> Introduce performance-based funding in the context of a higher education improvement and efficiency strategy.

SECTION 3
CHARACTERISTICS OF PERFORMANCE-BASED FUNDING SYSTEMS FOR COMMUNITY COLLEGES IN ELEVEN ACHIEVING THE DREAM STATES

Fifteen states are members of the Achieving the Dream and the Developmental Education Initiative state policy network. They are working together to support evidence-based innovations at community colleges to improve student outcomes. In recent years, seven of those states have shifted funding for community colleges to reward student success, not just access (Hawaii, Indiana, Massachusetts, North Carolina, Ohio, Oklahoma, and Washington). Several more states, including Arkansas, Connecticut, Texas, and Virginia, are considering implementation of varied performance funding schemes right now. All see the potential power of changing the incentives but remain cautious given past experience among states. This matrix summarizes similarities and differences among the network’s states that have performance-based funding for their community colleges.
INTRODUCTION: OHIO’S SHIFT TO PERFORMANCE-BASED FUNDING

BY DAVID ALTSTADT

When Ohio revamped its higher education funding for Fiscal Years 2010 and 2011 and beyond, the overhaul put an end to the state’s Challenge Grants, a decade-long set of incentives that were awarded as performance bonuses—on top of base allocations—to institutions that met enrollment, completion, or workforce development objectives. In place, Ohio implemented three new funding formulas (Ohio Board of Regents undated, 2009a, 2009b, 2011).

University main campuses: In place of enrollment-based subsidies, universities are now funded primarily on the basis of course completions. The share of resources allocated for degree completions will rise over time, from 5 percent in FY2010 to 20 percent in FY2013. Completion incentives are weighted based on:

- The size of at-risk student populations, defined as those having financial need and lacking academic preparation; and
- Race, ethnicity, and age.

The funding formula includes several other components. Resources are set aside for doctoral and medical programs and for outreach efforts typically conducted at “gateway” schools in disadvantaged regions of the state.

University regional campuses: Similar to main campuses, regional campuses are now funded primarily on course completion rather than course enrollment. Factoring in degree completion is under consideration. The formula also gives weight to at-risk students.

Community colleges: In acknowledgment of the historic mission of community colleges to expand access and prepare academic-deficient students, most community college funds are still allocated based on enrollment. However, in keeping with the trends of Performance Funding 2.0, a small but growing portion of the state subsidy is awarded based on the number of students who achieve “success” points. Ohio’s Success Points incentive structure, adapted from Washington state’s Momentum Points, measures the significant steps that students take toward higher education achievement, including progress through developmental education. Community colleges earn points when students:

- Complete a first developmental education course;
- Complete a developmental math and/or English course and subsequently enroll in a college-level math and/or English course at any public college or university;
> Earn their first 15 and 30 semester credit hours of college-level coursework at the community college;

> Earn an Associate's degree from the community college; and

> Transfer to a four-year college or university after completing at least 15 semester credit hours.

A campus earns one point for each student achieving a particular element of success, with the exception of the developmental education components, which are weighted by two-thirds for a maximum possible award of two points per student. Success Points are aggregated for each campus and for all campuses, and the available funds are allocated in proportion to each campus' share of the total. Success Points accounted for 5 percent of community college funding in Fiscal Year 2011, rose to 7.5 percent in FY2012 and 10 percent by FY2013 and will be capped at 20 percent by FY2015.

Ohio's Success Points funding recognizes the important role of community colleges in serving academic-deficient students. That role is expected to grow. Ohio has established a goal of transitioning universities away from providing developmental education beginning in 2014, while increasing the number of community colleges who enter into agreements with universities to provide developmental education to their students.

Ohio has taken a number of steps to implement the new formulas gradually and with predictability. Institutions are awarded funds based on a three-year average of their performance. In addition, the state has instituted a stop-loss provision that caps the amount of funding that a low-performing school can lose during the initial years of implementation. For FY2013, institutions will receive at least 96 percent of previous year's allocation.

It is too early to tell what effect Ohio's new funding scheme will have on student achievement. The three-year averages still contain academic years prior to the implementation of performance-based funding, while the stop-loss provision is a temporary buffer for failure. Considering the gradual implementation of incentives, it is likely that some institutions have yet to fully change their behaviors and practices to achieve the intended goals.

For now, the Ohio experience is about process, not outcomes. In that process, state policymakers, postsecondary institutions and associations, and national funders each played key roles in building momentum toward changing the funding system.

After taking office in 2007, Governor Ted Strickland (D) committed to making higher education a more effective resource for businesses, individuals, and the state's economic future. With bipartisan support, the state legislature bestowed new policymaking authorities on the chancellor of the Ohio Board of Regents and made the position a part of the governor's cabinet. Lawmakers also mandated the development of a 10-year strategic plan for higher education. Subsequently, Gov. Strickland ordered the creation of the University System of Ohio, in an effort to build stronger ties and common goals among the state's public universities and community colleges, as well as adult technical education centers and Adult Basic Education providers.

Meanwhile, the state, along with several of its postsecondary institutions, has participated in national initiatives supporting the implementation of evidence-based strategies and polices for improving student success. Six Ohio community colleges are part of Achieving the Dream, and five of those participate in the Developmental Education Initiative. Also, the state received a Productivity Grant from Lumina Foundation. These experiences contributed to Ohio's establishing a statewide transfer policy to reduce wasted time and credits, committing to nominal tuition increases, and implementing a statewide e-procurement system for sharing services between university and community college partners. The five community colleges participating in the Developmental Education Initiative are now redesigning the delivery of developmental education. The Ohio Association of Community Colleges has tapped these institutional models to craft developmental education policy recommendations to help other Ohio colleges improve student success in line with performance-based funding goals.
Ultimately, making performance-based funding a reality took the effective, engaged leadership of Chancellor Eric Fingerhut. He proposed the overhaul of state funding, kept the development process moving forward, and ensured that college presidents, boards of trustees, and state legislators would consent to the final formulas. As a former legislator, Fingerhut offers a unique perspective on what it takes to build and sell a performance-based funding system. His insights offer a roadmap for other states considering implementation of performance-based funding.

**TIMELINE**

> **January 13, 2007**: Ted Strickland (D) inaugurated as Ohio’s 68th governor.
> **March 14, 2007**: Eric Fingerhut appointed as Ohio’s seventh chancellor of the Board of Regents.
> **May 15, 2007**: Gov. Strickland signs HB 2 (127th legislative session), making the chancellor a cabinet-level position.³
> **June 30, 2007**: Gov. Strickland signs HB 119 (127th legislative session), the FY2008-2009 operating budget, in which the legislature mandates a 10-year strategic plan for higher education and an annual report on educational conditions.⁴
> **August 2, 2007**: Gov. Strickland issues an executive directive to establish the University System of Ohio and direct the Board of Regents to develop a 10-year strategic plan for higher education.⁵
> **March 31, 2008**: Ohio Board of Regents, under the leadership of Chancellor Fingerhut, submits to the legislature the *Strategic Plan for Higher Education, 2008-2017*.⁶
> **April 2008**: Ohio Board of Regents begins formal discussion and development of performance-based funding system.
> **Summer 2008**: Ohio Board of Regents cultivates understanding of the system through meetings with legislators and college leaders.
> **September 2008**: Ohio Association of Community Colleges (OACC) provides initial recommendations to the Board of Regents that the community college funding formula include an enrollment component, an institution-specific goal, and the use of momentum points.⁷
> **February 2, 2009**: Gov. Strickland issues FY2010-2011 executive budget, proposing performance-based funding system for postsecondary institutions.⁸
> **July 17, 2009**: Gov. Strickland signs HB 1, the FY2010-2011 operating budget, revising state share of instruction subsidies to a performance-based funding system for public universities, taking effect FY2010. The bill also authorizes the completion of a new funding formula for community colleges, to be fully designed and implemented in time for FY2011, the second year of the biennium. In response to lawmakers’ charge, OACC convenes community colleges to prepare recommendations to the chancellor.⁹
> **October 2009 to March 2010**: Board of Regents establishes a subsidy consultation committee to develop recommendations for expanding the definition and recognition of Ohio’s “at-risk” student population for use in the university funding formulas.
> **April 12, 2010**: OACC submits final recommendations to the Ohio Board of Regents on community college funding formula.¹⁰
> **August 31, 2010**: Chancellor Fingerhut sends a memo to the State Controlling Board outlining the new funding formula for community colleges.
> **January 10, 2011**: John Kasich (R) inaugurated as Ohio’s 69th governor.
> **June 30, 2011**: Gov. Kasich signs HB 153, the FY2012-2013 operating budget, which provides a new definition of an “at-risk” student for the FY2012 state share of instruction (SSI) formulas for university main and regional campuses, increases the Success Point share of community college SSI funding to 7.5 percent in FY2012 and 10 percent in FY2013, and increases the degree completion share for university main campuses to 15 percent in FY2012 and to 20 percent in FY2013.¹¹
My education on the politics of higher education funding at the state level began when I was the ranking Democrat on the Ohio Senate’s Finance Committee. No matter how comprehensively the chancellor of the Ohio Board of Regents described the broad challenges facing higher education to the committee, what the committee members really wanted to know was how much state money would go to the colleges and universities in their districts. Because the answer to that question was determined by each school’s enrollment, the discussion inevitably focused on what higher education insiders call “access.” Was enrollment increasing or decreasing? Would tuition rise under a particular budget proposal? What would be the impact of that increase on enrollment growth?

