



Performance-Based Funding and Higher Education Institutions in the State of Illinois

IAIR Conference Presentation

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Purpose

The purpose of this presentation is to identify and address challenges and issues associated with moving higher education finance in the State of Illinois from an enrollment to a performance-based funding model.



Topics to be Covered

- The problem with current funding models.
- The challenge of implementing a new finance and budget design for higher education in Illinois.
- Characteristics of successful performance-based funding programs and pitfalls to be avoided.
- Performance funding principles
- A proposed Performance Funding Model

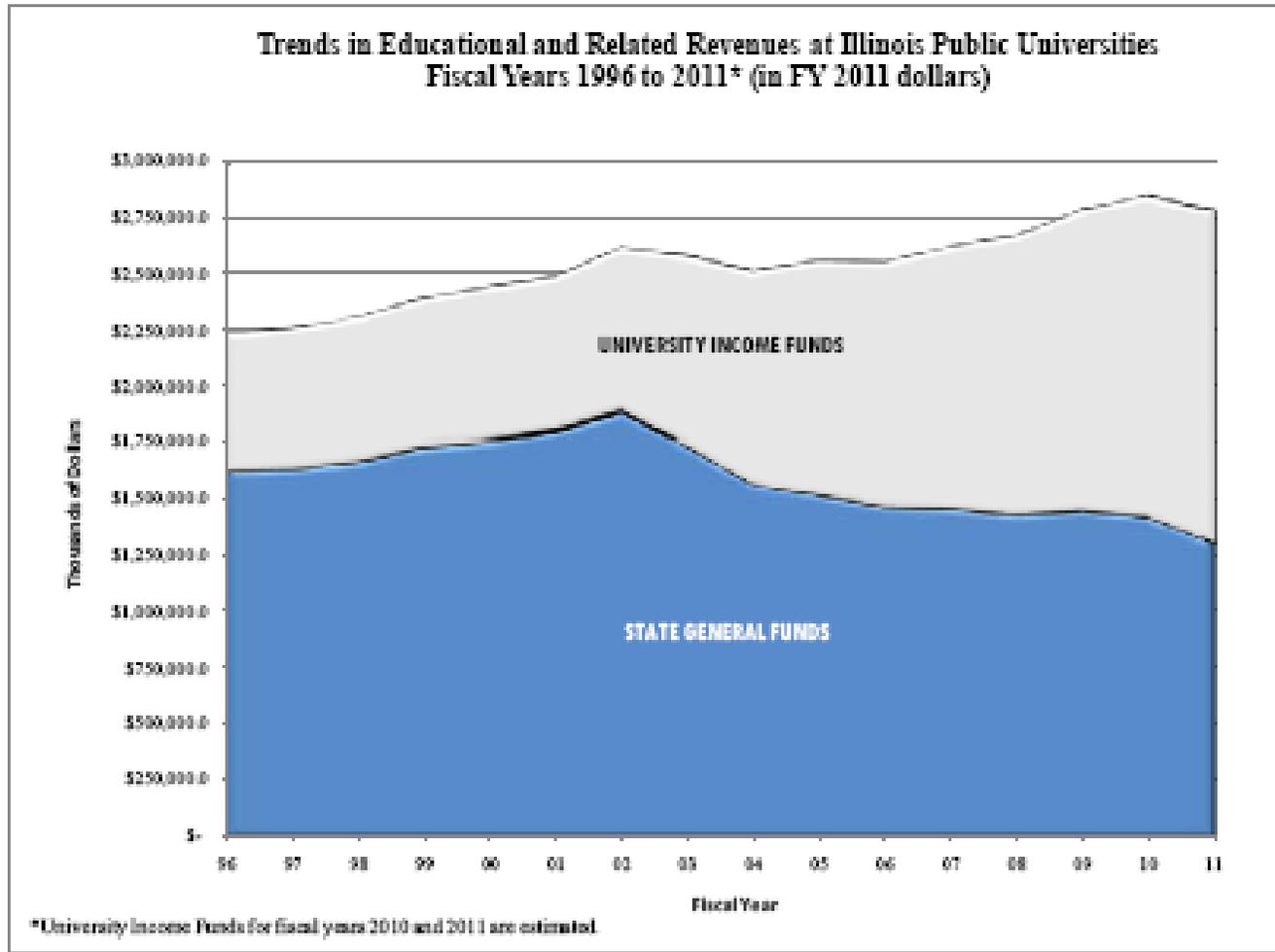


The Problem

- Findings of the Higher Education Finance Study Commission:
 - Colleges and Universities are starving for dollars.
 - Illinois' student financial aid system has been eroded.
 - Unfunded state mandates and regulatory requirements undermine efficiency and productivity.
 - Institutions often squeeze cost savings out of instruction and student support services.
 - The burden of financing a college education has increasingly fallen on students and families.

