



Washington State Auditor's Office

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Performance Audit Higher Education Performance-Based Funding

Reviews of other states with performance-based funding programs for their institutions of higher learning

This document includes summaries of the performance-based funding systems in 16 states. At the time of our review, each had an active performance funding system for its four-year public higher education institutions; South Dakota has since ended its pilot program. At the start of our audit, 11 of these states had performance funding systems, while an additional five enacted some form of performance funding during the audit. Please see the [audit report](#) for a discussion of our audit approach and methodology.

These summaries illustrate the variety of approaches states take to apply performance-based funding to their higher education systems. Examples of this variety include the percentage of funding tied to performance (Illinois is less than 1 percent; Ohio is 10 percent and rising), the number of metrics used (two in Ohio; more than a dozen in Pennsylvania), and how the system was implemented (by legislation in Illinois; by a higher education commission in Pennsylvania).

For each state's performance-based funding system, to the degree the information was available, each summary addresses:

- The types of institutions affected
- When performance funding was implemented
- How the performance funding model was developed and by whom
- Who implemented the model
- Policy objectives of the model
- The metrics used
- The measures or data collected for each metric
- The weights used and how
- The amount of higher education funding tied to performance
- How institutions are awarded for their performance
- Completed or planned evaluations of the funding model
- Lessons learned from implementing the model

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** indicates the state was included in the original 11 we reviewed*

Scan this QR code with your smartphone to go directly to the page on our website with the full report and additional materials.



About the funding models

What types of models exist?

Base-plus funding model, in which the performance funding allocation remains at current levels and additional new funding each year is devoted to the performance pool.

Base-plus/Incremental funding, which carves out a percentage of the existing budget and uses new funding distributed via a performance-based funding formula.

One-time funding appropriation with matching fund requirement from higher education general fund.

Outcomes-centered funding rewards schools for meeting specified policy objectives.

Output-based funding formula provides fiscal incentives for positive improvement in specific metrics. This model is utilized within the state funding formula as a portion of the annual base appropriations. Often weighted for institutional mission, this model allows institutions to increase their total appropriations through improved performance on identified metrics.

Performance agreements or contracts with participating institutions where funding or greater autonomy is awarded if institutions commit to and meet agreed upon performance objectives.

Set-aside performance funding models reserve a percentage of the state funding to be awarded to high-performing institutions. The set-aside dollars may be a portion of the annual base appropriation or separate bonus funding. Institutions typically compete with each other for the set-aside funding by achieving a targeted measure of performance set prior to the year.

Overview of system

Type of model used

Set-aside performance funding model where a portion of public funding is set aside to pay based on performance measures

Schools it is applied to

Public four-year institutions

Who developed/implemented the model and when?

Arizona Revised Statute 15-1626 (J), through Senate Bill 1618 of 2011, required the Arizona Board of Regents (ABOR) and universities under its jurisdiction to collaboratively develop and adopt a performance funding model by July 1, 2012.

Why did the state implement performance funding?

In 2011, the ABOR proposed tying distribution of new state funding to university performance on three measures related to the growth and the diversification of the Arizona economy. The purpose of the proposal was to demonstrate a commitment to enhanced performance and to establish fairness to students throughout the system.

At what stage is the performance funding model?

Fully implemented in 2012 and in its second year

Budget and funding

The state appropriated \$5 million from the state's general fund for ABOR to distribute between three universities in accordance with the performance funding model.

Goals and measures

The model uses performance metrics to address increasing degrees awarded, credit hours completed, and external research and public service funding. The formula adds weight for STEM and other high-value degrees that are in short supply or essential to the state's long-term economic development strategy.

Sources and references

- Arizona Board of Regents, FY 2014 Baseline
- Arizona Board of Regents, fiscal year 2014 Appropriations Report, pg. 267(PDF pg. 1) – footnote 1
- Arizona Revised Statute 15-1626 Accessed at <http://www.azleg.gov/ars/15/01626.htm> on Dec 2, 2013
- Arizona Board of Regents Northern Arizona University High Country Conference Center, September 2012, PDF pg. 35 FY 2014 State Investment Request – Performance Funding <http://azregents.asu.edu/boardbook/Board%20Agenda%20Books/2012-09%20Board%20Meeting/2012-09%20board%20book.pdf>
- Arizona Board of Regents, fiscal year 2013 Appropriation Report

Overview of system

Type of model used

Outcomes-centered funding model, which rewards schools for meeting specified policy objectives.

Schools it is applied to

Public two-year colleges and four-year universities.

Who developed/implemented the model and when?

The Arkansas Department of Higher Education developed the model at the request of the legislature under Senate Bill 766 in 2011.

Why did the state implement performance funding?

The purpose of the new model was to promote accountability and efficiency in higher-education and clarify the funding formula calculations.

At what stage is the performance funding model?

The performance funding model is in its first year of implementation.

Budget and funding

Arkansas adopted a performance-based funding model beginning in 2013-14. During the first year of implementation, 5 percent of state higher education funding will be allocated in part based on an outcomes-centered funding model, which rewards schools for meeting specified policy objectives. The proportion of funding that will be allocated using the outcomes-centered model will increase each year by 5 percent to a maximum of 25 percent in the 2017-2018. The remainder of funding will be allocated using a need-based formula based on the cost of providing college education.

Evaluations and results

Evaluations of the results of the funding model are not currently available. As part of the act authorizing the new model, the Arkansas Higher Education Coordinating board will undertake biennial reviews of the funding formula in coming years.

Goals and measures

Some measures used in the performance funding formula include the following.

- Course completion
- Degree completion
- Critical needs shortage areas
- Minority students
- Economically disadvantaged students
- Non-traditional students

Sources and references

- Senate Bill 776. Available at <http://www.arkleg.state.ar.us/assembly/2011/2011R/Pages/BillInformation.aspx?measureno=SB766>

Overview of system

Type of model used

Base-plus/Incremental funding, which carves out a percentage of the existing budget and uses new funding distributed via a performance-based funding formula.

Schools it is applied to

Public four-year institutions and community colleges.

Who developed/implemented the model and when?

During fiscal year 2012, Illinois' legislature mandated that the Illinois Board of Higher Education (IBHE) incorporate a performance funding element into the higher education system. The legislature appointed a steering committee of key stakeholders to assist with linking state goals to the higher education budgeting process. The steering committee developed performance funding metrics adopted by the IBHE.

Why did the state implement performance funding?

The legislature and the IBHE wanted a system for allocating state resources to public institutions based on performance related to student success, certification, and degree completion.

At what stage is the performance funding model?

Fully implemented and in its third year; with ongoing revisions when identified by the Board's Refinement Committee.

Budget and funding

Half a percent of the state higher education appropriation is allocated to performance funding. There are discussions about increasing the percentage.

Evaluations and results

After implementing the performance funding model, the Performance Funding Steering Committee developed a Refinement Committee. The Refinement Committee provides recommendations to the Steering Committee about existing measures and sub-categories that need to be refined or replaced. Examples of issues they are addressing for fiscal year 2015 are noted below.

| Issue considered | Refinement Committee actions |
|---|---|
| How to address the difficulty of graduating under-represented students | <i>The Refinement Committee recommended no changes to the model based on these issues.</i> |
| How to account for less prepared students | |
| How to address differences in the cost per completion within sub-categories of students | |
| How to address the issue of transfer students and part-time students | <i>The Refinement Committee recommended not including part-time students due to their low numbers. Transfer student numbers will be incorporated in the graduation rate and persistence measures.</i> |
| Are there other high value degrees and programs, in addition to STEM programs, that should be added to the model? | <i>The current STEM program list is composed of nationally recognized programs. The Committee recommended retaining the list of STEM programs because adding new criteria may make STEM definitions less precise.</i> |

How to account for high-cost entities (such as hospitals and medical, dental and veterinary schools)

The existing methodology does not account for all costs of high-cost entities. The Refinement Committee decided that a complete carve-out would create additional problems and issues. The Committee will work to develop a better methodology.

How to account for institutional improvement from one year to the next

Until the funding model stabilizes, scores from the current year are not directly comparable to earlier scores. In the future, performance for each institution will be comparable to the previous year.

Goals and measures

Illinois' performance measures are intended to integrate education, research, and innovation assets to meet the state's economic needs.

Currently, the state does not use benchmarks. Institutions are not compared to other institutions nor are they rewarded for year-to-year improvements. Data for measures are based on three-year averages. Funding is awarded based on outcomes rather than meeting benchmarks and targets.

| Goals | Metrics |
|---|---|
| Increase degrees completed | |
| To increase the number of Bachelor's degrees | Number of Bachelor's degrees completed |
| To increase the number of undergraduate degrees per 100 full-time equivalent students | Number of degrees per 100 FTE completed |
| To increase the number of Master's degrees | Number of Master's degrees completed |
| To increase the number of Doctoral and professional degrees | Number of Doctoral and professional degrees completed |
| Increase on-time graduation | |
| To improve graduation rates for Bachelor's degrees | Number of degrees completed within four years Number of degrees completed within six years Number of degrees completed within eight years |
| Encourage student progress | |
| To increase the number of students that successfully complete credit hours | Number of students completing 24 semester hours Number of students completing 48 semester hours Number of students completing 72 semester hours |
| Decrease student cost | |
| To decrease cost per credit hour | Cost per credit hour |
| To decrease cost per completion | Cost per completion |

Weight: Sub-categories are not weighted in this measure

Weight: Weights vary for each measure depending on the institution's mission. Weights are determined by the IBHE based on the institution's Carnegie Classification (institutional attributes and behavior). The formula calculation for each weight is based on annually updated data.