In public testimony and private visits with legislators, the representatives of each school would tout their enrollment numbers and share other bits of good news, perhaps about the construction of a new outreach campus or the creation of a new academic program. The leaders of the institutions would clearly state that the only thing that would keep them from continuing to make progress would be a cut in state funding.

Of course, both as a state legislator and later as chancellor, I wanted to see as much money go to higher education as possible. And I was not alone—many other state leaders felt the same way. We knew there were obstacles, especially the potential reductions in available state funds caused by an economic downturn. But there was another risk to higher education funding that had nothing to do with the economy—a ticking time bomb that could seriously undermine our case for support. As noted earlier, the dollars we were arguing for were distributed essentially based on the number of students enrolled at the beginning of the academic term. Unfortunately, too many of the students that the taxpayers were subsidizing were in their seats at the beginning of the academic term—when the state counted the numbers for purposes of distributing the funding—but not at the end of the term when credits and degrees were awarded. As a result, a large percentage of state higher education dollars were going to schools to cover the costs of students who didn’t complete their courses or their degrees. One strongly worded exposé pointing out the fact that taxpayers were effectively paying for empty seats would ratchet up the pressure to make cuts to higher education budgets.

Low completion rates of courses and degrees are not the only inefficiency that lawmakers see in higher education. Legislators also routinely question faculty course loads, duplication of programs between institutions, and administrator salaries. When deciding how to allocate scarce tax dollars, any evidence of wasteful spending is damaging. As chancellor, it was clear to me that higher education had to lead by putting forward an efficiency agenda, rather than being forced into one. And a critical part of that efficiency agenda would be to make our higher education funding system outcome-driven.

THE ORIGINS OF OHIO’S PERFORMANCE-BASED FUNDING SYSTEM

A combination of factors helped lay the foundation for Ohio’s push to adopt performance-based funding. Some of these were unique to Ohio, while others were national in scope. In 2007, bipartisan legislation changed the state’s higher education governance structure. Previously, the governor appointed members of the Board of Regents, and the Board of Regents selected the chancellor. Given the staggered terms for members of the Board of Regents, the governor’s influence over the chancellor selection was indirect and, often, nonexistent. The new statute provided that the governor would appoint, and
the Ohio Senate would confirm, the chancellor as a cabinet member. Giving the chancellor a more central position in Ohio’s policymaking and political structure meant that the governor needed a different sort of appointee. While previous chancellors were often academics who rose through the ranks, Governor Ted Strickland nominated me because I knew the levers of state government and could operate with the full backing of the executive and legislative branches.

The higher education bill that overhauled the chancellorship also mandated that the chancellor submit a strategic plan to the legislature by March 31, 2008. Unlike most strategic plans initiated by higher education agencies, this plan was highly anticipated by legislators, which lent urgency and focus to the planning. A central goal of the plan we produced was to graduate more students. We knew that we had to direct as much of our resources toward this goal as possible, or we would never be successful.

Also important was the growing national attention on college completion, as well as the support that national foundations provided to states to help advance this priority. These efforts helped us to better understand what could be done to raise completion rates and how to do it.

The governor and many legislative leaders on both sides of the aisle believed in higher education and wanted to support strong higher education budgets even in difficult economic times. However, higher education leaders needed to show that they were willing to attack obvious areas of inefficiency if they expected to preserve and grow their budgets. This need, coupled with the governance changes and the growing emphasis on graduation rates, set in motion the development of performance-based funding.

DESIGNING OHIO’S NEW PERFORMANCE-BASED FUNDING SYSTEM

DESIGN STEP 1: LOOKING CRITICALLY AT EXISTING PERFORMANCE INCENTIVES

As in many states, Ohio began to experiment with performance funding by creating a supplemental pool of funds that would be distributed on top of the enrollment formula as a reward to those schools that did the best job of encouraging completion. In Ohio, this was called the “Success Challenge.” For everyone who argued that Ohio should award some money for graduation, there were others who asserted the importance of increasing access by keeping tuition low or of strengthening the tie between education and the workforce. To serve these priorities, Ohio also created an “Access Challenge” and a “Jobs Challenge.”

In practice, the Success Challenge was distributed mainly to four-year universities, while the Access Challenge went to community colleges. Two-year schools also were the major beneficiaries of the Jobs Challenge, which involved a much smaller amount of money.
Because the challenge grants represented supplemental funding, were relatively small compared to the much larger pool of enrollment-based funding, and were distributed in a way that ensured every school benefitted somehow, they had a negligible impact on boosting higher education performance. Over time, colleges and universities came to assume the receipt of this funding when developing their annual budgets.

The failure of the Challenges convinced us that any new performance-funding plan had to be included in the base formula.

**DESIGN STEP 2: ENGAGING INSTITUTIONAL LEADERS IN THE DESIGN OF THE FUNDING FORMULA**

The Board of Regents took a two-pronged approach to garnering the support of college and university leaders for performance-based funding. First, we talked extensively with presidents and their boards of trustees to convince them of the importance of redesigning the formula. We made the case to college presidents that, if we wanted lawmakers to invest more in higher education, we had to demonstrate that state funds were being used wisely and efficiently. We argued that it was in all of the schools’ best interests to get out ahead of any criticism and design our own performance system before legislators proposed their own efficiency measures. The presidents and their associations—the Inter-University Council of Ohio representing the university presidents and the Ohio Association of Community Colleges representing the community college presidents—were enormously supportive. It is not an overstatement to say that the formula would not have passed without their support.

Meanwhile, vice chancellor of finance Richard Petrick and his capable staff sat down with the chief financial officers of each institution to work on the technical aspects of the formula. Rich knew the subject matter thoroughly and had built the staff capacity to model various funding scenarios. Rich also was patient and dogged, determined to get to the end result but willing to put as much time as was necessary to answer every question and try out every alternative that was suggested to him. Rich kept revising the formula until the CFOs became confident that they understood the system and that it was as fair as possible given the very different types of institutions that the formula covered. Since the data feeding the formula is transparent, the CFOs could challenge any funding levels they felt were inaccurate, and predict with a high level of accuracy where their appropriation amount would likely fall.

**DESIGN STEP 3: TREATING TWO-YEAR AND FOUR-YEAR SCHOOLS DIFFERENTLY**

An important strategic decision was to create separate performance funding formulas for university main campuses, their regional branch campuses, and community colleges. Frankly, it never made sense to me why we didn’t treat these very different types of schools separately in the first place.

There were two major reasons for this decision. First, we wanted to be cognizant of the open admission policies of community colleges. Everyone deserves a shot at higher education, and we knew that open admission institutions would have vastly different graduation rates compared to selective admission schools. We also wanted to encourage the open admission segment of higher education to be located to the greatest possible extent at the lower-cost community colleges and regional campuses, rather than the higher-cost, four-year campuses.

Second, we were working on our funding overhaul as the economy collapsed in fall 2008. The recession caused wild swings in enrollment at community colleges, as laid-off workers went back to school for retraining. We did not want to close the door on people seeking a new career, and we did not want to undermine the community colleges’ mission to open their doors and encourage people to return to the classroom.