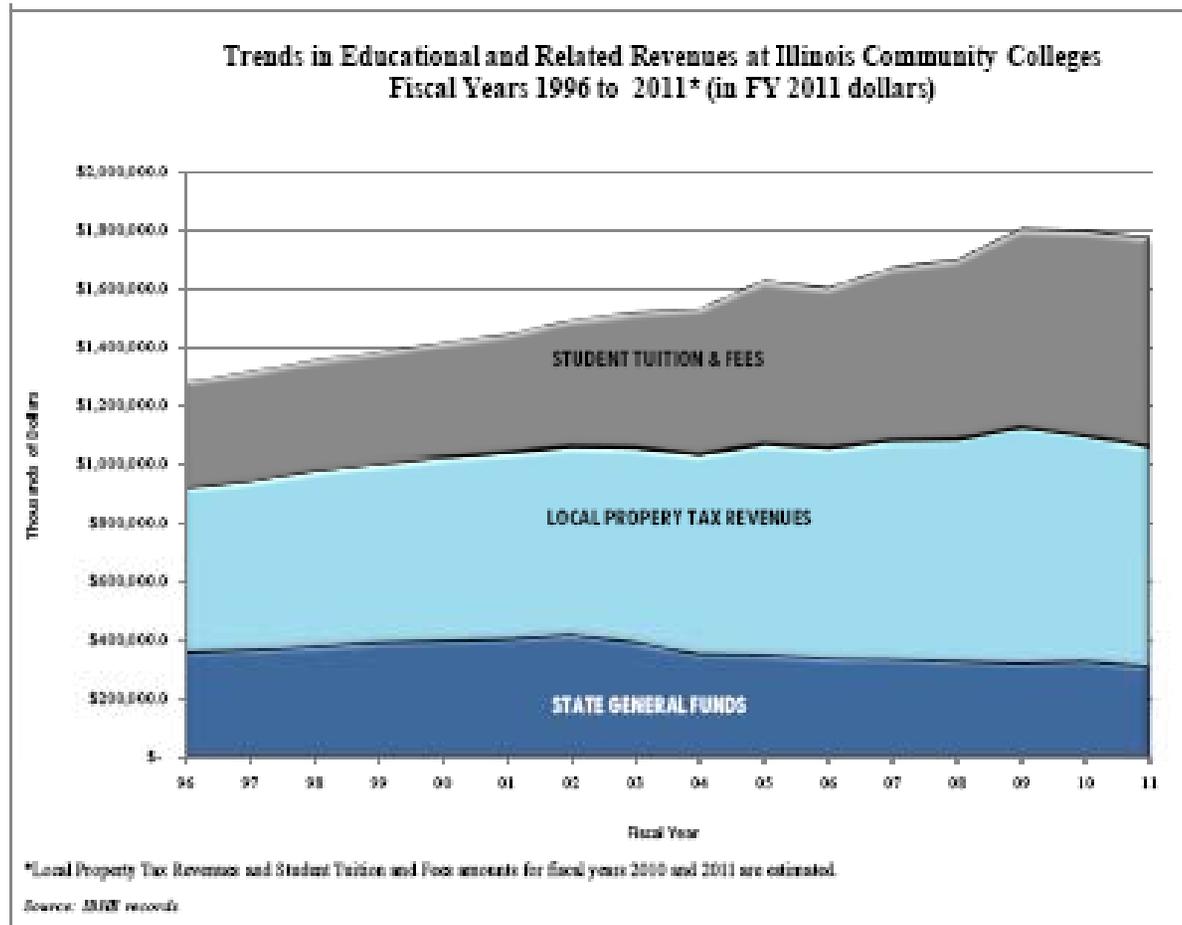
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Decline in University Funding