A 40 percent premium is awarded for the production of desired outcomes such as completions by underserved or under-represented populations. Those populations are defined as:

- Low income (Pell/monetary award program eligible)
- Adult (age 25 and older)
- Hispanic
- Black, non-Hispanic
- Students in STEM-health programs

Lessons learned

IBHE found the following factors assisted in implementing the performance-based funding model:

- The Legislature mandated development of a performance-funding model.
- The Steering Committee used a collaborative approach by including key individuals within the higher education community (presidents of institutions, union representation, the Lieutenant Governor, etc.).
- Some members of the Steering Committee were also IBHE members. When the model was complete, members were already aware of its mechanics and had no difficulty approving it
- The Steering Committee illustrated that the amount lost by institutions through performance funding in a given year was narrow.

IBHE also noted some difficulties with implementing the system including:

- Lack of valid data
- How to address the cost of high-cost entities compared to their low outputs

Additional goals the state may use when data becomes available or is of sufficient quality include:

- Improve student retention rates (by incoming class)
- Improve time to completion (within four years or six years)
- Increase student accumulation of credit hours (24, 48 and 72 hours)
- Improve student transfers
- Improve remediation programs
- Increase the diversity of staff and faculty
- Improve the quality of education

Additional student sub-categories the state may use when data becomes available or is of sufficient quality include:

- Part-time
- Disabled
- Veterans
- First generation
- English language learners
- Residents of underserved counties
- Additional ethnic categories

Sources and references

- Interview with Dr. Alan Phillips, Deputy Director, Illinois Board of Higher Education on Aug 20, 2013.
- Illinois Board of Higher Education, ICCCF0 Presentation (2012). Accessible at https://www.ivcc.edu/uploadedFiles/businessservices/ICCCFO/2012_Spring/Performance%20Funding%20-%20Illinois%20Board%20of%20Higher%20Education.pdf.
- House Bill 1503 Enrolled, Section 8. Accessible at <http://www.ilga.gov/legislation/97/HB/PDF/09700HB1503lv.pdf>.
- Illinois Board of Higher Education, Higher Education Performance Funding Steering Committee. Accessible at <http://www.ibhe.org/PerformanceFunding/default.htm>.
- National Conference of State Legislators, Performance Funding for Higher Education. Accessible at <http://www.ncsl.org/issues-research/educ/performance-funding.aspx>.
- Illinois Board of Higher Education, Performance Based Funding Steering Committee Presentation (January 2013). Accessed at <http://www.ibhe.state.il.us/PerformanceFunding/Materials/130114/PBFSteeringCommitteePresentation.pptx>.
- Illinois Board of Higher Education, Performance Based Funding Steering Committee Presentation (May 2013). Accessed at <http://www.ibhe.state.il.us/PerformanceFunding/Materials/130508/PBF%20Steering%20Committee%20Presentation%20-%208%20May%2013%201.1.pptx>.

Overview of system

Type of model used

Base-plus funding model where the allocation remains the same over time with additional new funding each year.

Schools it is applied to

All public postsecondary institutions, including two-year and four-year institutions.

Who developed/implemented the model and when?

Indiana's Commission for Higher Education (CHE) established the performance funding model in 2003. Adjustments were made for the 2011-13 and 2013-15 budget cycles. The CHE developed the formula with guidance from governors, members of the Indiana General Assembly and Indiana's seven four-year, public postsecondary institutions. The CHE manages and maintains the outcomes formula. Indiana does not mandate by law the level of funding or metrics for performance funding system.

Why did the state implement performance funding?

Original enrollment funding did not fully address performance. Enrollment plateaued in some institutions and they therefore lost funding to growing universities. Other mechanisms in higher education funding – including inflation adjustments, plan expansions, equity adjustments and program adjustments – did not increase enrollment.

At what stage is the performance funding model?

Fully implemented.

Budget and funding

During its first year of implementation, 6 percent was added for performance funding (2.2 percent from base funding and 3.8 percent of new funding). Discussions are under way about increasing funding for future biennia.

Goals and measures

Indiana's main policy objectives include: completion, progression, productivity and mission differentiation.

While much of the state's budget is still tied to enrollment, Indiana emphasizes the importance of course completion by determining enrollment levels at the end of a semester rather than at the beginning. The state does not fund performance based on attempted credit hours; one hundred percent is based on completed hours.

Indiana currently looks at year-to-year (three-year periods) improvements for each institution. This protects against large shifts in funding. All measures are mandatory and used to evaluate all institutions. Benchmarks are used across institutions and do not differ based on institution type.

| Goals | Metrics | Weighting |
|---|---|--|
| Increase degrees completed | | |
| To increase the number of degrees completed <i>Benchmark: 3-year period rolling average</i> | Number of 1-year certificates completed Number of Associate's degrees completed Number of Bachelor's degrees completed Number Master's degrees completed Number of Doctoral degrees completed | 50% of an Associate's degree 50% of a Bachelor's degree 100% of a Bachelor's degree 50% of a Bachelor's degree 50% of a Master's degree |
| To increase the number of degrees completed by Pell Grant recipients <i>Benchmark: 3-year period rolling average</i> | Number of 1-year certificates completed Number of Associate's degrees completed Number of Bachelor's degrees completed | 70.60% of the degree completion rate for all one-year certificates, Associate's and Bachelor's degrees |
| Increase STEM-Health degrees | | |
| To increase the number of high-impact degrees (defined by the National Science Foundation) completed <i>Benchmark: 3-year period rolling average</i> | Number of high-impact Bachelor's degrees completed Number of high-impact Master's degrees completed Number of high-impact Doctoral degrees completed | 250.05% of the degree completion rate for all Bachelor's degrees 360.05% of the degree completion rate for all Master's degrees 350.05% of the degree completion rate for all Doctoral degrees |
| Encourage student progression | | |
| To increase the number of students that successfully complete credit hours <i>Benchmark: 3-year period rolling average</i> | Change in FTE count of students that successfully complete 15 credit hours Change in FTE count of students that successfully complete 30 credit hours Change in FTE count of students that successfully complete 45 credit hours Change in FTE count of students that successfully complete 60 credit hours | |
| Increase on-time graduations | | |
| To increase the number of students receiving an Associate's degree in 2 years <i>Benchmark: 3-year period rolling average</i> | Number of students entering for the first time, full time compared to the number of students receiving an Associate's degree in 2 years | |
| To increase the number of students receiving an Bachelor's degree in 4 years <i>Benchmark: 3-year period rolling average</i> | Number of students entering for the first time, full time compared to the number of students receiving an Bachelor's degree in 4 years | |
| Decrease student cost | | |
| To account for differences in institutional mission <i>Benchmark: 3-year period rolling average</i> | The productivity measure should focus on reducing cost of attendance for students and be linked to an institution's strategic plan. Examples of institutionally defined metrics include: <ul style="list-style-type: none"> • funding per in-state Bachelor's degree produced • affordability index per in-state Bachelor's degree produced • degree attainment for in-state Bachelor's degree per in-state undergrad FTE • student to faculty and staff ratio • the average savings on cost of attendance per FTE for students enrolled in online and distance education • savings to students and the State when students attend and transfer credits to a four-year public Indiana postsecondary institution • savings to students who take early college courses that are transferable versus taking them at a public postsecondary institution • efficiencies in health care costs to employer, energy, and administrative staff as compared to other entities | |

Evaluations and results

The Commission on Higher Education plans to review and update the metrics to ensure they continue to align with the state's goals for higher education. While no official review is scheduled, the Commission and other elected and non-elected parties involved with performance funding change regularly. As a result, each of these groups provides insight into new metrics that can be used within the performance funding system.

Indiana's institutions have started to address the need to create affordable higher education opportunities for students with specific initiatives. Examples include the following:

- Indiana University (IU) will freeze tuition for students on track to graduate in four years
- Purdue University (PU) is exploring the opportunity to provide year-round academic programs to students
- Indiana State University (ISU), University of Southern Indiana (USI), Purdue, and most regional campuses adopted a voluntary accountability system to assess student outcomes
- ISU launched an initiative that promises eligible students they will be able to graduate on time; if not, ISU will pay for remaining coursework
- IU, Ball State University (BSU) and the USI have lowered their summer-session tuition fees and expanded summer-session course offerings in an effort to promote on-time degree completion, and
- Ivy Tech Community College established a virtual student center to improve student advising and increase retention through early-warning and key-messaging

LESSONS LEARNED

1. During implementation, carving out too much from base funding too quickly may result in unintended outcomes.
2. Multiple and frequent changes in measures and metrics from year to year do not allow institutions to adjust to different performance outcomes. Regular changes may cause agencies to disregard performance measures.
3. Enough funding must be carved out to ensure that institutions produce desired outcomes.