While these were all important reasons to move more slowly on performance-based funding for community colleges, I firmly believe that all higher education institutions, including open access institutions, should not take a student’s tuition dollars unless they have a plan and a reasonable prospect of helping the student succeed in school.
BUILDING TOWARD SUCCESS: THE ROLE OF THE OHIO ASSOCIATION OF COMMUNITY COLLEGES IN CRAFTING OHIO’S SUCCESS POINTS FUNDING SYSTEM—AND REFORMING DEVELOPMENTAL EDUCATION

Just as Chancellor Fingerhut extolled the virtues to colleges and universities about proactively building an accountable funding structure before others did so, the Ohio Association of Community Colleges wanted to ensure its member colleges had a hand in designing its new funding scheme. Throughout the process, OACC sought to help community colleges improve student success rather than circumnavigating the new funding system.

With the backing of Chancellor Fingerhut, OACC convened a committee of community college leaders to propose an initial set of funding principles and, later in the process, the specific elements of the Success Points framework and the stop-loss and three-year average incentive structure. Its report to the Chancellor also contained recommendations for institution-specific goals.

Members of the OACC Success Point Consultation agreed that success points should put the focus on outcomes, but also:

- Hold true to the mission of community colleges.
- Be simple, easily understood, and communicated on campus and to legislators.
- Align with the University System of Ohio Strategic Plan.
- Allow for funding predictability for campuses.

OACC assumed this leadership role with member colleges and the state as a result of its involvement with Achieving the Dream and, more recently, the Developmental Education Initiative. OACC president Ron Abrams was the president of North Central State College when it applied to join Achieving the Dream. After Abrams assumed his current position, OACC was asked by the state officials to oversee Ohio’s Achieving the Dream policy network. The network has brought together the Ohio community colleges engaged in Achieving the Dream and the Developmental Education Initiative, as well as other community colleges, to set policy advocacy goals, develop a work plan, and implement a change strategy (OACC receives technical support from Jobs for the Future in these efforts). Recommending the Success Points funding model was a logical extension of these activities.

Now that performance funding is in place, OACC has turned its attention to strengthening developmental education in the state’s community colleges. Mirroring its funding proposal process, OACC has worked with member colleges to propose a set of developmental education recommendations, with the intent of leveling the playing field for colleges now competing over student performance in remedial courses.

The recommendations, covering both institutional and state policies, are now in front of the college leaders for their consideration. Examples of the recommendations include:

- Provide introductory information to students on placement testing.
- Make student orientation to college mandatory.
- Place students into recommended developmental education courses in their first term.
- Eliminate late registration for developmental education.
The formulas for the different sectors took different approaches. For university main and regional campuses, the formula was refashioned to incentivize course completions and, to a lesser extent, degree completions. The percentage dedicated to degree completions would increase over time. Main campuses and regional campuses would no longer receive funding simply for filling seats.

The community college formula was much more challenging. Because there are so many different educational outcomes that can be considered success for community college students—including certificates short of an Associate’s degree and transfers to a four-year university—we knew that rewarding only credit hours and degrees earned would be unfair and did not accurately reflect the achievements of community colleges.

With help from the Ohio Association of Community Colleges, we focused our attention on Washington State’s Momentum Points model. (See box, page 11, on the Ohio Association of Community Colleges.) The Washington model rewards progress through developmental education to the completion of the first 30 semester hours to degree completion. In addition, we wanted to reward community colleges for students who take a semester or two of courses and then transfer to a university. Our strategic plan promoted this sort of short-term enrollment in a community college as a low-cost route to a Bachelor’s degree, and it was important that we reinforce that goal as well. Though the federal IPEDS data system had not done a good job tracking student transfers, Ohio’s own performance-based system would ensure that they were captured.

Ultimately, most of the funding for community colleges would be based on enrollment for the first few years, with the performance-based structure representing 5 percent of funding in the first year and then steadily rising each subsequent year, reaching 20 percent by FY2015. While this is slower than might be optimal, it was a realistic accommodation to the volatility and multiple missions carried out by the community college sector.

Regardless of educational sector, we wanted to ensure that colleges and universities had sufficient time and resources to adapt to the system and improve their performance. The result was a “stop loss” provision—funding for a particular institution could only be reduced by one percent in the first year, regardless of what that institution’s funding would have been under the formula. Reductions could grow steadily higher in subsequent years if low performance continued.

Stop-loss provisions have become standard practice in Ohio’s K-12 and higher education landscape over the years as formulas changed to reflect different policy priorities. It is important to note, however, that we still published the actual results achieved by running the new formula against the available completion data. In this way, everyone would know the completion rates at each school and the impact they would have on funding if the formula were fully and completely implemented. It was always my hope that this information would be as big a spur to reform on campuses as the funding changes themselves. By providing legislators with performance-based funding results, their natural inclination to quickly scan the list for the enrollment figures of schools in their district would be met first by information about course completions and graduation rates.
IMPLEMENTING OHIO’S NEW PERFORMANCE-BASED FUNDING SYSTEM

IMPLEMENTATION STEP 1: PRESENTING THE DATA, CHANGING THE CONVERSATION

My years in government have taught me not to expect policy changes to have an immediate impact. This is particularly true of funding changes that, while broad in scope, are typically implemented slowly. It was also important to remember that higher education institutions have many sources of funding besides state dollars, most notably tuition revenue and federal financial aid. The impact of our funding incentives only would be felt on the state portion of the school’s revenues. That is why it was so important that the new formula be implemented in such a way that it could change the conversation about higher education funding and success in our state. I wanted the information we presented to the legislators and the public to tell a story about student success and college performance, showing them how their local colleges ranked on completion and how much money they would have received if the stop-loss was not in place. If legislators and their aides began receiving this information consistently, they certainly would begin asking their local school why so many of their students are failing to complete their programs, and why they ranked where they did compared to other schools.

IMPLEMENTATION STEP 2: ADDRESSING CONcernS, AVOIDING PITFALLS

Funding changes always mobilize opposition, but the outreach and engagement of education leaders and legislators helped to neutralize concerns. I was pleasantly surprised that colleges and universities embraced performance-based funding. By January 2009, I had their full backing to tell legislators that higher education wanted the new funding system adopted. Because we had worked so hard to present the data clearly, I could show legislators the potential impact of funding changes. The legislature enacted the formula without making any changes.

States consistently encounter several major arguments against performance-based funding. State leaders can anticipate these arguments and be ready to address them. One argument is that faculty will be pressured by administrators to lower their standards so that more students complete courses. Even if such pressure did materialize, I do not think the faculty will submit to it. Faculty members are highly educated professionals with a strong sense of commitment to student success and intellectual integrity. They should not pass students who have not earned the credit, and any who do so should be dealt with through appropriate disciplinary procedures. It is important to consult faculty members about the formula itself and encourage them to offer alternatives to provisions they do not like. Still, state leaders must hold their ground and disagree respectfully with those who oppose any linkage of funding to student success.
Second, critics claim that colleges and universities subject to performance funding will simply not accept “at-risk” students whose lower likelihood of success would drag down an institution’s funding. There is no question that institutions whose incoming students have higher levels of demonstrated academic success will have higher graduation rates, not because of something unique to the school but because the students they attract are high achievers who are likely to finish anything they start. Taking this into consideration, we wanted to encourage institutions to help at-risk and academically-deficient students achieve at higher levels and reward those who succeed. Obviously, it costs more to help these students finish school than it does to graduate a top-performer. But, how do you identify which students cost more money, and how much more money does it take?

**IMPLEMENTATION STEP 3:**
**TWEAKING THE FORMULA, WHILE PRESERVING ACCOUNTABILITY**

Initially, the performance funding formula for universities defined an “at-risk” student as a student qualifying for need-based financial aid, but we realized that this was not a broad or nuanced enough definition. Many qualify for financial aid but have no need of special assistance to succeed, while others may need academic help but do not qualify for financial assistance. A committee we established in fall 2009 helped to refine the definition, adding demographic and academic readiness data.

It is important to modify the formula as the data and experience point the way to improvements. No funding formula ever is perfect. And other challenges will continue to arise, particularly in times of tight state budgets. But I believe that accountability is here to stay. We’re in an era characterized by tight public finances and an aggressive two-party political system. As information and understanding about student achievement becomes more widely available, people will use the political system to point out that a significant percentage of the expenditures in higher education are going to students who do not complete their courses or their degrees. This concern is now a permanent feature of our higher education landscape, as well it should be.