Source: <http://www.ibhe.org/SJR88/default.htm>

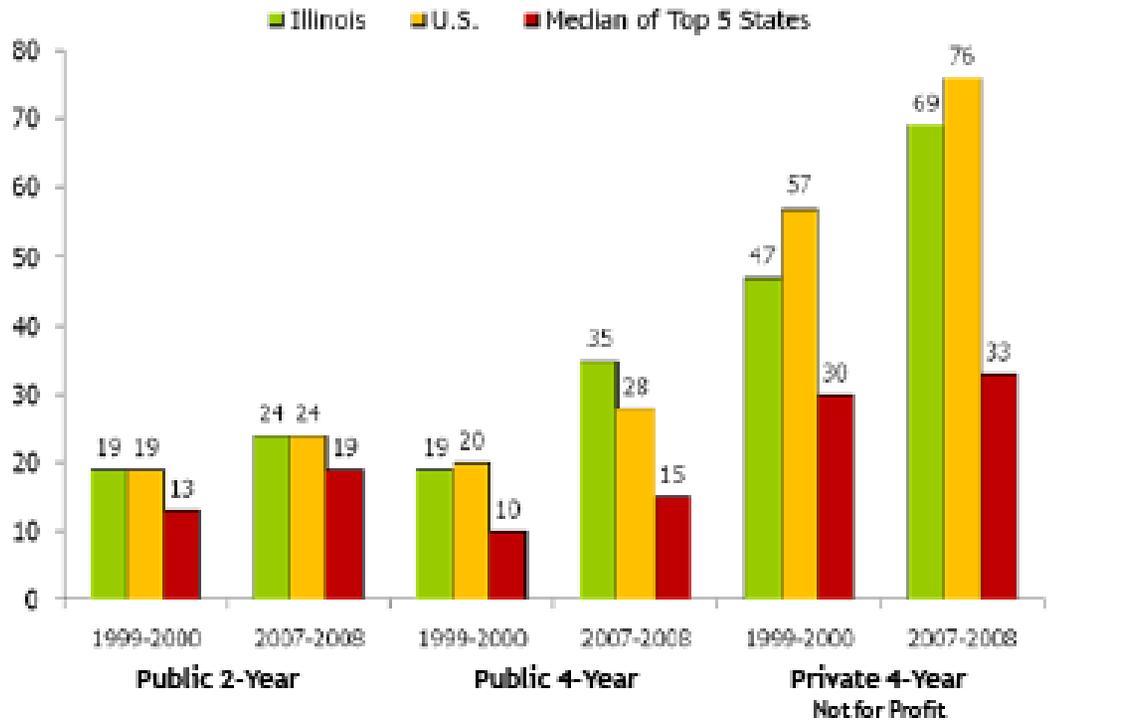
Decline in Community College Funding



Source: <http://www.ibhe.org/SJR88/default.htm>

Erosion of Financial Aid

Percent of Family Income Needed to Pay for College
 Minus Financial Aid



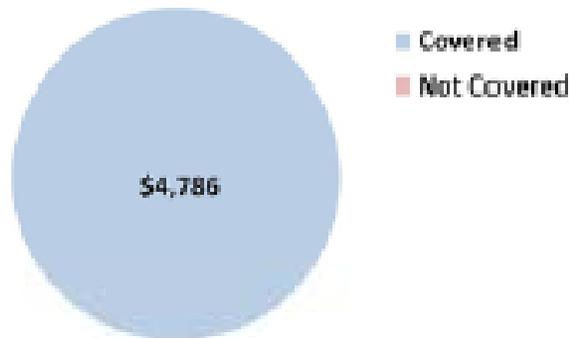
Source: Measuring Up 2008

Source: <http://www.ibhe.org/SJR88/default.htm>

Erosion of MAP Aid

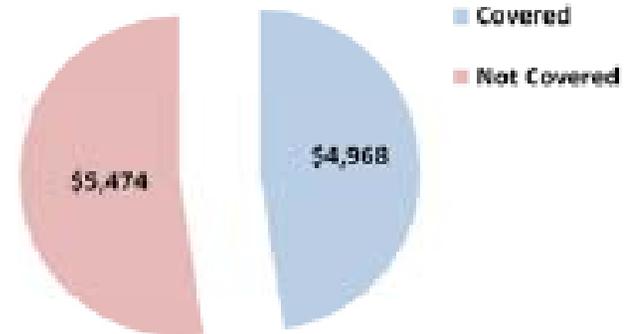
MAP Coverage of Tuition and Fees at Public Universities has Decreased Since 2002

Tuition and Fees Covered in FY2002



Source: ISAC

Tuition and Fees Covered in FY2010



Source: <http://www.ibhe.org/SJR88/default.htm>



Higher Education Finance Study Commission Concluded

- Current higher education finance does not promote the goals of the Illinois Public Agenda.
 1. Increase Educational Attainment.
 2. Ensure college affordability for students, families, and taxpayers.
 3. Increase the number of high-quality post-secondary credentials.
 4. Better integrate Illinois' education, research, and innovation assets to meet economic needs of the state.