Sources and references

- Interview with Matt Hawkins on August 27, 2013.
- Indiana Commission for Higher Education, "2013-15 Budget for Performance Funding."
- Indiana Commission for Higher Education, "Performance Based Outcome Funding White Paper." Accessed at http://www.in.gov/che/files/PBOF_White_Paper_2-22-13_A.pdf.
- Indiana Commission for Higher Education, "Revised Performance Formula Metrics." December 9, 2011. Accessed at http://www.in.gov/che/files/Final_Report_on_Revised_Performance_Formula_Metrics_12-1-11_Updated_12-9-11_G.pdf.
- Center for American Progress, "Performance-Based Funding of Higher Education." August 2012. Accessed at http://www.americanprogress.org/issues/2012/08/pdf/performance_funding.pdf.
- HCM Strategists, "Study for Performance Funding." August 22, 2011. Accessed at http://www.in.gov/che/files/HCM_Strategies_Study_Performance_Funding_8-22-11_B.pdf.

Overview of system

Type of model used

Six-year performance agreements with participating institutions where institutions commit to meeting specific performance objectives in exchange for greater autonomy. Examples of greater autonomy include flexibility in:

- authority to increase tuition and fees
- carrying forward unexpended and unobligated funds from one fiscal year to the next
- procuring information technology products and services
- adhering to state travel regulations

Schools it is applied to

All public postsecondary education institutions, including professional schools, may enter into a performance agreement with the Board of Regents. Currently, institutions in the following systems have performance agreements:

- University of Louisiana
- Louisiana Community & Technical Colleges
- Louisiana State University
- Southern University

Who developed/implemented the model and when?

Louisiana realized its postsecondary institutions had to become more focused on student access and success. Through a series of performance measures in higher education, the state seeks to address:

- The state's low percentage of adults with postsecondary academic credentials compared to the rest of the nation
- The state's low rank among other states in the percentage of adults in the workforce
- Low median household income
- The state's high percentage public school student poverty, traditionally correlated with low academic achievement

Why did the state implement performance funding?

Passed by the Legislature and signed into law by the Governor in 2010, the GRAD Act (Granting Resources and Autonomies for Diplomas Act) called on the Board of Regents to enter into six-year performance agreements with participating institutions. GRAD Act legislation outlines standard performance objectives, with targets determined by each institution, to be addressed by institutions. It also allows the Board of Regents to add performance objectives.

At what stage is the performance funding model?

Fully implemented and in its third year

Budget and funding

Coupled with a 10 percent tuition increase authority, each participating campus will have roughly 25 percent of its annual total operating budget allocated based on performance measures.

Evaluations and results

The Board of Regents provides the Legislature annual reports describing each participating institution's progress in meeting established targets. At the end of the six-year agreement period, the Board of Regents determines whether to recommend renewal of an institution's performance agreement.

Goals and measures

Targets for each performance objective are developed by the institution's management board and are partly based on peer institutions as defined by the Board of Regents.

| Goals | Metrics |
|---|---|
| Encourage student progress | |
| To increase first to second year retention | Number of first-time, full-time, degree-seeking students from the fall incoming class compared to the number of first-time, full-time, degree-seeking students retained in fall of the second year |
| To increase first to third year retention | Number of first-time, full-time, degree-seeking students from the fall incoming class compared to the number of first-time, full-time, degree-seeking students retained in fall of the third year |
| To increase first to second year retention rates for transfer students | The ratio of baccalaureate degree-seeking transfer students enrolled to the number of students retained to the next fall semester The ratio of baccalaureate degree-seeking transfer students enrolled with a minimum student level of sophomore at entry to the number of students retained to the next fall semester |
| Increase the graduation rate | |
| To improve the graduation rate | Number of students in the fall incoming class through fall of the sixth year |
| To increase the number of graduates compared to the expected number of graduates | Ratio of the number of graduates to the expected number of graduates; the expected number of graduates is one-fourth of the FTE undergraduate enrollment |
| Increase degrees completed | |
| To increase the number of Bachelor's degrees completed | Ratio of degrees completed to the expected number of undergraduate degrees completed; the expected number of undergraduate degrees completed is one-fourth of the FTE undergraduate enrollment |
| To increase the number of degrees completed | Percent change in number of degrees from the baseline year for baccalaureate, post-baccalaureate, total undergraduate, Master's, professional, doctoral, total graduate, and total completers |
| Increase high-quality post-secondary credentials | |
| To increase the passage rate on education licensure exams | The ratio of students who took education licensure exams compared to the number of students who met standards for passage |
| To increase the passage rate on nursing licensure exams | The ratio of students who took nursing licensure exams compared to the number of students who met standards for passage |
| Close access gaps | |
| To increase the use of technology for distance learning to expand educational offerings | The number of course sections with fifty to 99 percent instruction through distance education The number of course sections with 100 percent instruction through distance education |
| To increase the number of students enrolled in courses through distance education | The number of students enrolled in courses that are fifty to 99 percent distance delivered The number of students enrolled in courses that are 100 percent distance delivered |
| To increase the number of programs offered through 100 percent distance education | The number of programs offered through 100 percent distance education (Associate's, baccalaureate, post-baccalaureate, graduate certificate, Master's, specialist, doctoral, professional) |

| Goals | Metrics |
|--|---|
| Improve institutional efficiency | |
| To eliminate remedial education course offerings and developmental study programs unless such courses or programs cannot be offered at a community college in the same geographical area | Number of developmental/remedial course sections (in mathematics, English, and other) offered at the institution Number of students enrolled in developmental/remedial courses (mathematics, English, and other) |
| To eliminate Associate degree program offerings unless such programs cannot be offered at a community college in the same geographical area or when the Board of Regents has certified educational or workforce needs | Number of active Associate degree programs offered at the institution Number of students (headcount) enrolled in active Associate degree programs |
| To ensure that increases to the average non-resident tuition is not less than the average tuition amount charged to Louisiana residents attending peer institutions in other Southern Regional Education Board states. <i>Benchmark: Peer institutions</i> | Non-resident tuition and fees compared to peer non-resident tuition and fees |
| Increase programs accredited | |
| To increase the percentage of eligible programs that are accredited | The ratio of programs with mandatory or recommended accreditation status to the number of accredited programs |

Sources and references

- Louisiana House of Representatives, House Bill 1171 (2011). Accessible at <http://regentsfiles.org/assets/GRADACTLegislation.pdf>.
- Board of Regents, GRAD Act Year 3. Accessible at <http://regents.louisiana.gov/grad-act-year-3/>.
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- Board of Regents, ULM GRAD Act Annual Report (2013). Accessible at <http://regents.louisiana.gov/wp-content/uploads/2013/08/ULM-GRAD-Act-Yr-3-FINAL-6-17-13.pdf>.

Overview of system

Type of model used

Base-plus funding model where the performance funding allocation remains at current levels and new funding each year is devoted to the performance pool.

Schools it is applied to

Funding is allocated to four-year state universities that comply with each of the following conditions:

- Restrain FY 2013-14 resident undergraduate tuition/free rate increase to 3.75 percent or less (\$6.2 million is allocated to institutions if the institution’s tuition growth rate stays under 3.75 percent)
- Participate in at least three reverse transfer agreements with community colleges or make good-faith efforts to do so
- Maintain a dual enrollment credit policy that allows college credits earned during high-school and counted toward high-school graduation requirements to count toward college graduation requirements
- Participate in the Michigan Transfer Network, which allows students, advisers and the general public to view course equivalencies between Michigan colleges and universities.

Who developed/implemented the model and when?

Michigan’s Governor Snyder called for a performance funding model to encourage universities to provide educational opportunities that are accessible, affordable, and result in a highly educated workforce.

Why did the state implement performance funding?

The Legislature enacted and developed higher education performance funding based on a combination of three proposed bills submitted by the Executive branch, the House and the Senate for FY 2013.

At what stage is the performance funding model?

Fully implemented in FY 2013.

Budget and funding

Performance funding accounts for roughly two percent of the state’s higher education appropriation for FY 2013-2014.

Evaluations and results

Higher education performance funding in Michigan is a recent development and evaluations of the program are not yet available. The Legislature has not yet noted evaluations in budget act provisions.

Goals and measures

Institutions receive a higher proportion of the total funding based on their performance relative to other institutions within the state and among other states based on the institution’s Carnegie Classification. Institutions are awarded points for meeting or exceeding targets.

| Goals | Metrics |
|--|--|
| <p>Increase STEM-Health degrees</p> <p>To increase the number of undergraduate degrees and certificate completions in critical skills areas</p> | <p>Number of undergraduate STEM-Health degrees and certifications awarded as a proportion of the total number of qualifying degrees awarded in the state</p> |

| Goals | Metrics |
|--|--|
| Increase on-time graduation | |
| To increase the graduation rate for students graduating within six years. <i>Target:</i> Improvement over the average of the last 3 years; top 20 percent of Carnegie peer institutions; above the median of Carnegie peer institutions. <i>Benchmark:</i> Carnegie peer institutions, year-to-year improvement | The number students graduating within six years compared to the total number of students from the same class |
| Increase degrees completed | |
| To increase the number of students graduating from four-year public institutions. <i>Target:</i> Improvement over the average of the last 3 years; top 20 percent of Carnegie peer institutions; above the median of Carnegie peer institutions. <i>Benchmark:</i> Carnegie peer institutions, year-to-year improvement | The number of total degree completions including Associate degrees and undergraduate certificates |
| Stewardship of public funds | |
| Decrease the amount of institutional funding that goes toward institutional support. <i>Target:</i> Improvement over the average of the last 3 years; top 20 percent of Carnegie peer institutions; above the median of Carnegie peer institutions. <i>Benchmark:</i> Carnegie peer institutions, year-to-year improvement | The amount of institutional support funding as a proportion of core expenditures |
| Promote research and development | |
| To increase the amount of research and development funding at research universities | The amount of research funding at each public research institution |

Lessons learned

Michigan's transition to its performance funding model resulted in several lessons learned. They provided the following recommendations for Washington state:

1. Dialogue early

Michigan's enacted budget and measures were an amalgam of three different proposals rather than measures with cohesive policy objectives. By having discussions earlier, the state could have developed broader consensus and a cohesive policy to address the types of behavioral change that it hoped to encourage.