And I believe that the colleges will respond to this challenge. Low graduation rates are not inevitable. Many strategies are known, and many more will be designed, to help students succeed. Performance funding puts a spotlight on those institutions that are adopting solutions and calls out those that are not.

**FIVE RECOMMENDATIONS FOR OTHER STATES**

In reflecting on Ohio’s experience in designing a performance-based system, I would make five recommendations to other states considering such a funding plan:

1. **MOVE QUICKLY ON THE BASIC DECISION TO SHIFT TO PERFORMANCE-BASED FUNDING**

I would encourage state leadership to move quickly to decide whether or not to pursue performance-based funding. Convening a committee to explore and debate the merits will bog down the process for a long time and slow momentum.

2. **BE CLEAR, INCLUSIVE, AND PATIENT IN THE PROCESS OF SHIFTING TO PERFORMANCE FUNDING**

Once state leaders have decided their course of action, it is critical to forge consensus with colleges and universities about how to link funding to completion. When the focus is not on whether to move to performance funding, but rather on how to design the new formula, it is much easier to work together to understand the unique circumstances in each state and make appropriate modifications to the funding formula. Be willing to try things out and change what does not work.

3. **PROACTIVELY MAKE THE CASE FOR THE NEED FOR PERFORMANCE-BASED FUNDING AND ITS POTENTIAL BENEFITS**

Ohio was able to put performance funding in place as quickly as it did because people who love higher education and believe it should be supported with taxpayer money had very candid conversations with one another about how best to make the case for support. The massive amounts of public dollars flowing through higher education make the higher education budget
an inviting target. Recipients of those funds must be proactive in making the case that the funds are being used as efficiently as they can be. In short, performance funding in Ohio was not part of an attack by opponents of higher education funding, but a supportive strategy put forward by advocates of funding.

4. CALCULATE THE FORMULA AND PUBLICIZE IT IN YEAR 1, EVEN IF THE IMPACT ONLY PHASES IN GRADUALLY

In Ohio, we designed the formulas to keep low-performing schools from losing too much, too quickly. Regardless of how states choose to design their performance-based funding formula, I strongly believe that they should calculate what the full effect of performance funding would be on institutional funding. This is a really important way to change behavior at colleges and universities even before the funding change itself has much impact.

5. REMEMBER THAT PRESENTATION AND PROCESS ARE CRITICAL TO WINNING THE DEBATE

Information is power. In Ohio, we understood that we had to get out in front of the inevitable public scrutiny with a transparent and comprehensive plan to improve student success. This performance-based funding system is infusing creativity into our colleges. They are now focused on student success. Accountability is not going away, so you may as well make it work for you.

A FINAL THOUGHT

I have high hopes that performance-based funding will drive both greater innovation and collaboration among decentralized institutions of higher education, such as we have in Ohio. Because community colleges are now funded on how well they meet common milestones, funding should build momentum for institutions to craft common strategies and more uniform standards. Developmental education is ripe for this sort of systems alignment. The Developmental Education Initiative, Achieving the Dream, and other efforts like Complete College America have introduced Ohio and its network of community colleges to new models for improving success of academic-deficient students. Just as important, the colleges are considering how to institute common cut scores, among other policies, for referring students to remediation. In that way, Ohio’s new performance-based funding system has accelerated institutional change. I, for one, am excited for what other transformations in higher education will occur in the years to come.
INTRODUCTION

At the request of the Campaign for College Opportunity in California, JFF’s Richard Kazis prepared recommendations for California policymakers debating whether and how best to implement performance-based funding. His recommendations derive from previous state experiences, from new initiatives of Achieving the Dream states including Washington, Ohio, Arkansas, Indiana, and Hawaii, and from other states that have embraced performance funding in recent years, including Tennessee. The set of principles can guide states as they think through design and implementation issues—and as they seek to address challenges related to equity, sustainability, and political buy-in.

Kazis stresses that states should identify the goals and behaviors they wish to encourage before they worry about design specifics. The technical aspects of designing a performance-funding system should be secondary to achieving clarity and consensus on the state’s higher education goals and priorities. Technical aspects of design should also be addressed in the context of stakeholder buy-in. States should consider carefully how they will address faculty concerns and engage faculty in both the design and roll-out.

The recommendations are summarized here, followed by the full report.

1. REWARD BOTH PROGRESS AND COMPLETION

Although earning a degree is certainly the most important indicator of success, incentives that put all the weight on completion are poorly suited for community colleges. Considering that community colleges commonly have low graduation rates and that 60 percent or more of their students require at least one developmental education course, a completion-only incentive structure would put too much focus on the few students who are the most college-ready. Incentivizing progress encourages colleges to develop supports, interventions, and strategies that can help students persist, move faster, and increase their odds of completing.

2. PROTECT THE ACADEMICALLY AND ECONOMICALLY VULNERABLE

A key concern about performance-funding systems is the fear that institutions will game the system in ways that restrict access for less-prepared students in the hope of boosting performance. If not designed to mitigate that risk, performance funding designs can encourage community colleges to enroll more students who are likely to complete and find ways to shut out or discourage the more academically underprepared. Rewarding student progress, particularly progress through developmental sequences and into credit courses and programs, can minimize an institution’s incentive to “cream.” States could also consider designing performance-based funding systems to enable colleges to compete against their own baseline of performance, rather than against one another directly. In doing so, a college that has a higher-than-average proportion of low-income or underprepared students would be rewarded for progress achieved from its own starting point.
3. **MAKE THE INCENTIVE BIG ENOUGH TO CHANGE INSTITUTIONAL BEHAVIOR**

Previous performance funding systems tended to affect less than 5 percent of institutional base funding or were structured as a bonus. This had two results: there was little institutional change in behavior because enrollments were still overwhelmingly the driver of funding and, therefore, no hard decisions about resource allocations needed to be made; and when budgets got tight, performance funding bonuses were cut and the small incentive was eliminated. In recent state efforts, incentives represented between 1 and 80 percent of base allocations. Considering that there is no strong research evidence on how different amounts or proportions of performance funding actually affect institutional decisions and their students’ outcomes, states should strike a balance so that the incentive is big enough to have impact but not so dramatic as to generate unwanted risks and political backlash.

4. **IMPLEMENT THE NEW FORMULA GRADUALLY AND WITH PREDICTABILITY**

Institutions need time to change ingrained practices and policies. Therefore, states should ramp up performance incentives over time. In addition, states can consider implementing a stop-loss provision that limits the amount of funding an institution could lose due to the performance provision in a given year. States can make funding more predictable by building rewards into base funding in lieu of bonuses that are more apt to fluctuate in lean budget years. States should also minimize big year-to-year funding fluctuations by basing performance incentives on a multiyear rolling average.

5. **GET BUY-IN FROM KEY STAKEHOLDERS, INCLUDING FACULTY**

Engaging institutional leaders and faculty in the design of the performance-based funding system is critical for both effectiveness and for gaining political support. For faculty, engagement should stress the flexibility that performance-based funding can encourage in meeting teaching and learning goals, particularly when the alternative might be legislatively mandated policies that restrict faculty and institutional autonomy by specifying means rather than ends. Funding schemes that have a ramping-up period can provide states ample time to engage a broad swath of institutional leaders and faculty and support their learning about strategies that can improve outcomes. Bipartisan political support is also critical, as is support from business, trustees, equity advocates, and other groups that are often more stable than political leadership.

6. **INTRODUCE PERFORMANCE-BASED FUNDING IN THE CONTEXT OF A STRATEGY TO IMPROVE THE PERFORMANCE AND EFFICIENCY OF HIGHER EDUCATION**

A performance-based funding plan is more likely to gain traction if it is part and parcel of a clear, strong, and forward-looking initiative to improve the performance and efficiency of higher education. This should include publicly
announced numerical goals for different segments of higher education, as well as clear priorities for the state’s public higher education institutions (e.g., completion; equity in access and success; economic development; the alleviation of bottlenecks in key sectors and occupations). States also should be ready to trade greater institutional flexibility to innovate for greater accountability to state goals.