Higher Education Finance Study Commission recommended

- To implement a new finance and budgeting design for Illinois higher education that will:
 - Ensure adequacy and predictability of higher education revenues.
 - Reduce the unfunded state mandates and promote efficiency.
 - Move forward with development of performance-based funding.
 - Change financial aid policy to meet affordability goals, particularly for the most vulnerable students.
 - Develop a financial aid policy that expands access.



Performance Funding Recommendations

- This new funding system should be guided by the following principles:
 - Support at-risk students.
 - Accommodate the different missions of institutions and higher education sectors.
 - Fund completion of courses and degrees or “momentum points”
 - Recognize the importance of research and engagement with employers for economic development.
 - Involve representatives of all higher education sectors.
 - Maintain the quality and value of a college degree.



What is Performance-Based Funding?

- Rewards institutions that meet state goals.
- It is based on outputs instead of inputs
 - Course completion instead of course enrollment.
 - Degree recipients instead of degree candidates.
- The more goals that institutions meet, the more funding they receive.



NCHEMS Design Principles for Successful Performance-Based Programs

- Have goals that are tied to a statewide strategic plan.
- Have goals that are specifically tailored for each institution.
- Include funding sources that are stable and predictable.
- Have measurement data that is uniformly collected and easily accessible.
- Have incentive programs that are routinely reviewed and continually redefined as needs change.

Pitfalls To Be Avoided

- Institutions do not like performance-based funding.
 - Systems currently optimized for funding based on enrollment.
 - Unpredictable state funding.
 - Lack of trust.
- Obtaining real-time data and feedback is a challenge.
- You have to continue to support an institution's core functions.
- Designing effective performance-based funding systems is very difficult.
 - Many stakeholders with competing interests.
 - Dynamic process.

What We Have Learned from Previous Efforts

- Lessons from states that have tried it:
 - Tie the model to the public agenda.
 - Tie funding mechanisms to pursuit of state goals.
 - Fund performance based on course completion and degree production rather than course enrollment.
 - Tailor models to fit different sectors of higher education.
 - Realize that students enter the higher education system with different levels of preparation and accommodate for such differences in the funding formula.



Indiana Completion Incentives

- ***Enrollment Completion Incentive:*** Count the credit hours for courses completed by students instead of the credit hours of students enrolled at the beginning of a semester.
- ***Change in Degrees Incentive:*** Provides funding to institutions that increase the number of baccalaureate or associate degrees they produce year over year.
- ***Time to Degree Incentive:*** Provides funding to an institution that increases the on-time graduation rate.
- ***Low Income Degree Incentive:*** Provides additional funding to an institution that increases the number of degrees awarded to low income students.
- ***Transfer Incentive:*** provides additional funds to a 4 year institution that accepts credit hours transferred from Ivy Tech Community College or Vincennes University.



Performance Funding in Implementation

- Public Act 97-320 (HB 1503)
- The Higher Education Performance Funding Steering Committee
 - <http://www.ibhe.state.il.us/PerformanceFunding/default.htm>
 - Submit Committee Recommendations to the IBHE
- IBHE vote on budget recommendations to propose to the General Assembly
- Budget action by the Legislature



What We Have Agreed Upon to Date

The effort of the Performance Funding Steering Committee is not about the total funding for higher education in the State of Illinois. It is only about the performance funding aspect of higher education funding.



What We Have Agreed Upon To Date

Performance funding will be:

- A small component of the higher education funding process.
- Implemented with or without new money.
- Phased in over time beginning with the FY2013 higher education budget submission to the Governor and the General Assembly.
- Focused on achieving the Illinois State goal of 60% of Illinois adults with post secondary credentials by 2025.
- Accomplished primarily through the alignment of the Performance Funding effort with Illinois Public Agenda.