2. Carefully assess the use of a tuition reduction performance measure

Michigan found that institutions did not comply with the tuition reduction performance measure. The state's tuition restraint measure provides performance funds to universities that hold their tuition increases below 4 percent. If universities meet this requirement, the state awards universities with a financial incentive starting at \$500,000. During the model's second year, one university did not comply with the tuition reduction requirement and instead increased tuition by 8.9 percent. Officials determined that with such limited funding, maintaining tuition rates is somewhat of a disincentive.

Sources and references

- Interview with Kyle Jen, Michigan House Fiscal Agency on September 23, 2013.
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MINNESOTA

Overview of system

Type of model used

Set-aside performance funding model where a portion of public funding is set aside to pay based on performance measures.

Schools it is applied to

Minnesota State Colleges and Universities and the University of Minnesota.

Who developed/implemented the model and when?

Minnesota's performance funding model was built into its higher education funding bill passed by the state's legislature in 2011.

Why did the state implement performance funding?

Minnesota's legislature developed the performance funding model to institute greater accountability.

At what stage is the performance funding model?

Fully implemented and in its second year.

Budget and funding

Five percent for Minnesota State Colleges and Universities; one percent for the University of Minnesota.

Evaluations and results

The performance model is in its second year. The legislative bill instituting the model does not provide for evaluating the model.

Goals and measures

The Legislature awards performance funds if colleges and universities meet at least three of five performance goals.

| Goals | Metrics |
|---|---|
| Increase degrees completed | |
| To increase graduates or degrees, diplomas and certificates completed. <i>Target:</i> Increase of 7%. <i>Benchmark:</i> Fiscal year 2009 | The number of graduates or degrees, diplomas and certificates completed |
| To To increase the number of degrees completed. <i>Target:</i> 13,500 total degrees. | The number of degrees completed on all campuses |
| To To increase the four- and six-year undergraduate graduation rate. <i>Target:</i> Rate greater than the 2009-2010 rate. | The number of students enrolled as first-time, full-time who completed a Bachelor's degree within four and six years compared to the total number of students enrolled as first-time, full-time undergraduates four and six years earlier at the same institution |
| Student diversity | |
| To increase the number of students of color. <i>Target:</i> Increase of 10%. <i>Benchmark:</i> Fiscal year 2010. | The number of students of color |
| Provide greater access | |
| To increase the full year equivalent enrollment of students taking online or blended courses or the number of online and blended sections. <i>Target:</i> Increase of 15%. <i>Benchmark:</i> Fiscal year 2010 | Number of full equivalent enrollment of students taking online or blended courses or the number of online and blended sections |

| Goals | Metrics |
|--|---|
| Encourage student progress | |
| To increase the fall 2011 persistence and completion rate for fall 2010 entering students. <i>Target:</i> Increase of 1%. <i>Benchmark Fall 2010</i> | The fall 2011 persistence and completion rate for fall 2010 entering students compared to the fall 2010 rate for fall 2009 entering students |
| Improve institutional efficiency | |
| To decrease total energy consumption. <i>Target:</i> Decrease of 2% compared to calendar year 2009. <i>Benchmark: Calendar year 2009</i> | Total energy consumption per square foot |
| To maintain or increase sponsored funding from business and industry. <i>Target:</i> Amount not less than reported in fiscal year 2010. <i>Benchmark: Fiscal year 2010</i> | Amount of sponsored funding from business and industry as reported to the Board of Regents in December of that year |
| Decrease student cost | |
| To increase the amount of institutional financial aid. <i>Target:</i> Amount greater than fiscal year 2010. <i>Benchmark: Fiscal year 2010</i> | Amount of institutional financial aid excluding federal stimulus funding (including funds from the University of Minnesota Foundation and the Minnesota Medical Foundation) |
| Promote research and development | |
| To maintain or increase total research and development expenditures. <i>Target:</i> Amount not less than reported in the 2010 NSF report. <i>Benchmark: Fiscal year 2010</i> | Amount of total research and development expenditures as reported to the National Science Foundation |

Sources and references

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Overview of system

Type of model used

Funding formula model that emphasizes in workload and outcomes, so that as changes occur they are reflected in the distribution of funds to an institution.

Schools it is applied to

All public higher education institutions including community colleges.

Who developed/implemented the model and when?

In 2011, the Governor-elect of New Mexico charged the Higher Education Secretary with creating a funding formula to emphasize outcomes. The Funding Task Force (FTF) reconvened with participation open to each institution, the Legislative Financial Committee, and the Department of Finance and Administration.

The FTF made recommendations to the Higher Education Department (HED) in September 2011 and developed four subcommittees to work on the formula. The committees were charged with:

- developing a structure for the new formula
- identifying and defining output data
- assigning dollar values to data
- studying practices in other states.

The HED was ultimately responsible for writing the formula, leading to its 2013 implementation.

Why did the state implement performance funding?

New Mexico chose to transition from an input or cost based system to an outcome based system. The goal was to create a system of higher education that provides efficient incentives for colleges and universities to develop a globally competitive workforce for the future. New Mexico's 2011 law required HED to recommend revisions to the state's funding formula in an effort to create incentives to raise graduation and retention rates.

At what stage is the performance funding model?

New Mexico is in the process of implementing the model. Refinement of the formula and new metrics are expected as data collection is improved and feedback is gathered.

Budget and funding

Performance funding is allocated from base funds at 5 percent of the state higher education appropriation. Institution changes in workload and outcomes will be reflected in the distribution of funds.

Evaluations and results

The state is considering a variety of evaluation factors that examine research, quality, and progress, as well as a factor that rewards success of transfer students. No results are available, as this is the first year of implementation.

Goals and measures

The new model provides four output incentives for:

- students to complete their courses
- institutions to increase the number of graduates
- institutions to increase STEM-Health degrees and certifications
- graduating more at-risk students.

New Mexico will use three separate funding formulas to accommodate the various missions of research universities, regional or comprehensive universities, and two-year colleges. The new formula distinguishes missions between sectors and provides different metrics for each. The separation of metrics for each sector signals to institutions that they should sharpen their educational mission goals to maximize formula incentives.

| Goals | Metrics |
|---|--|
| Close achievement gaps | |
| <p>To increase the number of certificates and degrees awarded to at-risk students. <i>Weight: Funded at 3% of the cost to produce the degree</i></p> | <p>Number of certificates, associate, undergraduate and graduate degrees awarded to at-risk students (sorted by type of degree) multiplied by the cost of generating the degree (based on national cost standards) for Comprehensive universities</p> <p>Number of undergraduate and graduate degrees and post-graduate certificates awarded to at-risk students (sorted by type of degree) multiplied by the cost of generating the degree (based on national cost standards) for research universities</p> |
| <p><i>Note:</i> At-risk students include students who have an expected family contribution amount determined by the Federal Application for Student Aid (FAFSA) that would qualify them for a Pell Grant in the year in which they earn their degree. (Although graduate students are not eligible to receive Pell Grants, the same definition is applied to graduate students to determine if they are financially at-risk.)</p> | |
| Increase high-quality post-secondary credentials | |
| <p>To increase the number of certificates and degrees awarded by each institution in the STEM-Health fields. <i>Weight: Funded at 3% of the cost to produce the degree</i></p> | <p>Number of certificates, associate, undergraduate and graduate degrees awarded in the STEM-Health classification of instructional program codes (sorted by type of degree) multiplied by the cost of generating the degree (based on national cost standards) for comprehensive universities</p> <p>Number of undergraduate and graduate degrees and post graduate certificates awarded in the STEM-Health classification of instructional program codes (sorted by type of degree) multiplied by the cost of generating the degree (based on national cost standards) for research universities</p> |
| Encourage student progress | |
| <p>To increase the number of credit hours completed. <i>Weight: Funded at 45% of the average cost of student credit hours</i></p> | <p>Number of completed student credit hours for all undergraduate, graduate, developmental and trade/technical courses multiplied by the cost of delivering the course and student support for comprehensive universities</p> <p>Number of completed student credit hours for all undergraduate and graduate courses multiplied by the cost of delivering the course and student support for research universities</p> |
| Increase degrees completed | |
| <p>To increase the number of degree and postgraduate certificate awards. <i>Weight: Funded at 2% of the total cost</i></p> | <p>Number of certificates, associate, undergraduate and graduate degrees (sorted by type of degree) multiplied by the cost of generating the degree (based on national cost standards) for comprehensive universities</p> <p>Number of undergraduate and graduate degrees and post graduate certificates (sorted by type of degrees) multiplied by the cost of generating the degree (based on national cost standards) for research universities</p> |

Sources and references

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- New Mexico Higher Education Department, The Watson-Hadwiger Formula (2011). Accessible at <http://www.unm.edu/president/documents/2011/watson-hadwisger-formula.pdf>.