THE NEW WAVE OF PERFORMANCE FUNDING SYSTEMS FOR COMMUNITY COLLEGES

Around the country, there is growing interest in revising state higher education funding formulas to drive institutions to do more to improve student outcomes, including retention, transfer, completion, employment, and earnings. Policymakers and higher education reform proponents advocate shifting state funding formulas away from the traditional approach that rewards enrollment and toward incentives for improving student progress toward, and completion of, postsecondary credentials. As a recent American Association of State Colleges and Universities brief notes, this push for performance-based funding represents “a fundamental shift in higher education finance—a shift from state inputs to campus outcomes, and from institutional needs to state priorities” (Harnisch 2011).

Performance-based funding has a long history, though not a particularly encouraging one. In the past few decades, many states have created and implemented performance funding systems for community college and four-year higher education systems, which have varied greatly in their design and ambition. Regardless of the specifics, most of these systems were fairly quickly abandoned; few if any led to the kind of improvement in outcomes and performance that advocates had hoped for. Overall, past experience has been disappointing.

There are good reasons to try again. The current political and fiscal environment provides a compelling argument for investing scarce public resources more effectively and more efficiently. Moreover, mounting evidence from increasingly sophisticated student data systems of low completion rates among U.S. students is putting strategies to improve student outcomes front and center. With no significant new money in the offing and increased pressure for postsecondary results and accountability, states are looking for ways to affect changes in institutional behavior that are dramatic and cost-effective. Performance-based funding holds out the promise of strong and clear incentives for change—without mandating specific changes that institutions should make to achieve desired outcomes. In theory, these incentives should encourage institutions to shift their priorities toward student success, not just access. They should also make the state’s priorities for its limited higher education investment more transparent and compelling to institutions.

There is another important reason to take a new look at performance funding for higher education—and for community colleges in particular. This is the emergence of a “Performance Funding 2.0” movement that has tried to learn from the mistakes and failings of earlier state attempts to change enrollment-based formulas—and that has begun to implement new state performance funding models that have a greater chance of surviving and achieving intended goals. In states like Washington, Ohio, Indiana, and Tennessee, new incentive systems are providing rich models for how states can use this policy lever to shine a light on their policy priorities, drive institutions to adopt best processes and practices to help more students succeed, and promote significant changes in institutional behavior and resource allocation without intrusive, inflexible mandates.

Performance-based funding makes a lot of sense for a state like California, where institutional autonomy is very strong, fiscal challenges are huge, and community college funding and other policies have not been particularly effective at driving better outcomes. It has the potential to be a flexible, yet powerful, incentive for cost-effective, large-scale change. However, as with many powerful policy levers, the risks of unintended consequences from poorly designed incentives are real. For
students and potential students who are least prepared financially and academically for college success, those risks are particularly great.

The following proposal lays out principles and specific suggestions for how performance-based funding in California could be structured to maximize institutional improvement in progression, completion, and labor market outcomes—while minimizing unintended consequences that might hurt the most vulnerable community college students. The brief concludes with comments on the significant and potentially new capacities that adoption of performance funding demands of state community college and higher education agencies.

LESSONS FOR CALIFORNIA FROM EARLIER PERFORMANCE-BASED FUNDING EFFORTS

Lessons from past state experiments with performance-based funding for two-year institutions have been well analyzed and catalogued, most recently by Kevin Dougherty and his colleagues at the Community College Research Center (Dougherty & Natow 2009; Dougherty & Reddy 2011). Researchers have highlighted varied factors that undercut state efforts, including weaknesses in the design of the incentive formulae, unstable funding, the loss of original champions in government and business, opposition from higher education leaders, and unintended negative consequences for equity.

This literature, coupled with a growing body of documentation and outcome research on the early implementation of new models of performance funding, suggests design principles and specific policy elements that can guide California policymakers should they choose to implement performance-based funding incentives for community colleges.

1. REWARD BOTH PROGRESS AND COMPLETION

Most early performance funding plans were designed primarily to reward degree completion. While completion is certainly the most important success indicator for postsecondary institutions (and one that is fairly easy to count), rewarding completion without including incentives for progress along the way has several serious weaknesses.

First, rewarding completion alone focuses the incentive system on the very end of a student’s college career, leaving what goes on while they are enrolled as a black box. Institutions are rewarded or penalized for their success with students who have already finished. There are no incentives for figuring out what kinds of supports, interventions, and new strategies can help students persist, move faster, and increase their odds of completing.

In addition, rewarding institutions on the basis of completion by students in degree programs is better suited for four-year institutions than for community colleges. For community colleges, where three-year graduation rates of 10 to 20 percent are common and where 60 percent or more of new students are likely to enter requiring at least one remedial course, incentives that put all the weight on completion will miss the mark in two important ways.

Completion-only formulas create incentives to enroll more students who are likely to complete and find ways to shut out or discourage those who are more academically underprepared. This incentive to “cream” can be minimized (see #2 on page 20); one way to do so is to reward student progress, particularly progress through their developmental sequence and into credit courses and programs. Similarly, rewarding only degree completion can encourage institutions to focus on a small proportion of the most college-ready students, making sure they graduate while doing little to change the prospects of the majority of students (Shulock & Jenkins 2011).

Proposal for California: California should move toward a performance-based funding approach that rewards both progress and completion. The state should add a second census date and create an incentive that blends initial enrollment with end-of-course enrollment. Even though this proposal triggered heated debate last year in California, it shifts institutional incentives toward student persistence. However, this approach is insufficient. It focuses on success in single courses. The funding formula should emphasize and reward progress toward completion of a credential and success at key achievement
or momentum points, as has been pioneered by states such as Washington and Ohio. These states both reward student progress through critical “momentum” and “loss” points that correlate with greater likelihood of ultimate completion. Their new funding systems encourage institutions to invest resources and help faculty and staff improve student retention and success from their earliest student experiences through to completion.

**2. PROTECT THE ACADEMICALLY AND ECONOMICALLY VULNERABLE**

The most common and serious complaint against performance funding systems is that they create perverse and unintended consequences that hurt low-income and academically underprepared students. If institutions are rewarded for success, won’t they go out and recruit students who are more likely to succeed? And won’t they be tempted to undercut the traditional “open access” mission of the community college?

This is indeed a challenge. In a number of states, debate is heating up as to whether the lowest-performing students should be allowed into college-provided developmental courses or instead referred to adult education providers, even if those providers lack the capacity to help prepare those students for college success. And many institutions are seeking to expand their offerings for well-prepared students returning for technical credentials.

There are various ways to minimize this kind of “creaming.”

Washington State’s Student Achievement Initiative gives credit in the performance formula for gains in basic skills and successful completion of basic skills courses, thereby weighting the formula to reward success of underprepared students taking precollege requirements. Washington also gives credit for progress of students across the varied community college missions—adult education, developmental education, workforce preparation, and academic transfer—so that the formula does not skew institutional efforts toward one over another. Washington’s approach includes another strategy to minimize bias against harder-to-serve populations. Colleges compete against their own baseline of performance, not against one another directly. Thus, a college with a higher than average proportion of low-income or underprepared students has to improve its performance from its own starting point. In the end, colleges still compete against one another for their share of a limited pool of funds, but this approach does not immediately penalize schools with more at-risk and hard-to-serve students or drive colleges toward programs that serve higher-skilled students.

Tennessee’s higher education reform legislative package, Complete College Tennessee, enacted in 2010, addresses head-on the state’s interest in helping more low-income and adult learners to persist and succeed. It does so by providing a 40 percent “premium” in the formula for progress and ultimate completion of credential programs by students eligible for Pell Grants and adults enrolled in the system. This principle is attractive; however, there is little solid evidence on the right level to give institutions sufficient incentive to recruit and serve these populations effectively. Only time will tell whether Tennessee’s level is “too little,” “too much,” or “just right.”

Another mechanism for reducing the incentive to favor better-prepared students is to reward institutional progress in reducing achievement gaps between different groups of students. Although Massachusetts has not implemented performance funding, its Vision Project for higher education has set a goal of cutting in half the gap in completion between white and minority students between now and 2021, from 9.8 to 5 percent for whites and Hispanics; and from 8.4 to 4 percent for blacks and whites (Vision Project Working Group on Graduation and Student Success Rates 2011).