Vision

- Higher education finance in the State of Illinois does not promote the Public Agenda Goals of educational attainment, college affordability, workforce modernization or economic development, but it should.
- By 2020, over 60% of jobs will require some form of postsecondary education, but only 43% of working-age adults in Illinois have an associate's degree or higher.
- Performance Based funding will explicitly link the State's higher education budgeting process to the goals of the Public Agenda in order to facilitate the achievement of 60% of Illinois adults having a college degree or credential by the year 2025.



Performance Funding Principles



Performance Funding General Principles

- There must be a clear vision and common goals for what we are trying to achieve.
- The new process will strive to eliminate the achievement gap and reward the performance of institutions by promoting access, success, quality, and affordability all students, with special emphasis on students who are academically or financially at risk.
- This includes first-generation students, low-income students, disabled students, and other students who have traditionally been underrepresented or underserved in higher education.



Performance Funding General Principles

- The new process will focus on the fundamental goal of increasing completion of college courses, certificates, and degrees.
- The new process will measure higher education institutions against themselves as opposed to against each other.



Performance Funding Principles Concerning Process

- Significant changes to the process will be made in an orderly fashion to minimize confusion and disengagement.
- An orderly review process will be developed to ensure that performance funding goals, metrics, funding, impact, and program success are reviewed and evaluated on a regular basis.
- The review process will include sufficient lead-time for key leaders to engage their constituents.
- If additional money is not available to fund the performance funding effort, the initial funds to be set aside will be kept to a minimum.

Performance Funding

Principles Regarding Performance Measures

- Performance measures will be developed in consultation with public institutions of higher education, State educational agencies, other higher education organizations, associations, interests, and stakeholders.
- Performance measures will clearly support state goal attainment.
- Performance measures must be acceptable to educators as well as to the Governor, legislators, and others, balancing institutional autonomy with state-level review and control.



Performance Funding

Principles Regarding Performance Measures

- Performance measures and funding formulas will be simple and restricted to the most essential elements.
- Performance measures will be selected and funding formulas will be designed to the extent possible to make it difficult for institutions to “game” the system.
- Performance measures will use historical data that is currently available or readily available.

Performance Funding

Principles Regarding Performance Measures

- Performance measures will be tailored to recognize and account for the differentiated missions of institutions and sectors of higher education.
- Performance measures will recognize the unique and broad mission of public community colleges through consideration of additional factors, to include enrollment, progress through key academic milestones, transfer to a baccalaureate institution, and degree completion.
- Performance measures will focus on both quality and quantity indicators.



Proposed Performance Funding Model



Objective

- To propose a performance funding model for public universities that is...
 - Linked directly to the Goals of the *Illinois Public Agenda* and the principles of Public Act 97-320
 - Equipped to recognize and account for each university's mission and set of circumstances
 - Adjustable to account for changes in policy and priorities
 - Not prescriptive in how to achieve excellence and success



Illinois Public Agenda Goals

1. Increase Educational Attainment.
2. Ensure college affordability for students, families, and taxpayers.
3. Increase the number of high-quality post-secondary credentials.
4. Better integrate Illinois' education, research, and innovation assets to meet economic needs of the state.

Public Act 97-320 (HB 1503)

Performance metrics shall be developed in accordance with the following principles:

- Consult with public institutions of higher education, as well as other state educational agencies and other higher education organizations, associations, interests, and stakeholders as deemed appropriate by the IBHE;
- Include provisions for recognizing the demands on and rewarding performance of institutions in advancing the success of students who are academically or financially at risk, including first-generation students, low-income students, and students traditionally underrepresented in higher education;
- Recognize and account for the differentiated missions of institutions and sectors of higher education;
- Focus on the fundamental goal of increasing completion of college courses, certificates, and degrees;
- Recognize the unique and broad mission of public community colleges through consideration of additional factors including, but not limited to, enrollment, progress through key academic milestones, transfer to baccalaureate institutions, and degree completion; and
- Maintain the quality of degrees, certificates, courses, and programs.

Performance Funding Model

- Step 1 – Identify the performance measures or metrics that support the achievement of the state goals.

For Example: Completions Measure

Number of Bachelor's Degrees, 3-Year Average

Notes:

Using an average will help to adjust for the normal highs and lows experienced by an institution.

All measures and results are counts, rather than rates.



Performance Funding Model

- Step 2 – Collect the data on the selected performance measures

University A has a 3-year average of **1,000** bachelor's degrees awarded.

Source: IPEDS data.