NORTH DAKOTA

Type of model used

Funding formula: North Dakota adopted a funding formula to allocate state funds to universities based on earned credit hours rather than student enrollment.

Set-aside: The legislature also allocated additional funding to be awarded based on performance measures.

Schools it is applied to

Public two-year and four-year institutions of higher education.

Who developed/implemented the model and when?

In January 2013, Senate Bill 2200 established the new funding formula and set-aside funding. The new funding model came about as a result of a recommendation to the legislature from Governor Jack Dalrymple.

Why did the state implement performance funding?

According to the Office of the Governor, the new funding formula is based on the actual costs of education and is more transparent than the previous funding model.

At what stage is the performance funding model?

The funding formula is in its first year. The set-aside funding model has not yet been implemented.

Budget and funding

In 2013, the legislature used the new funding formula to appropriate \$902 million to fund the state's colleges and universities. The metrics and method that will be used to allocate the set-aside performance funding of \$5 million will be established by the State Board of Higher Education (SBHE) .

Goals and measures

Information is limited on the goals and measures relevant to the set aside performance funding. One document from the SBHE indicates that retention rates (fall to fall and fall to spring) and completion rates (degrees awarded during the year) will be recommended for a pilot phase for performance funding. A more formalized system will take effect in the 2015-2017 biennium.

Sources and references

- North Dakota Century Code(15-18.2). Available at <http://www.legis.nd.gov/cencode/t15c18-2.pdf?20131202183310>.
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Overview of system

Type of model used

Funding formula that distributes the higher education appropriation and is based on quantitative factors. Ohio sets aside a portion of its base funding to be distributed to medical schools and doctoral programs.

Schools it is applied to

Public university main and regional campuses within the university system of Ohio. Community and technical colleges are subject to a different performance funding formula.

Who developed/implemented the model and when?

Performance funding was originally implemented in 2010 but it did not effectively impact performance of institutions. For this reason, in Fall 2012, Ohio's Governor Kasich called for change in the performance funding model. The Governor and the President of Ohio State University led the efforts of the Higher Education Funding Commission to develop a new funding model.

Why did the state implement performance funding?

The Governor proposed better alignment of state funding for higher education with the state's economic development goals and wanted to better reward student success and completion.

At what stage is the performance funding model?

Implementation is under way and scheduled to be complete in 2015.

Budget and funding

Currently, 10 percent of base funds are set aside as outcome-based funding. However, the state plans to increase the percentage each year until 2015 when 50 percent of base funds will be based on degree completion, 28 percent is based on course completion, and 22 percent for medical and doctoral schools.

Evaluations and results

While an evaluation is yet to be scheduled, eventually the state plans annual evaluations of the merit of the system by the changes it produces (for example, higher graduation rates).

Goals and measures

Ohio's primary objectives are to graduate more Ohio citizens from college, keep a greater portion of graduates in Ohio and to strengthen the state's response to new or increased workforce development opportunities in Ohio. Additionally, the state seeks to improve graduation rates, the number of graduates and the time it takes to graduate, and to encourage colleges and universities to attract, prepare, and graduate non-traditional and at-risk students.

Ohio uses standard three-year averages on all measures. Additionally, Ohio provides proportional credit to institutions for transfer students. For example, if a student completes half of his or her courses at one institution and then transfers to another institution, the credit gets split between institutions.

| Goals | Metrics |
|---|--|
| Increase degrees completed | |
| To increase graduation rates | The number of first-time, first-year degree seeking students who receive an Associate's, Bachelor's, Master's or Professional degree compared to the total number of students in the same entering class |
| <p><i>Weights:</i></p> <ul style="list-style-type: none"> • Undergraduate degrees for out-of-state students are weighted more heavily (25%) if the student remains in Ohio after graduation. • STEM weights are provided based on the type of STEM degree offered. STEM degrees are weighted differently based on their priority to the state. • At-risk weights are calculated based on the number of students that fall into a combination of categories, which includes the following: no risk factor, all risk factors, financial, academic, age and race. | |
| Encourage student progress | |
| To increase the number of courses completed | Number of completed courses |
| <p><i>Weights:</i></p> <ul style="list-style-type: none"> • STEM weights are provided based on the type of STEM degree offered. STEM degrees are weighted differently based on their priority to the state. • At-risk weights are calculated based on the number of students that fall into a combination of at-risk categories which includes the following: no risk factor, all risk factors, financial, academic, age and race. | |

Lessons learned

Lessons learned include keeping the model simple and having adequate time to run and vet the model prior to implementation.

Sources and references

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- Email exchange with David Cannon, Ohio Board of Regents on August 18, 2013
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- Illinois Higher Education Finance Study Commission, Chancellor Fingerhut Testimony (2010). Accessible at <http://www.ibhe.state.il.us/SJR88/Materials/100830/FingerhutTestimony.pdf>.
- Ohio Board of Regents, State Share of Instruction FY14 (2013).

Overview of system

Type of model used

Base-plus funding model where the performance funding allocation remains at current levels and additional new funding each year is devoted to the performance pool.

Schools it is applied to

All public postsecondary institutions, including two-year and four-year institutions.

Who developed/implemented the model and when?

The Oklahoma State Regents for Higher Education (OSRHE) adopted a standard cost funding formula in 1988 where the institutions receive funding based on funding levels of similar institutions in other states. In 2006, the Council of Presidents initiated a review of the standard cost funding and unanimously voted to continue the formula without any changes. At the request of OSRHE, the Council of Presidents was appointed to explore performance-based funding in 2011. In 2012, the Regents adopted a performance-funding model. The model was first applied in fiscal year 2013 allocations to the higher education institutions.

Why did the state implement performance funding?

In the old funding formula, the universities received funding based on funding levels of peer universities in other states. This formula only applied to new money (any funding the system received beyond its current base level); no new money had been appropriated since 2008. The new formula is strictly performance driven and provides safeguards for schools that historically have relatively low per-student funding levels. The new formula is designed to encourage student retention and emphasizes increasing the number of degrees and professional certifications Oklahoma produces.

At what stage is the performance funding model?

Newly implemented in fiscal year 2013.

Budget and funding

OSRHE set aside \$10 million for fiscal year 2014, allocating \$9 million through the funding formula with the remainder allocated to eight institutions eligible for equity adjustments. Institutions are eligible for adjustments if they are below one standard deviation of their tier or system per student FTE average.

Evaluations and results

Oklahoma is in its second year of performance-based funding. After the first year, the Council of Presidents conducted an evaluation to ensure the measures were working as expected and data submitted was sound. They did not find it necessary to make any changes, and continue to conduct annual evaluations.

Goals and measures

The Council of Presidents recommended that performance factors be calculated for the incentive and performance multiplier components, and that full credit on performance factors be given to institutions eligible for equity adjustments. A minimum of 10 percent of all new funds for allocation to institutions is to be set aside for equity adjustments each year. Institutions are not penalized for deleting or discontinuing programs, and institutions' base budgets are held harmless as new funds are allocated.

| Goals | Metrics |
|--|---|
| Encourage student progress | |
| To increase first to second year retention rates | Percent change of the number of students in the first year to the same students in the second year (<i>Weight: 6.7%</i>) |
| To increase first to second year retention rates for Pell Grant recipients | Percent change of the number of Pell Grant recipient students in the first year to the same students in the second year (<i>Weight: 6.7%</i>) |
| To increase the accumulation of credit hours | Percent change of the number of students who accumulate 24 credit hours (<i>Weight: 13.3%</i>) |
| Close achievement gaps | |
| To increase the number of students who complete degrees | Percent change in number of students who complete degrees from the previous year (<i>Weight: 20% for FY2013 & FY2014 then 26.7% through FY2017</i>) |
| To increase Complete College America* degrees obtained | Each institution's Complete College America goal (<i>Weight: 13.3% for FY2013 then 20 percent through FY2017</i>) |
| To increase the number of two year certificates and degrees completed | Percent change in number of two year certificates and degrees from previous year to current year (<i>Weight: 13.3% for FY2013 through FY2015 then 20% through FY2017</i>) |
| * Complete College America is a national non-profit with a single mission: to work with states to significantly increase the number of Americans with quality career certificates or college degrees and to close attainment gaps for traditionally under-represented populations. | |
| Increase programs accredited | |
| To increase the percent of programs that are accredited | Percent change in number of accredited programs from previous year to current year (<i>Weight: 6.7%</i>) |

Lessons learned

To encourage the institutions to think in terms of performance and outcomes, a measure was established requiring the institutions to submit a Campus Completion Plan for which they will receive points. This measure will remain in place for three years.