**Proposal for California:** It is critical to minimize the incentive in performance-based systems to push out those less likely to succeed in favor of those who are easier to serve. California should study the achievement point frameworks and reward structures of Washington State and Ohio and adopt something similar for the state and its institutions. There are good reasons for structuring the performance funding system, as in Washington State, so that colleges compete against their past performance, not directly against other colleges. Acknowledging the need to keep any performance funding formula simple so that it can guide institutional practice, California should incorporate into its formula a reward for reducing gaps in the performance of different population groups on key performance measures, so that institutions can benefit from increased attention to those at greater risk.
3. MAKE THE INCENTIVE BIG ENOUGH TO CHANGE INSTITUTIONAL BEHAVIOR

Analysts have criticized past performance funding systems for being too modest to change entrenched institutional practice and policy. On average, they tended to affect less than 5 percent of institutional base funding. Moreover, in order to minimize political conflict and pushback, these systems were typically structured as a bonus on top of the base allocation. This usually had two results: little institutional change in behavior, since enrollments were still overwhelmingly the driver of funding and no hard decisions about resource allocations needed to be made; and when budgets got tight, performance funding bonuses were cut and the small incentive was eliminated.

In today’s fiscal environment, most new proposals for performance-based funding are moving away from past practice. Most are designed to shift a proportion of the base funding to performance, acknowledging the pressure for cost-effectiveness. These models are designed so that, even if there is new money in future years, performance funding will be a component of the formula for base allocations, not an add-on. Institutions will have to consider and make hard decisions about resource allocations, priorities, and what they will do differently to improve student outcomes. Tennessee’s Complete College legislation shifted college funding so that, over time, 80 percent is allocated according to performance, the most dramatic and daring shift enacted or under consideration. Indiana’s performance funding formula affects perhaps 5 to 8 percent of state allocations. Ohio’s formula for funding community colleges, which builds on Washington State’s Student Achievement Initiative’s “momentum point” framework, departs from that quite modest initial incentive, changing the base funding formula so that 20 percent is based on performance rather than enrollment within four years. Arkansas’ plan starts at 5 percent and increases 5 percent each year until it reaches 25 percent of the base.

Washington, the first of the new wave of performance funding approaches, opted for an initial allocation of less than 1 percent of the state system’s budget on the basis of institutional performance. The system secured initial funds for the incentive from the legislature, so that the reward system would be new money and not be taken from the base. While budget realities have forced Washington to incorporate the system into base funding, the total at stake remains small. So small, according to a recent analysis by the Community College Research Center and the Institute for Higher Education Leadership and Policy, that college leaders interviewed for the study were in agreement that the amount allocated through the Student Achievement Initiative “is insufficient to inspire the kind of fundamental systemic changes the State Board is seeking” (Shulock & Jenkins 2011).

There is a lot of room between 1 percent and 80 percent, and there is no strong research evidence on how different amounts or proportions of performance funding will affect institutional decisions and their students’ outcomes. The new set of performance funding systems should be monitored and studied carefully for institutions will have to consider and make hard decisions about resource allocations, priorities, and what they will do differently to improve student outcomes.
preliminary answers. In the meantime, a balance needs to be struck so that the incentive is big enough to have an impact but not so dramatic as to generate unwanted risks and political backlash.

Proposal for California: Follow Ohio’s lead and incorporate a performance funding component into the base allocation of 20 percent. Do not, however, get too fixated on the exact proportion, since there is little evidence of a “right” amount. However, do build performance funding into a blended enrollment/performance base funding formula. And focus on other components of a carefully constructed approach that will minimize institutional resistance and maximize buy-in and improvement. Several of these are described below.

4. IMPLEMENT THE NEW FORMULA GRADUALLY, AND WITH PREDICTABILITY

Newer performance funding systems pay significant attention to the context and conditions for implementing new formulas. Recognizing that it takes time for institutions to change ingrained practices and policies but that institutions and individuals do learn and change under the right conditions, states are implementing new funding systems gradually. Ohio’s community college formula is structured to start at 5 percent and then increase 5 percentage points each year until reaching 20 percent. Tennessee is moving over three years to full implementation. Gradual and predictable implementation is considered “best practice.”

Both Washington and Ohio introduced their new systems with a “learning year.” Leaders at the Washington State Board for Community & Technical Colleges wanted new incentives to be accompanied by carefully designed outreach to and preparation of institutional leaders and faculty. In the first year of the Student Achievement Initiative, the funding system was not changed, but the system office engaged in a communications effort to help colleges understand the new system and plan for how they would adapt to the new rules and improve performance on indicators being rewarded.

Ohio introduced its new incentive structure to institutions with a novel communications approach. In the first year, as in Washington, the formula was not changed. However, the Ohio Board of Regents reported out to all two-year colleges what the impact on their institution would be if the full 20 percent performance funding allocation had been in place that year. This enabled colleges to understand and “feel” the costs and benefits of the shift without having the real impact hit them. Each year until the full 20 percent is in place, the colleges will receive a summary of what the full impact would have been as well as the funding impact of the formula percentage in place that year.

One weakness of early performance funding approaches was the lack of predictability for institutions regarding funding. Bonuses for performance came and went with fiscal boom and bust. New approaches that build rewards into the base formula should reduce that instability. An additional strategy for greater stability is to minimize big year-to-year funding fluctuations. Some states are basing performance-based incentives on a three-year rolling average on key outcomes, not on annual variations. Including several past years in the average enables institutions to predict their performance on key metrics better and, by extension, the impact on the next year’s funding. Another innovation implemented by several states is a stop-loss provision that limits the amount of funding an institution could lose due to the performance provision in a given year.

Proposal for California: California should phase in its performance funding incentive over five years. The first year should be a learning year, with no penalty or bonus but with reporting (as in Ohio) of what the institution’s change in funding would be had the full formula change been applied. Extensive outreach and assistance to colleges should be part of the learning year. The formula should be introduced in equal steps until the full performance funding component is in place. A three-year rolling average on key performance metrics should be introduced to limit wide swings in funding allocations. California should consider a stop-loss provision for the first five years that protects colleges from losing too much funding in a given year and reduces institutional fear and backlash.
5. GET BUY-IN FROM KEY STAKEHOLDERS, INCLUDING FACULTY

Introduction of performance-based funding or significant changes to existing systems are disruptive by nature and likely to trigger institutional resistance. Washington and Ohio have worked hard to engage institutional leaders and faculty in the design of the performance funding system. They have used the ramping-up period to engage a broad swath of institutional leaders and faculty and provide support for learning about strategies that can be implemented to improve outcomes and financially benefit the school under the new rules. Washington’s State Board reached out in the learning year of implementation to institutional leadership, faculty, institutional researchers—initially through in-person and closed-circuit-TV outreach and then through the many professional councils of key institutional leaders.

Bipartisan political support also is critical, as is support from business, trustees, equity advocates, and other groups that are often more stable than political leadership. Tennessee designed its system with the help of a 25-member Higher Education Commission of key stakeholders. Early involvement of key stakeholders can surface major objections and strengthen formula design, roll-out, and implementation.

Proposal for California: Invest in an outreach strategy that can limit resistance from critical sources—faculty and advocates for educational equity—while also building support among other key stakeholders, including business leaders. For faculty, in a state like California with a history of legislative mandates that restrict institutional autonomy, it is helpful to emphasize the flexibility that performance funding can promote in how faculty and administrators organize curricula and instruction to meet performance goals.

6. INTRODUCE PERFORMANCE-BASED FUNDING IN THE CONTEXT OF A STRATEGY TO IMPROVE THE PERFORMANCE AND EFFICIENCY OF HIGHER EDUCATION

Performance funding is a means to an end. It is easier to design and implement effectively if the end is clearly articulated. Outreach and buy-in are important, as noted. In addition, the performance funding plan is likely to get more traction if it is part and parcel of a clear, strong, forward-looking initiative to improve higher education performance and efficiency. This should include publicly announced numerical goals for different higher education segments, as well as clear state priorities for its public higher education institutions (e.g., completion; equity in access and success; economic development; addressing bottlenecks in key sectors and occupations). It can also include in the package of changes an effort to identify and remove policies that restrict institutional ability to innovate to improve outcomes, trading greater flexibility for greater accountability.

The Complete College Tennessee Act of 2010 introduced a package of completion-focused legislative reforms, starting with the specification of clear completion goals for the different segments of higher education. As the package was developed and the consensus among policymakers and stakeholders hammered out, performance funding was one piece of the package. By the time the legislation was enacted, there was broad consensus on the contours of the performance funding system to be put in place and how it would be structured and implemented.