Performance Funding Model

- Step 3 – Award an additional premium (i.e. 40%) for the production of certain desired outcomes such as completions by underserved or underrepresented populations

	1,000	<i>3-year average for the Institution</i>
<u>Sub-populations</u>		
Black, non-Hispanic	50	<i>A subset of the 3-year average</i>
Hispanic	50	<i>A subset of the 3-year average</i>
Total	100	
Premium Percentage	40%	<i>Premium percentage should reflect Illinois goals</i>
Additional Value	40	<i>Total x Premium Percentage</i>
Data + Premium	1,040	<i>Number of degrees after adjusting for sub-population premiums.</i>

Performance Funding Model

- Step 4 – Normalize (scale) the data, if necessary, so it is somewhat comparable across variables.

Data + Premium	1,040	<i>Number of degrees after adjusting for sub-population premiums.</i>
Option 1: 1.0	1,040	<i>No change, number does not need to be scaled down.</i>
Option 2: 0.1	104	<i>Reduction, all institutions have their numbers reduced by the same amount.</i>
Scale	1.0	<i>Selected Option 1, did not scale data.</i>

Data + Premium	\$20,000,000	<i>Research Expenditures</i>
Option 1: 1.0	\$20,000,000	<i>(Number needs to be scaled down)</i>
Option 2: .0001	2,000	<i>(All institutions have their numbers reduced by the same factor)</i>
Scale	.0001	<i>Select Option 2 – Scale Data</i>

Performance Funding Model

- Step 5 – Weight each of the Performance Measures that reflects the priority of the Measure and the mission of the institution.

	<u>University A</u>	<u>University B</u>	<u>University C</u>
Bachelor's Degrees, 3-Year Average	15%	25%	20%
Performance Measure #2	15%	30%	20%
Performance Measure #3	15%	30%	25%
Performance Measure #4	20%	10%	15%
Performance Measure #5	20%	0%	10%
Performance Measure #6	15%	5%	10%
	100%	100%	100%

Performance Funding Model

- Step 6 – Multiply and sum the Scaled Data times the Weight to produce the Weighted results.

Calculations	Data	Data + Premium	Scale	(Data + Premium) x Scale	Weight	((Data + Premium) x Scale) x Weight
Bachelor's Degrees, 3-Year Ave	1,000	1,040	1.0	1,040	15%	156
Performance Measure #2	4,000	4,500	1.0	4,500	15%	675
Performance Measure #3	2,000	2,200	1.0	2,200	15%	330
Performance Measure #4	100	110	10.0	1,100	20%	220
Performance Measure #5	10	15	100.0	1,500	20%	300
Performance Measure #6	20,000,000	20,000,000	0.0001	2,000	15%	300
						1,981
						Total Performance Value

Performance Funding Model

- Step 7 – Use the Weighted results (or Total Performance Value) to distribute performance funding.

Percentages for Distribution				
	<u>University A</u>	<u>University B</u>	<u>University C</u>	<u>Total</u>
Total Performance Value	1,981	2,000	2,100	6,081
Percentage of Total	32.6%	32.9%	34.5%	100.0%
Distribution: Pro Rata	\$ 325,769	\$ 328,893	\$ 345,338	\$ 1,000,000



Performance Funding Model

- All steps are identical at each university
- Accounts for each institution's unique mission by adding a weight to each measure
- Each institution's formula calculation is independent
- Funding allocation is competitive
- Distribution of performance funding is on a pro-rata share of each institution's formula calculation
- Performance funding appropriations will have to be earned anew each year



Conclusion on Proposed Model

- Linked to Goals of the Illinois Public Agenda and the principles of Public Act 97-320
- Equipped to recognize and account for each university's mission and set of circumstances
- Adjustable to account for changes in policy and priorities
- Not prescriptive in how to achieve excellence and success



Possible Performance Measures



Possible Performance Measures

- Retention, Enroll in 2nd Year
- Bachelor's Degrees, 3-year Average
- Bachelor's within 100% and 150% of Time (six years)
- Master's Degrees, STEM & health programs
- Doctor's Degrees, STEM & health programs
- Research Expenditures
- Contributions to Economy
- Diversity of Staff and Faculty



Possible Performance Measures

- Sub-Categories
 - Low Income, received Pell Grant
 - Age 25 and Over & Directly from high school
 - Transfer students
 - Disabled
 - Hispanic
 - African-American
 - Veterans
 - Residents of Underserved Counties



Questions/Comments?