Oklahoma officials said the most interesting change they've seen is in how the institutions are thinking. Prior to performance funding, the focus was on program cost. Now, there are new players at the meetings from various divisions of the intuitions, and enrollment software is becoming more prominently used. However, they said it is not always easy to change the thinking within higher education. Some of the presidents are invested in the old system and have difficulty transitioning to performance-based methods. Each institution is only compared to its own past performance. With the shift to performance-based funding, officials have noticed improved data accuracy. Data is submitted after the institution's president certifies the numbers.

Oklahoma officials said, "We may hear institutions say, 'Well it's only new dollars. However, if institutions want to expand, they'll need to improve to gain more funding.'"

Sources and references

- Interview with Amanda Paliotta, Vice Chancellor for Budget and Finance on October 25, 2013.
- The Oklahoman, Oklahoma System of Higher Educations Looks to Move to Performance-based Funding (2012). Accessible at <http://newsok.com/oklahoma-system-of-higher-education-looks-to-move-to-performance-based-funding/article/3667579>.
- The Oklahoma State Regents for Higher Education, 2013 Complete College America Progress Report. Accessible at <http://www.okhighered.org/complete-college-america/2013-progress-report.pdf>.
- Improving our future by degrees. Performance Funding Formula, Regents Education Program

Overview of system

Type of model used

Set-aside funding model, in which a portion of higher education funding is set aside to pay based on performance measures.

Schools it is applied to

Fourteen four-year state universities that are publicly owned and governed by the commonwealth.

Who developed/implemented the model and when?

The Board of Governors and the Office of the Chancellor of the Pennsylvania State System of Higher Education (PASSHE) established the state's first version of performance funding in 2003. Despite some positive results, eight years later PASSHE's Chancellor decided to improve the model to be more sensitive to institution-specific missions and goals.

Why did the state implement performance funding?

The decision to develop a performance funding model was not prompted by legislative or executive mandates.

At what stage is the performance funding model?

PASSHE found that the first version of the performance funding model was difficult to understand, its targets were short-sighted, and it limited universities to specific measures. It was deemed, however, to have fulfilled its purpose. In 2011, PASSHE adopted a revised performance-funding model, which is now fully implemented.

Budget and funding

Performance funding accounts for 9 percent of the state's higher education appropriation and is funded through existing state appropriations.

Evaluations and results

Results produced by the original model, adopted in 2003, included:

- A 10 percentage point increase in overall graduation rates, with increases of 6 and 9 percentage points for African American and Hispanic students, respectively
- A general increase in second-year persistence rates, with a 15 percentage point increase for Hispanic students
- Improvements in student, faculty and administrator diversity
- Improvements in program quality and faculty productivity
- A change in institutional culture toward solving problems and increasing efficiency

In 2013, PASSHE began reviewing results from the first year of its new performance funding model.

Goals and measures

In Pennsylvania, there is a gap between the racial diversity of its high school graduates and that of its entering undergraduates. As part of the new performance funding initiative, schools are asked to improve outcomes for under-represented minority groups (URMs). PASSHE aims to reduce the gap in higher education access and completion by 2015. Many of the measures listed reflect this goal of providing access for under-represented students while other measures fall into two other categories: student success and stewardship of resources.

The new funding model measures institutions on 10 performance indicators over a five-year period. Five indicators are mandatory and are the same for each institution, while five are optional. Institutions also have the option of developing up to two of their own unique measures. Points are awarded based on

- 1) meeting or exceeding targets and
- 2) meeting or exceeding performance of similar institutions.

PASSHE distributes funding based on the number of points institutions receive. For all measures, university performance is measured against specific goals established by institutions for each year and against peer averages.

| Goals | Metrics |
|---|--|
| Increase degrees completed | |
| To increase the number of degrees completed. <i>Target:</i> At or above established target | Number of degrees (Associate's, Bachelor's and Graduate) completed |
| To increase the number of undergraduate degrees per 100 FTE undergraduate enrollment. <i>Targets:</i> At or above the established target; At or above the ratio of similar institutions. <i>Benchmark: Peer comparisons within PA</i> | Combined total of Associate's and Bachelor's degrees completed during an academic year per 100 undergraduate FTE generated during the same academic year (non-degree and certificate-seeking students included in undergraduate FTE) |
| Close achievement gaps | |
| To increase the percent of first-time freshmen graduating in 6 years who are Pell Grant recipients | Percent of first-time freshmen Pell Grant recipients who obtained Bachelor's degrees within 6 years compared to percentage of non-Pell students at entry who obtained Bachelor's degrees within 6 years |
| To increase the percent of first-time Under-represented Minority* freshmen graduating in 6 years | Percent of first-time URM* freshmen who obtained Bachelor's degrees within 6 years compared to percentage of non-URM* students at entry who obtained Bachelor's degrees within 6 years |
| To increase the percent of Pell Transfer** students who obtain Bachelor's degrees within 6 years | Percentage of Pell transfer students from the fall cohort who obtained Bachelor's degrees within 6 years compared to percentage of non-Pell students who obtained Bachelor's degrees within 6 years |
| To increase the percent Under-represented Minority* Transfer** students who obtain Bachelor's degrees within 6 years | Percentage Under-represented Minority (URM) students from the fall cohort who obtained Bachelor's degrees within 6 years compared to percentage of non-URM students who obtained Bachelor's degrees within 6 years |
| <i>Targets:</i> At or above the established target | |
| Encourage student progress | |
| To increase the percent of students returning for a third academic year. <i>Targets:</i> At or above the established target; At least meeting the average scores of similar institutions participating in this measure for third year persistence | Percentage of students returning from fall of freshman year to fall of third academic year |
| To increase the percent of students returning for a fourth academic year. <i>Target:</i> At or above the established target for fourth year persistence. <i>Benchmark: Peer comparisons within PA.</i> | Percentage of students returning from fall of freshman year to fall of fourth academic year |
| Improve quality of education | |
| To increase scores on the Collegiate Learning Assessment (CLA), Collegiate Assessment of Academic Proficiency (CAAP), and ETS Proficiency Profile (EPP). <i>Targets:</i> Value-added score is "at expected" or better; Senior scores increase from the prior year. <i>Benchmark: Peer institutions – determined by the administering company based on admittance of similar students.</i> | Scores on Critical Thinking section (EPP and CAAP) and Performance Task section (CLA) Scores on Writing section (EPP), Analytic Writing section (CLA) and Writing Essay section (CAAP) |

| Goals | Metrics |
|--|--|
| Increase STEM-Health degrees | |
| To increase the number of degrees completed in STEM-Health fields. <i>Targets:</i> At or above the established target; At least meeting the average scores of similar institutions. <i>Benchmark:</i> Peer comparisons within PA | Number of Associate, Bachelor, and graduate degrees completed in all STEM-Health fields (using the National Center for Educational Statistics list of STEM fields), combined |
| Provide greater access | |
| To increase the percent of first-time freshmen at entry who are Pell Grant recipients | The percentage of entering students who were Pell Grant recipients compared with the percentage of high school graduates classified as lower income(LI)*** |
| To increase the percent of first-time URM* freshmen at entry | The percentage of entering students who were URMs* compared with the percentage of high school graduates who were URMs* in the state |
| <i>Targets:</i> At or above the established target | |
| Increase faculty diversity | |
| To increase the percent of faculty who are non-majority persons | The ratio of instructional faculty with race/ethnicity that is other than White or Unknown (and other than Black or Unknown for Cheyney University) to the number of full-time, tenured and tenure-track instructional faculty members |
| To increase the percent of tenured faculty who are female. | The ratio of full-time, tenured and tenure-track female faculty to the number of full-time, tenured and tenure-track instructional faculty members |
| To increase the percent of nonmajority Associate Professors | Ratio of nonmajority Associate Professors to total nonmajority faculty compared to the ratio of total Associate Professors to total faculty |
| To increase the percentage of Female Associate Professors | Ratio of female Associate Professors to total female faculty compared to the ratio of total Associate Professors to total faculty |
| To increase the percent of nonmajority Full Professors | Ratio of nonmajority Full Professors to total nonmajority faculty compared to the ratio of total Full Professors to total faculty |
| To increase the percent of Female Full Professors | Ratio of female Full Professors to total female faculty compared to the ratio of total Full Professors to total faculty |
| <i>Targets:</i> At or above the established target; At least meeting the average scores of similar institutions. <i>Benchmark:</i> Peer comparisons within PA. | |
| Increase non-faculty diversity | |
| To increase the percent of nonmajority executives | Ratio of Executives with race/ethnicity other than White (Black for Cheyney University) to total executives |
| To increase the percent of female executives | Ratio of female executives to total executives |
| To increase the percent of nonmajority professional nonfaculty employees | Ratio of professional employees with race/ethnicity indicator other than White (Black for Cheyney) to total professional employees |
| To increase the percent of female professional nonfaculty employees | Ratio of female professional employees to total professional employees |
| <i>Targets:</i> At or above the established target; At least meeting the average scores of similar institutions. <i>Benchmark:</i> Peer comparisons within PA. | |