Proposal for California: Many California-based policy organizations, including the Institute for Higher Education Leadership and Policy and the Institute for College Access and Success, have noted how the state’s combination of a strong legislature and a decentralized community college system has created obstacles to innovation. The varied institutional requirements mandated by legislation create obstacles to institutional innovation and the flexible use of resources to increase student success. It is particularly important—for maximizing buy-in and also for maximizing the likelihood of success—for California to introduce performance funding in the context of a broad, strong commitment by state leadership to a statewide higher education improvement and completion agenda, complete with a clear statement of priorities, a package of reforms that align policy with funding reforms, and numerical goals for the state, its postsecondary sectors, and their institutions. This overall reform package should identify policy changes that would give more flexibility to institutions to allocate their resources and plan staffing and technology use to maximize the likelihood of succeeding under the new funding rules.
OTHER OPTIONS IN THE DESIGN OF STATE PERFORMANCE FUNDING SYSTEMS

The proposals above focus on how to structure performance funding systems to promote community college student progress to and through completion of a credential or successful transfer into a four-year degree program. However, these are not the only priorities that states may want to reward and promote. Nor are the design issues addressed above the only ones for a state to consider. Here are a few other issues that California policymakers may want to consider in the design of a performance-based funding system:

REWARDING ACTION ON OTHER STATE GOALS

States have to balance the goal of simplicity of design with the reality that progress and completion are not the only priorities states may want to shine a light on through performance funding. Other state goals that have been promoted through funding rewards include: on-time completion of credentials; enrollment of high school students in dual credit courses or sequences; high-demand and high-wage industries deemed critical to economic growth; enrollments and completion in high-need program areas (e.g., the STEM fields, nursing). Often, these goals have a productivity and cost-savings emphasis or target key economic development goals.

GIVING INSTITUTIONS SOME FLEXIBILITY

States sometimes give institutions a choice of selecting some priorities of their own in addition to the core set of metrics determined by the state. For example, Tennessee lets each institution identify up to five subpopulations that can be targeted for premium credit in addition to adults and Pell recipients. Another approach is for institutions to be able to select a limited number of high-demand occupations that are critical to the regional economy, since state priorities may not capture critical needs of particular regions. This approach has the virtue of increasing the likelihood of institutional buy-in, since the formula will address specific needs and priorities of each campus. A controversial and as yet untested approach to rewarding performance with flexibility was legislated in Louisiana in 2010: contracts between institutions of higher education and the state allow institutions to raise tuition up to 10 percent annually in exchange for meeting performance targets (Harnisch 2011).

USING PERFORMANCE TO ALLOCATE BUDGET CUTS WHEN NECESSARY

In the current period, where cuts to higher education have required some hard decisions by state leaders on how to distribute the pain, Indiana decided to use performance results to allocate budget cuts. Instead of across-the-board cuts, the higher education commission determined institutional budget reductions by examining enrollment and cost-per-student and degree-production data.

MANDATING INSTITUTIONAL POLICIES WITH A HIGH LIKELIHOOD OF IMPROVING PRIORITY OUTCOMES

One great advantage of performance-based funding is that the state can pull back from one-size-fits-all requirements of institutions related to inputs and processes in exchange for greater transparency and clearer incentives to achieve high-value outcomes. However, there may be some policy changes and requirements that a state feels are so important that leaving them to institutional discretion does a disservice to students and institutions.

Consider two examples, each of which has some level of evidence base. A state might require that students who have been assessed as unable to succeed in credit courses, even with supplemental support, be required to take basic skills courses in their first semester, given the evidence on the poorer outcomes for students who put off those courses. Or a state might limit or ban late course registration, given the negative impact that allowing it appears to have on course and program completion. Mandating student behavior is a complicated issue, given issues of institutional autonomy, the preference for states to set outcomes and be less prescriptive about institutional policy, and the history of unintended rigidities that can
result from state efforts to mandate institutional behavior. However, researchers and institutional leaders might consider a limited number of such interventions worth the risk.

**STATE CAPACITY TO SUPPORT INSTITUTIONAL CHANGE**

One final note for state leaders and policymakers: performance funding systems make significant and essential demands on state authorities and their capacity to support institutional improvement. If performance-based funding is to drive improved student outcomes and the achievement of state higher education goals, state departments of higher education, coordinating boards, community college systems, and other public authorities must embrace certain critical responsibilities. They must be at the hub of a statewide system of continuous improvement, guided by performance funding priorities. They need to mobilize the capacity, resources, and commitment to align policy with funding and to support institutional efforts to improve.

Essential capacities that need to be exercised are in the areas of: performance data and its presentation in ways that institutions and stakeholders can use for improvement; tools and usable information on best institutional practices and processes from within and outside the state; policy reviews designed to identify state policy barriers to institutional innovation and success; convenings and professional development to help secure leadership and faculty buy-in and responsiveness to new incentives; and the monitoring of intended and unintended consequences of the new formula and incentives.

