COMPLETE COLLEGE AMERICA

SHIFT TO PERFORMANCE FUNDING

Shift to performance funding: *Implement new funding models that tie funding to outcomes, thereby providing incentives for graduating students, not just enrolling them.*

COMPLETE COLLEGE AMERICA'S GOAL:

By 2020, six out of 10 young adults in our country will have a college degree or credential of value.

U.S. students don't just need to go to college; they need to complete college. Access has improved — we are sending more students to higher education — but success has declined.

In just 10 years, six of 10 new jobs will require a college education, but fewer than half of students who enter college today finish with a degree or credential. Those who do complete college are taking longer, paying more, and graduating with more debt.

WHY SHIFT TO PERFORMANCE FUNDING?

One of every two students who enters a four-year university does not finish and even fewer make it to graduation day at two-year colleges. With most states cutting checks to colleges and universities based on head count alone, there is little incentive to focus on who doesn't show up next semester, next year, or ever again.

State appropriations typically are driven by enrollment: Funding is based on the number of students enrolled at a college or university near the beginning of the semester. As a result, colleges have a financial incentive to boost enrollment at the start of the term, rather than make sure students successfully complete classes and earn degrees.

Performance funding describes a funding approach that values outcomes (e.g., classes successfully completed, credentials awarded). Shifting from a funding system based solely on enrollment to one that includes performance matters because:

- Funding is a powerful incentive. With today's funding priorities, colleges are motivated by head count rather than student success. The result? Decades of increasing enrollments with virtually no increases in completion rates.
- Performance funding allows states to align their fiscal policies with their statewide goals for workforce development and economic prosperity. For example, states can provide funding based on the number of courses completed or the number of degrees and credentials earned. States also can emphasize more specific goals by providing funding incentives in areas such as the success of low-income students or degrees produced in key industry sectors such as health care, engineering, and technology.
- Performance funding sends a strong market signal, alerting higher education leaders and faculty that state taxpayers expect a greater return on their investment: higher student success and more graduates. Without it, institutions will continue to perceive enrollment as their highest priority.

WAYS TO SHIFT TO PERFORMANCE FUNDING

States that want to leverage the power of performance funding can learn from both emerging success stories and past missteps. Lessons learned include:

- **Keep it simple.** Having too many priorities is the same as having no priorities. One state experimenting with performance funding included 37 measures as part of its approach. States should start with a small number of explicit, easy-to-understand measures that are laser-focused on completion. These measures should represent the most critical data points, such as courses completed, degrees produced, credentials with labor market value earned, and on-time completions.
- **Involve legislators and higher education officials early and often.** While performance funding systems should be simple to be effective, the process of constructing them is not.

Helping policymakers and higher education leaders fully understand the rationale and mechanics of performance funding, as well as giving them the opportunity to help shape it to meet the state's needs, will be important to sustain it.

- **Count enrollment on the last day of class instead of during the first two weeks of the semester.** This simple change reflects the true goals of higher education — access and success — and ceases to reward schools that don't retain their students. Alternatively, states can base funding on completed courses rather than courses attempted. Either method makes the necessary shift from paying for showing up for class to paying for success.

- **Find the sustainable tipping point.** Modest changes in funding won't lead to a serious shift in focus from enrollment to completion. For example, if 2 percent of funding is based on performance, the 98 percent of dollars that reward enrollment will win every time. However, a modest percentage of performance funding (5 percent or more) that starts now and compounds annually will get institutions' attention. Success comes from finding the right balance. If the percentage of performance funding is too high, policymakers inevitably face political pressure because the institution's budget appears to be at risk. The key to success is sustaining performance funding over time. Designating new money for performance funding — and identifying budget cuts using the same measures — will have a cumulative effect that can be a game changer.

- **Stand strong against "hold-harmless."** Various states' experiences show that guaranteeing a floor of funding guts a performance funding approach. Failure without consequences is not performance funding.

- **Institute statewide data systems.** States must have robust, student-level data systems that allow for significant data analysis and transparency at the state and campus levels. To be fair to institutions and promote the success of traditionally underprepared students, states should be able to follow students across campuses, disaggregate data, and have access to credit and course completion metrics.

- **Recognize the importance of progress indicators.** Performance funding systems must be anchored by degree completion. At the same time, these systems also can reward progress made in areas that influence completion, often called momentum points or leading indicators. For example, research suggests that completing credit-bearing math and English courses within the first year, returning each semester, and transferring from a two-year institution to a four-year institution positively influence completion. Thus, community colleges shouldn't be penalized when a student transfers to a university before completing a degree or credential. In fact, when their students transfer with significant credits, those colleges should be rewarded.

- **Align funding systems with state economic goals.** Every state has industry clusters and sectors that demand skilled workers. Performance funding that emphasizes degrees and credentials in these areas will further the state's economic development goals, provide trained workers to the industries that most need them, and attract new employers to the state.

- **Explore options to reward closing completion gaps.** Performance funding can include incentives for completion gains among certain groups, such as Pell Grant recipients. Depending on its demographics, a state may add extra incentives for closing achievement gaps for low-income, African-American, and Latino students. As states' demographics change, this approach is not just an equity issue but an economic imperative.

- **Begin immediately and then build to implementation.** Experience dictates that states should begin performance funding immediately. If a state announces plans to implement performance funding in one year, political pressure can keep it from being implemented. Once performance funding is in place, states can step up the percentage of the budget tied to completion each year. This phased-in approach allows states and institutions to plan for both fiscal and programming changes. It also can mitigate the fiscal shock for poorly performing institutions and allow for policy adjustments in the future.
- **Use authority vested in your governing boards and don't make legislators walk the plank back home.** More than 20 state university governing boards currently have the authority and flexibility to distribute state higher education funding after their state legislatures appropriate it. Using these bodies to allocate funds based on performance can help insulate legislators from difficult local politics. Experience shows that the pressure on legislators to introduce "hold harmless" provisions for colleges and universities is immense. If possible, ask legislators to make the tough vote to enact the policy one time — not every budget session.

STATES IN ACTION

Since the 1990s, more than 20 states have implemented some form of performance funding. Results have been mixed because of inconsistent state commitments and political pressure from higher education constituents. Still, we've learned from these examples about how best to structure funding plans.

Indiana, Ohio, and Washington are states with especially well-designed funding approaches that hold promise for yielding significant gains in completion.

- **Indiana** tied funding to its goals for course and degree completion, graduating more students on time, graduating low-income students, and successfully transferring students from two- to four-year institutions. Moreover, Indiana has used performance funding not just to allocate funds but also to cut them: This year, rather than doling out across-the-board cuts, the state's higher education commission determined institutional budget reductions by examining enrollment *and* cost-per-student and degree production data.
- **Ohio** ties state funding to course and degree completion as well as to achievement of institutional goals that are aligned with the state's 10-year strategic plan for higher education. Funding differs by type of institution and program, and there is extra support for STEM areas and at-risk students.
- In fall 2009, **Washington** introduced the Student Achievement Initiative, a performance funding approach for community colleges. The initiative uses measures related to building college skills, first-year success, math proficiency, and completion. The focus is on intermediate outcomes (momentum points) that signal meaningful progress toward degree and certificate completion.

Complete College America is a national nonprofit organization working with states to significantly increase the number of Americans with a college degree or credential of value and to close attainment gaps for traditionally underrepresented populations.

Five national foundations are providing multiyear support to Complete College America: the Carnegie Corporation of New York, the Bill & Melinda Gates Foundation, the Ford Foundation, the W.K. Kellogg Foundation, and Lumina Foundation for Education.

Additional information and data sources are available at www.completecollege.org.