| Goals | Metrics |
|--|--|
| Increase student diversity | |
| To increase the percent of total students enrolled who are Pell grant recipients | The ratio of Pell grant recipients to all undergraduate students |
| To increase the percent of total students enrolled who are nonmajority | The ratio of total students with race/ethnicity indicator that is other than White (Black for Cheyney students) to all students |
| <i>Targets: At or above the established target; At least meeting the average scores of similar institutions. Benchmark: Peer comparisons within PA (excluding Historical Black Colleges and Universities for the second goal).</i> | |
| Stewardship of public funds | |
| To increase annual private funds raised by University and Foundations. <i>Target: At or above the established target</i> | The amount of private funds raised by University and Foundations |
| To decrease the deterioration rate for physical assets. <i>Targets: At or above the established target; At least meeting the average peer performance</i> | The gap between the annual need and actual funding for physical assets |
| To improve the scoring index on maintenance, custodial, and grounds. <i>Targets: At or above the established target; At least meeting the average peer performance. Benchmark: Industry standards, peer averages, and best practice institutions</i> | Staffing, supervision, and material spending levels and other benchmarks and comparisons |
| To improve the quality of service delivery. <i>Targets: At or above the established target; At least meeting the average peer performance. Benchmark: All public institutions that select this measure with less than 5 million gross square feet.</i> | Scores from a service process review which evaluates centralization of customer service requests, scheduling process division, organizational structure and position, work order system, and performance measurement Scores from a campus inspection which inspects cleanliness, general repair, mechanical systems, facility exterior, and grounds |
| To increase the percent of support expenditures | Ratio of support expenditures (unrestricted academic support, student services, and institutional support expenditures) to total cost of education |
| To increase the number of student credit hours taught | Ratio of student credit hours to Fall Instructional Faculty FTE |
| To increase the number of FTE students to FTE employees | Ratio of FTE students to FTE employees |
| <i>Targets: At or above the established target; At least meeting the average scores of similar institutions. Benchmark: Peer comparisons within PA.</i> | |
| Performance based on institutional mission and strategic goals | |
| Institutions are allowed to create up to two objectives which must be approved by the Chancellor for inclusion in the performance funding model | |
| <p><i>Notes:</i> * Under-represented Minority Students (URM) includes African-American, Hispanic, and American-Indian students; as well as students who report a combination of Black, American Indian/Alaskan Native, or Native Hawaiian/Pacific Islander with any other race. Students who select Hispanic and another race are considered Hispanic, not multiracial. Non-URM students include White, Asian/Pacific Islanders, and students who report White and Asian as their multiple races. Unknown and nonresident aliens are excluded.</p> <p>** Transfer students who are entering the reporting institution after previously attending a postsecondary institution at the same level (undergraduate). The student may transfer with or without credit.</p> <p>*** Lower Income (LI) includes students with family incomes below 200% of the poverty level.</p> | |

Lessons learned

PASSHE's suggestions and lessons learned include:

1. Provide sufficient time to transition
2. Make two-year and four-year performance systems correspond
3. Keep funding modest but sufficient to make an impact
4. Allow modification to measures
5. Allow the education system to determine the measures
6. Limit the number of measures
7. Unintended consequences on specific measures include:
 - Graduation rates only count full-time and first-time students; increasing the number of degrees using this indicator does not fully count the actual number of degrees.
 - Instructional cost per student fails to recognize that the cost increases each year regardless of action conducted by the institution.
 - Faculty productivity consists of the number of credits and students that a faculty member teaches. This does not ultimately measure student learning.
 - Under-represented student measures that deal with an increase in graduation rates or the distance between under-represented students and other students may penalize institutions if the gap between the two increases.
 - Most institutions use institutionally-defined measures. However, after the first year, PASSHE found such measures were not as widely used as they had hoped.

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SOUTH DAKOTA

Overview of system

Type of model used

One-time funding appropriation, with matching fund requirement from higher education general fund.

Schools it is applied to

The formula affects the state's six universities. Institutions fall into two groups: Masters/Comprehensive institutions and Doctoral/Research institutions. Each institution competes for performance dollars contributed by the members of its institutional group.

Who developed/implemented the model and when?

The Board of Regents developed and adopted its performance funding model pilot in March 2012. The pilot was in effect during fiscal year 2013.

Why did the state implement performance funding?

The performance funding model came about in part because South Dakota faced a projected workforce shortage that threatened to stifle long-term economic development goals. Additionally, the higher education community increasingly believed that outcomes-based performance measures should be valued over input-based indicators.

At what stage is the performance funding model?

The pilot program is no longer in effect.

Budget and funding

Performance funds were appropriated from a combination of a one-time appropriation of \$3 million and a required \$3 million match from the higher education base budget.

Evaluations and results

The pilot was only in effect for one year, and the Board of Regents did not notice any changes due to the performance funding model. No study was performed.

Goals and measures

The core priorities of South Dakota's performance funding model are to cultivate South Dakota's workforce by helping more students earn a college degree and to enhance statewide economic development by boosting sponsored research.

Measures are compared on a three-year period rolling average. The average of the most recent three-year period is compared against the previous three-year period.

| Goals | Metrics | | |
|--|--|---------------------|----------------|
| Increase degrees completed (used in the performance funding pilot) | | | |
| To increase the number of graduates produced | The number of graduates produced | | |
| <i>Weighting: Weights are attributed to degree levels and field types as a coefficient. The distinction is made on the basis of Classification of Instructional Program (CIP) codes. Premium fields are key workforce development priorities for the state and include fields in accounting, computers and information technology, health professions, and STEM and STEM teaching areas.</i> | Table of weighting coefficients | Point values | |
| | <i>Level</i> | <i>Regular</i> | <i>Premium</i> |
| | Associate's degree | 1.00 | 3.00 |
| | Bachelor's degree | 1.50 | 4.50 |
| | Master's/Specialist's degree | 1.75 | 5.25 |
| | Doctoral/First professional degree | 2.00 | 6.00 |

| Goals | Metrics |
|---|---|
| Encourage student progress (developed after pilot and used conceptually) | |
| To increase the percentage of first-time and first-transfer bachelor's degree-seeking students who enroll for a second year of school | The percentage of bachelor's degree-seeking students who enroll for a second year of school |
| Promote research and development (developed after pilot and used conceptually) | |
| To increase sponsored research expenditures made by each campus | The expenditures made by each campus on research activities |

Lessons learned

Based on their experience, South Dakota officials suggested that the model be as simple and understandable as possible.

Sources and references

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Overview of system

Type of model used

Funding formula that automatically distributes the higher education appropriation and is grounded in quantitative factors. Tennessee sets aside a small portion of their base funding to be distributed based on meeting or exceeding performance targets.

Schools it is applied to

All public higher education institutions, including community colleges and four-year colleges and universities.

Who developed/implemented the model and when?

A performance funding model was established in 1979 to measure student learning and institutional effectiveness. In 2010, the Legislature introduced the Complete College Tennessee Act, which called for development of an outcome-based funding model to replace enrollment funding.

Higher education institutions played a key role in developing Tennessee's outcome-based formula. The Higher Education Commission convened a Formula Review Committee (FRC) to discuss, debate and develop the new formula design. Committee members were from higher education and state government. Selected campus presidents, CFOs and provosts were asked for their suggestions on what outcomes to include and the priority of each outcome. Throughout the process, the committee consulted with external experts on the philosophy and principles of the new outcomes-based formula model.

Why did the state implement performance funding?

Prior to the 2010 implementation of the outcome-based funding formula, Tennessee allocated 5 percent of its higher education funding via its performance funding model. The Commission reasoned that such a small percentage of funding did not provide the leverage needed for institutional change and modified its enrollment formula to an outcome-based funding model with 95 percent of the higher education appropriation.

At what stage is the performance funding model?

Implementation is in progress.

Budget and funding

Performance funding is allocated from base funds at 5 percent of the state higher education appropriation, and is allocated based on an institution's annual targets and quality improvement.

The outcome-based funding formula allocates the remaining 95 percent of state funds and does not include enrollment-based allocations. Each institution's formula calculation is independent of other institutions. Appropriations are earned anew each year.

Evaluations and results

Tennessee is currently undergoing an official evaluation of its 2010 outcome-based funding model. The results will be published in summer 2014. However, initial results of the system seem to have significant positive results.

The Commission states that the 2010 formula will have positive impacts on institutional outcomes compared to the previous formula because:

- The previous enrollment-driven formula provided for little differentiation between different types of institutions and offered limited acknowledgement of institutional mission and uniqueness.

- The outcomes-based model is linked to productivity and will offer more stability by spreading the financial incentives across more variables.
- Performance-funding add-ons have had limited success in leveraging policy change while the outcome-based formula distributes all funding based on performance.