The ultimate goal is for state authorities and local institutions to be partners in a common enterprise: continuous improvement in the delivery of teaching and learning for all students who seek postsecondary advancement, credentials, and success. To accomplish this, the state must shift from monitoring compliance to encouraging success—through well-designed incentives but also through a mix of support and pressure that helps institutions understand where they need to get to and how they might get there most efficiently and effectively. This is a new role for state authorities, but movement toward performance-based funding without consideration of how best to play this role is an unnecessarily risky proposition.
Fifteen states are members of the Achieving the Dream and the Developmental Education Initiative state policy network. They are working together to support evidence-based innovations at community colleges to improve student outcomes. In recent years, seven of those states have shifted funding for community colleges to reward student success, not just access (Hawaii, Indiana, Massachusetts, North Carolina, Ohio, Oklahoma and Washington). Several more states, including Arkansas, Connecticut, Texas, and Virginia, are considering implementation of varied performance funding schemes right now. All see the theoretical power of changing the incentives but remain cautious given past history. This matrix summarizes similarities and differences among the states that have performance-based funding for their community colleges.
<table>
<thead>
<tr>
<th>STATE</th>
<th>ENACTED YEAR/STATUS</th>
<th>POLICY ACTION</th>
<th>INSTITUTIONAL TYPE</th>
<th>METRICS</th>
<th>% ALLOCATED</th>
<th>BONUS OR BASE ALLOCATION?</th>
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<tbody>
<tr>
<td>Hawaii</td>
<td>2011 School Year; Pilot</td>
<td>Funding reallocation by University of Hawaii System</td>
<td>Community College</td>
<td>Degrees and certificates awarded, with additional weighting for Native Hawaiian students and in STEM fields, Completion by low-income students participating the federal Pell program, Transfers from the community colleges to baccalaureate campuses</td>
<td>3.5 percent of general fund set aside for colleges achieving performance goals, $1 million innovation fund available for achieving &quot;momentum points&quot;</td>
<td>Unused funds lapse into general fund</td>
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<td>Massachusetts</td>
<td>2011</td>
<td>FY2012 budget</td>
<td>University Community College</td>
<td>Department of Higher Education charged with developing grant criteria in line with goals of the commonwealth's Vision Project: College-going rates of high school graduates, College graduation and student success rates, Ability to meet workforce needs, Assessments of student learning, Progress in closing achievement gaps among certain minority and socioeconomic groups</td>
<td>$2.5 million set aside</td>
<td>Bonus</td>
</tr>
<tr>
<td>Ohio</td>
<td>2009 Revised in subsequent biennial budgets</td>
<td>HB 1 Subsequent budget bills</td>
<td>University Main Campus</td>
<td>Course completions, Degree completions, Weighted for at-risk students</td>
<td>Degree Completions FY2010 → 5%, FY2011 → 10%, FY2012 → 15%, FY2013 → 20% (maximum), Most of remaining funds allocated by course completion</td>
<td>Base</td>
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<td></td>
<td>University Regional Campus</td>
<td>Course completions, Weighted for at-risk students, Degree completions (under consideration)</td>
<td>Most of funds allocated by course completion</td>
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<td>Community College</td>
<td>Success Points Component: Complete first developmental education course, Complete a developmental math and/or English course and subsequently enroll in a college-level math and/or English course at any public college or university, Earn first 15 semester credit hours of college-level coursework at the community college, Earn first 30 semester credit hours of college-level coursework at the community college, Earn an Associate's degree from the community college, Transfer to a four-year college or university after completing at least 15 semester credit hours</td>
<td>Success Points FY2011 → 5%, FY2012 → 7.5%, FY2013 → 10%, FY2014 → 15%, FY2015 → 20% (maximum)</td>
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| Washington  | 2007                | SBCTC Policy  | Community and Technical College  | Momentum Points Components<br>Building toward college-level skills<br>  
> Makes nationally recognized standardized test gains in math or English language reading or listening as measured by pre- and post-testing or by earning a GED or high school diploma<br>  
> Passes a remedial math or English course with a qualifying grade to advance toward college-level work<br>  
First-year retention<br>  
> Earns the first 15 college-level credits<br>  
> Earns the first 30 college-level credits<br>  
Completing college-level math<br>  
> Completes the first 5 college-level math credits<br>  
Completions<br>  
> Earns a certificate backed by at least one year of college, earns a two-year degree, or completes an apprenticeship | $5 million in 2011-13 budget | Base                      |
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<td>Indiana</td>
<td>2007 Changes Under Consideration</td>
<td>Indiana Commission for Higher Education approved revised metrics (described in the columns to the right) in December 2011 Awaiting enactment by legislature through FY2013-15 budget</td>
<td>University Research Campuses</td>
<td>Degree Completion</td>
<td>Overall: Bachelor’s, Master’s and Doctorate At-risk (Pell-eligible): Bachelor’s High-impact (STEM field): Bachelor’s, Master’s and Doctorate Productivity On-time degree graduation for first-time, full-time students Institution-defined productivity metric</td>
<td>Percentage of annual operating appropriation (2012-13): 2013 ➔ 5% ~$61M of current budget 2014 ➔ 6% 2015 ➔ 7% High-impact and at-risk metrics to be funded independently at levels lower than the primary metric of overall degree completion</td>
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<td>Community Colleges</td>
<td>Degree Completion</td>
<td>Overall: One-Year Certificate, Associate’s At-risk (Pell-eligible): One-year certificate, Associate’s Progression Points Completion of 15, 30, and 45 credit hours Completion of remedial and gateway courses in math and English Productivity On-time degree graduation for first-time, full-time students Institution-defined productivity metric</td>
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<td>North Carolina</td>
<td>1999 Changes Under Consideration</td>
<td>NCSBC Policy</td>
<td>Community College</td>
<td>Current:</td>
<td>Current: Successful performance on each of the performance measures shall allow a college to retain and carry forward up to 0.25 percent of its final fiscal year General Fund appropriations into the next fiscal year</td>
<td>Current: Bonus</td>
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<td>&gt; Progress of basic skills students&lt;br&gt; &gt; Passing rate for licensure and certification examinations&lt;br&gt; &gt; Performance of students who transfer to a four-year institution&lt;br&gt; &gt; Passing rates in developmental courses&lt;br&gt; &gt; Success rates of developmental students in subsequent college-level courses&lt;br&gt; &gt; Level of satisfaction of students who complete programs and those who do not complete programs&lt;br&gt; &gt; Curriculum student retention and graduation&lt;br&gt; &gt; Client satisfaction with customized training</td>
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<td>2013 Proposal:</td>
<td>2013 TBA</td>
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<td>&gt; Progress of basic skills students&lt;br&gt; &gt; GED passing rate&lt;br&gt; &gt; Developmental student success rate in college-level English courses&lt;br&gt; &gt; Developmental student success rate in college-level math courses&lt;br&gt; &gt; First-year progression&lt;br&gt; &gt; Curriculum completion&lt;br&gt; &gt; Licensure and certification passing rate&lt;br&gt; &gt; College transfer performance</td>
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<tr>
<td>Oklahoma</td>
<td>Original in 2002, 2012 Revisions Pending Approval</td>
<td>Regents Policy</td>
<td>University Community College</td>
<td>&gt; Complete College America degree and certificate targets for each campus&lt;br&gt; &gt; First-year retention rates for campuses&lt;br&gt; &gt; First-year retention rates for Pell eligible students for each campus&lt;br&gt; &gt; Completion of 24 nonremedial credit hours in the first academic year&lt;br&gt; &gt; Graduation rate&lt;br&gt; &gt; Improvement in number of degrees and certificates conferred&lt;br&gt; &gt; A measure (to be determined of quality related to program accreditation)&lt;br&gt; &gt; Submission and approval of a degree completion plan</td>
<td>Expected to be largely performance-based</td>
<td>Base</td>
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| Arkansas  | Implementation Under Consideration | ACA 6-61-224 SB 766 (2011) Department of Higher Education required to develop specific metrics by December 31, 2011 | University Community College | Proposed by legislature:  
> End-of-course enrollment  
> Student retention rate  
> Student progression toward credential completion  
> Number of credentials awarded by college, including an emphasis on high-demand credentials  
> Student transfer activity  
> Research activity  
> Number of graduates from underserved populations | As proposed  
2014 ➞ 95/5  
2015 ➞ 90/10  
2016 ➞ 85/15  
2017 ➞ 80/20  
2018 ➞ 75/25 | Base |
| Connecticut | Implementation Under Consideration | PA 11-70 Establishes a Planning Commission for Higher Education, which among other tasks would ensure the development and implementation of higher education strategic plan and conduct an evaluation of and make recommendations for the use of strategic and performance-based incentive to meet plan objectives | University Community College | Legislation mandates that the Planning Commission submit by October 1, 2012, a strategic plan that identify specific numerical goals for 2016 to 2020 and makes recommendations on aligning policies and practices to meet those goals, including implementation of performance-based funding:  
> Increase the number of people earning a Bachelor's degree, Associate's degree or certificate  
> Increase the number of people successfully completing coursework at the community college level  
> Increase the number of people entering the state's workforce  
> Eliminate the postsecondary achievement gap between minority students and the general student population. | | 
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| Texas      | Implementation Under Consideration | HB 9 (2011) Requires that Board devise performance-based funding system | University       | Suggested by the legislature:  
  > Bachelor’s degrees awarded  
  > Bachelor’s degrees in critical fields awarded  
  > Bachelor’s degrees awarded to at-risk students  
  > Six-year graduation rate of recent high school graduates. | Capped at no more than 10 percent |                                                          |
|            |                           |                                                                               | Community College | Suggested by the legislature:  
  > Developmental education in mathematics  
  > Developmental education in English  
  > First college-level mathematics and English course with a grade of “C” or higher  
  > First 30 semester credit hours  
  > Transfer to a four-year college or university after successful completion of at least 15 semester credit hours  
  > Completion of Associate’s degrees, Bachelor’s degrees, and certificates | Required to be incentive fund, not a % of base funding |                                                          |
| Virginia   | Implementation Under Consideration | SB1459/HB2510: Preparing for the Top Jobs of the 21st Century: The Virginia Higher Education Opportunity Act of 2011 Creates a collaborative Higher Education Advisory Committee consisting of executive and legislative branch representatives and representatives of higher education institutions to develop performance criteria for incentives | University       | Suggested by the legislature:  
  > Increased enrollment of Virginia students  
  > Increased degree completion for Virginia residents who have partial credit completion for a degree  
  > Increased degree completion in a timely or expedited manner  
  > Improved retention and graduation rates  
  > Increased degree production in the areas of science, technology, engineering, and mathematics and other high-need areas such as the health care-related professions  
  > Increased research, including regional and public-private collaboration  
  > Optimal year-round utilization of resources and other efficiency reforms designed to reduce total institutional cost  
  > Technology-enhanced instruction, including course redesign, online instruction, and resource sharing among institutions  
  > Enhanced community college transfer programs and grants and other enhanced degree path programs | TBD | Base |

NOTE: Performance-based funding systems in Michigan, Florida, and South Carolina have been unfunded for several years.

2 For more information, see several documents from the Ohio Board of Regents: Ohio’s Performance-Based Subsidy Formula for Higher Education (undated) and State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds For Fiscal Year 2012 and Fiscal Year 2013, with three related documents:


3 Ohio House Bill 2: http://www.legislature.state.oh.us/bills.cfm?ID=127HB2

4 Ohio House Bill 119: http://www.legislature.state.oh.us/bills.cfm?ID=127HB119


REFERENCES


