



Washington State Auditor's Office

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Performance Audit Higher Education Performance-Based Funding

A prospective analysis of performance funding in other states to inform options for public four-year higher education institutions in Washington

Washington has six, four-year, public institutions of higher education. They enrolled more than 130,000 students in the 2012-2013 school year, and the Legislature has budgeted nearly \$8.9 billion from all sources for these schools during the 2013-2015 biennium. An increasing need for a highly educated workforce, rising interest in accountability, and intensifying budget challenges in recent years have prompted policy-makers in Washington and other states to consider funding all or a portion of four-year higher education institutions based on performance. Performance-based funding requires schools to meet specific performance goals to receive specified amounts of funding. Responding to legislation passed in Washington, a task force made recommendations on how to pursue a performance-based funding system in late 2013.

Washington already collects the most common performance metrics

We found that Washington's public four-year colleges and universities institutions collect the data needed in order to use most metrics already employed by other states, including the five most common.

Five most commonly used metrics in other states

1. The number of degrees completed
2. The number of students completing degrees on time
3. Student retention rates
4. The number of science, technology, engineering and mathematics (STEM) and high-demand degrees completed
5. Student credit hours completed

Existing data account for more than 70 percent of the measures used by other states.

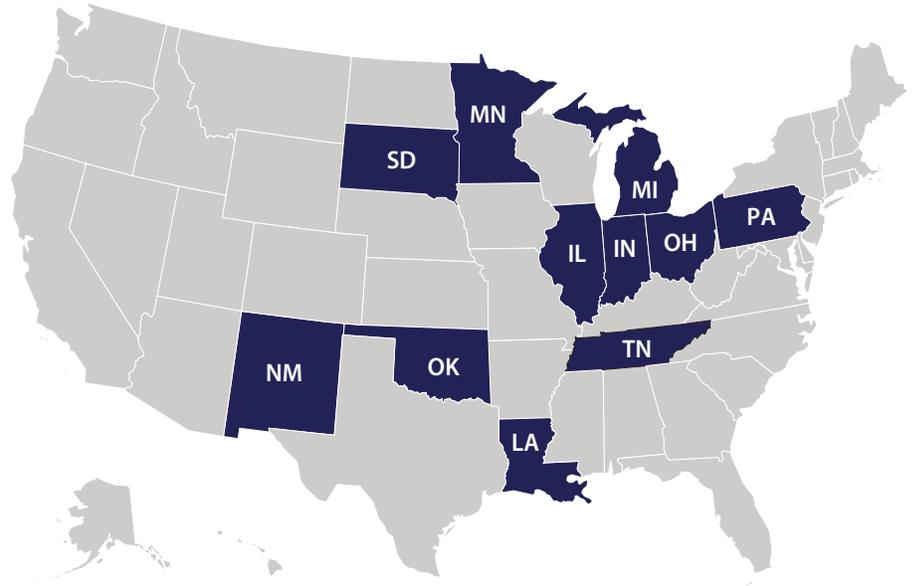
Performance funding models vary from state to state

We researched performance-based funding in 11 other states that were identified by the National Conference of State Legislatures as having active performance funding systems for their public four-year colleges and universities. The systems in these states measure institutional performance to pursue a variety of goals. They also vary in other substantial ways, including the number and types of metrics used, the percentage of funding dedicated to improving performance, and the method for allocating performance-based funds.

Goals and metrics	Other states with metric (out of 11)	WA institutions with data (out of 6)
Increase degrees completed		
Number of degrees completed	10	6
Number of degrees per 100 FTE students	3	6
Percentage of degrees compared to expected number of degrees	2	6
Increase number of graduates	1	6
Increase graduation rates		
Number of students that complete degrees on time	6	6
Graduation rate	2	6
Number of graduates compared to expected number of graduates	1	6
Encourage student progress		
Retention rates	5	6
Credit hours completed	5	6
Number of courses completed	1	6
Increase high-demand degrees and certifications completed		
Number of STEM and high-demand degrees completed	5	6
Licensure exam passage rates	1	6
Improve quality of education		
Percentage of accredited programs	3	6
Standardized test scores	2	6
Successful standards met by non-accreditable programs	1	6
Promote research and development		
Total research, development, and service expenditures	3	6
Amount of research funding at research universities	1	6
Close achievement gaps		
Number of degrees completed by Pell grant recipients	1	6
Number of degrees completed by at-risk students	1	6

Lessons learned from other states

Developing a new funding system can be challenging, and the metrics used in a performance system depend on a state's goals. Our audit identified several leading practices drawn from the challenges and successes experienced by other states in their attempts to employ performance-based funding systems. Washington can learn from these experiences as it considers its own performance based funding system for its four-year colleges and universities. The leading practices we identified apply to two broad categories: performance funding system metrics, and issues of system implementation.



Leading practices for system metrics

-  Address the **quality of student education**
-  Account for **difference in school missions**
-  Ensure continued **student access and equity**
-  Recognize the importance of **student progress and completion rates**
-  Identify and address **potential unintended consequences of metrics**

Leading practices for system implementation

-  Keep the model **simple and understandable**
-  Be aware of the **time needed to develop the model and for schools to adjust**
-  **Phase in the model** to account for possible lack of initial data
-  Encourage and maintain **stakeholder participation**
-  Emphasize **shared goals of schools**
-  Dedicate an amount of **funding that encourages change but minimizes difficulty of transition**
-  Address and **effectively communicate technical details of funding to schools**