Goals and measures

While all institutions have identical outcome measures and priorities, weights differ by the institution's mission (identified by their Carnegie Classification).

| Goals | Metrics |
|--|---|
| Encourage student progress (included in outcome-based funding formula) | |
| To increase the accumulation of credit hours | Number of students who accumulated 24 credit hours Number of students who accumulated 48 credit hours Number of students who accumulated 72 credit hours |
| Increase degrees completed (included in outcome-based funding formula) | |
| To increase the number of Bachelor's and Associate's degrees | Combined total of Bachelor's and Associate's degrees completed during an academic year |
| To increase the number of Master's and education specialist degrees | Combined total of Master's and education specialist degrees and certificates completed during an academic year |
| To increase the number of doctoral and law degrees | Combined total of doctoral and law degrees completed during an academic year |
| To increase the number of degrees and certificates per full-time equivalent | The combined total of Associate's and Bachelor's degrees completed during an academic year for every 100 undergraduate FTE |
| Increase on-time graduations (included in outcome-based funding formula) | |
| To increase the six-year graduation rate | First-time, full-time, fall freshmen and summer first-time freshmen who were awarded a Bachelor's or Associate's degree as of the summer semester following their sixth year |
| Improve institutional efficiency (included in outcome-based funding formula) | |
| To increase research/service expenditures | Amount of research and service expenditures that are eligible for indirect cost allocation, primarily but not exclusively externally generated funding for research, service or instruction |
| Increase student transfers (included in outcome-based funding formula) | |
| To increase the number of undergraduate students who transfer out to any in-state institution | Number of undergraduate students who transferred out to any in-state public (and some private) institution in an academic year who accumulated at least 12 earned student credit hours from the originating institution |
| Improve quality education (included in performance funding formula) | |
| To increase an institution's mean score on an approved standardized test of general education. <i>Benchmark: National average.</i> | Institution's mean score on an approved standardized test of general education divided by the national average |
| To increase scores on approved examinations for major field programs. <i>Benchmark: Recognized norm or the institution's most recent test score.</i> | Program's average score divided by the score of an external norm or the institution's average test score |
| To improve the quality of undergraduate programs. <i>Benchmark: Peer comparisons and institutional improvements.</i> | Number of points on the Student Engagement Survey |
| Increase number of accredited programs (included in performance funding formula) | |
| To increase the percent of eligible programs that are accredited | Number of accredited programs divided by the total number of creditable programs |

| Goals | Metrics |
|---|--|
| Improve non-accredited programs (included in performance funding formula) | |
| To increase the percent of standards successfully met by non-accreditable undergraduate and graduate programs | Number of successful standards met by the total number of scored standards |
| Improve assessment processes (included in performance funding formula) | |
| To improve maturity and effectiveness of an institution's assessment processes and reports | Points on an evaluation of the institution's Quality Enhancement Plan or Student Learning Initiative <i>Points are awarded based on the quality of the institution's rationale, objectives, assessment tools, assessments, results and assessment plans for the following year.</i> |
| Improve at-risk student support (included in performance funding formula) | |
| To increase the percent of subpopulation students enrolled, retained and graduated | Ratio of average graduates in the evaluated year to the 3-year rolling average. |
| <p><i>Institutions select five student subpopulations of particular importance to the institution's mission. Student sub-populations include:</i></p> <ul style="list-style-type: none"> • Adults • Low-income • African American • Hispanic • Males • Residents of counties with low educational attainment • Students in select academic programs (STEM fields, health fields, high-needs fields as determined by the state's July 2010 Supply/Demand Study) • An institutionally selected sub-population not already represented • Community college transfers with 24 credit hours to universities <p><i>Weights are applied to each metric based on the mission of the institution. The institution's mission is based in part on its Carnegie Classification. A 40% premium is applied for low-income students (credit accumulation and Bachelor's degrees only)</i></p> <p><i>A 40% percent premium is applied for adult students (credit accumulation and Bachelor's degrees only)</i></p> | |

Institutions are also awarded points for the following measures based on their actions during implementation.

Measure: Alumni Satisfaction Proposal Submitted

During the first year of this funding, institutions must submit a proposal for how the study will assess opinions of alumni. It must include a rationale, sampling plan and population, and proposed survey or questions. During the second year, institutions will be awarded points if they implement a proposal and provide preliminary results.

Measure: Employer Satisfaction Proposal Submitted

Institutions must submit a proposal for how the Employer Satisfaction study will assess opinions of employers. The proposal must include a rationale, sampling plan and population, and proposed survey or questions. During the third year, institutions will be awarded points if they implement the proposal and provide preliminary results.

Measure: Points on Comprehensive Satisfaction Studies Report

Institutions provide evidence of actions taken based on the results of the satisfaction studies. Points are awarded based on designing and administering surveys, analyzing areas for improvement, describing the implementation plan, describing of patterns of evidence, and concluding with lessons learned.

Lessons learned

While lessons learned are not yet available since the model is still currently being implemented, concerns regarding the model include:

- How flexible the outcomes model may be
- What unintended consequences the new model may cause
- If weights capture institution mission effectively
- If the model appropriately balances stability and volatility
- If the model provides a sufficient emphasis on quality
- If outcomes are a function of the input, or the quality of the incoming student

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Overview of system

Type of model used

One-time funding appropriation for the performance-based funding model.
 Base-plus funding model for the mission-based funding model.

Schools it is applied to

All public colleges and universities, including community colleges.

Who developed/implemented the model and when?

In 1999, Utah’s state legislature increased base funding and provided one-time funds along with a requirement for the Council of Presidents and a representative of the Board of Regents to recommend key performance indicators for allocating funds. Indicators reflected state goals related to productivity, efficiency and quality of instruction.

In addition to performance funding, the legislature passed a bill in 2011 creating “mission-based funding” in consultation with Utah System of Higher Education (USHE) staff.

Why did the state implement performance funding?

The state initially transitioned a portion of its appropriation to performance funding to enhance the instructional budgets of each institution. While the appropriation of these funds did not initially include reporting requirements, the Legislature recommended performance indicators be adopted to allocate the funds.

At what stage is the performance funding model?

Both models are currently in place. Performance funding has been in place since 1999. The mission-based funding model has been in place following its passage in FY 2012-13.

Budget and funding

One million dollars are appropriated through performance-based funding. Eighteen million dollars are appropriated through the mission-based funding model.

Evaluations and results

No evaluations or results were found of the performance-based or mission-based funding model.

Goals and measures

| Performance-based funding model | |
|---|--|
| Utah’s performance-based funding model includes these metrics: | <ul style="list-style-type: none"> First to second year retention Increase completion rates Acceleration in fulfilling the general education math requirement Increase graduate education Transition from developmental math to successful completion of college math courses. |
| Mission-based funding model | |
| The mission-based performance funding model requires that USHE address: | <ul style="list-style-type: none"> New enrollment growth Distinctive mission priorities – campuses propose specific metrics based on their distinct missions. Each institution specifies a description, rationale, outcome, assessment criteria to measure success, and budget implementation plan. Equity – targeted focus on funding equity for institutions with the most needs. |

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Overview of system

Type of model used

Incentive-funding model that provides institutions with greater administrative autonomy including, but not limited to, rebates on credit card purchases and keeping interest earned on non-general fund education and general revenue deposits.

Schools it is applied to

Public colleges and universities.

Who developed/implemented the model and when?

Virginia's legislature passed the Restructured Higher Education Financial and Administrative Operations Act of 2005, which initiated the state's incentive-based funding model for public colleges and universities.

Recent changes to the model resulted from the Higher Education Opportunity Act of 2011. This Act created the Higher Education Advisory Committee (HEAC) to develop and review state goals, objectives, criteria for measuring performance, benefits, and consequences of the model. The HEAC asked the state's higher education council to form a workgroup to develop performance measures.

The General Assembly approved new measures in 2013.

Why did the state implement performance funding?

The incentive funding model was developed to provide institutions with more operational and administrative autonomy in exchange for a renewed commitment to their public missions. Measures approved in 2013 were created to evaluate how well an institution met state goals.

At what stage is the performance funding model?

The incentive-based system has been in place since 2005.

Budget and funding

Financial benefits that institutions receive are provided on a case-by-case basis depending on the amount of interest a particular institution earns, the amount of unexpended appropriations, and purchases on credit cards.

Unlike other states, there is no appropriated budget for rewarding performance. Rather, rewards are provided in the form of administrative autonomy.

Evaluations and results

The HEAC is responsible for reviewing and developing the model's goals, objectives and metrics every five years.

Goals and measures

Institutions receive financial incentives if they successfully meet their targets. Failure to meet targets results in a remediation plan and a delay in receiving incentives.

| Goals | Metrics |
|---|---|
| Increase enrollment | |
| To increase undergraduate enrollment <i>Benchmark: At least 95 percent of its State Council-approved biennial projections.</i> | Headcount of undergraduate students enrolled |
| Increase degrees completed | |
| To increase Associate's and Bachelor's degrees | Number of in-state degrees awarded |
| To increase STEM and Health professions degrees | Number of in-state STEM and Health professions Associate's and Bachelor's degrees awarded |
| <i>Benchmarks: At least 95 percent of its State Council-approved biennial projections.</i> | |
| Close achievement gaps | |
| To increase degrees awarded to under-represented populations. <i>Target: Maintain or increase the number</i> | Number of in-state Associate's and Bachelor's degrees awarded to under-represented students |
| Encourage student progression | |
| To increase two-year transfers to four-year institutions | Maintain or increase the number of in-state two-year transfers to four-year institutions |
| To increase the full-time equivalents in programs <i>Benchmark: At least 95 percent of its State Council-approved biennial projections.</i> | Number of in-state FTEs placed in junior and senior level programs |
| Increase degrees completed | |
| To increase the number of Bachelor's degrees | Number of Bachelor's degrees completed |

Sources and references

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- Overview of Virginia Incentive Funding. Provided by email from Diane Vermaaten, High Ed Council Sr. Coordinator, State Council of Higher Education for Virginia (SCHEV) on Sept 3, 2013.