Performance Incentive Funding in Higher Education: Challenges and Opportunities

Context for Washington State

Policy and Practice Principles
How Washington Compares

- Competitiveness
- Demographics
- Finances
- Productivity
Percent of Adults with an Associate Degree or Higher by Age Group – U.S. & Leading OECD Countries, 2010

Source: OECD, Education at a Glance 2012, U.S. Census Bureau, 2010 American Community Survey One-Year Public Use Microdata Sample File
Differences in College Attainment (Associate & Higher) Between Younger & Older Adults - U.S., 2009

Source: U.S. Census Bureau, 2009 American Community Survey (ACS)
### Comparing WICHE States with Nations and Other States in the Percentage of Young Adult Degree Attainment (Ages 25-34)

<table>
<thead>
<tr>
<th>U.S. States</th>
<th>OECD Country</th>
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<tbody>
<tr>
<td></td>
<td>Korea (65.0)</td>
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<td>60</td>
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<td>58</td>
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</tbody>
</table>

| Massachusetts | 54 |
| North Dakota  | 52 |
| Minnesota • New York | 50 |
| New Jersey    | 48 |
| New Hampshire |    |
| Connecticut • Iowa |    |
| Virginia • Illinois • Maryland • South Dakota |    |
| Pennsylvania • Nebraska • Colorado • Vermont |    |
| Rhode Island • Kansas |    |
| Montana • Wisconsin |    |
| • Washington   |    |
| Missouri • Hawaii |    |
| Wyoming • Maine • Delaware • Utah |    |
| Ohio • California • Oregon |    |
| Michigan • North Carolina |    |
| Indiana • Florida • South Carolina Georgia |    |
| Alaska • Kentucky • Tennessee |    |
| Arizona • Mississippi • Texas |    |
| Alabama • Idaho |    |
| Louisiana       |    |
| Oklahoma • Arkansas • West Virginia |    |
| Nevada          |    |
| New Mexico      |    |

| Pennsylvania | 44 |
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|             | 42 |
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|             | 22 |
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|             | 20 |

Source: 2012 OECD Education at a Glance; 2010 American Community Survey

*Turkey (17.4)*
How Washington Compares

- Competitiveness
- Demographics
- Finances
- Productivity
Washington Public High School Graduates by Race/Ethnicity, 1996-97 to 2008-09 (Actual), 2009-10 to 2027-28 (Projected)
Educational Attainment of Whites and Minorities (Black, Hispanics, Native Americans) Aged 25-44, 2008-2010
Washington

Source: U.S. Census Bureau, 2008-10 American Community Survey (ACS) Public Use Microdata Sample (PUMS) File.

slide 8
Difference in College Attainment Between Whites and Minorities (Blacks, Hispanics, Native Americans) (2008-10)

Source: U.S. Census Bureau, 2008-10 American Community Survey
How Washington Compares

- Competitiveness
- Demographics
- Finances
- Productivity
Above Average Wealth; Below Average Taxes (2010)

- Per capita income (2011 – Source: NCHEMS):
  - Washington: $44,294 (106% of U.S.; rank – 12th)
  - U.S. Average: $41,663

- Effective tax rate—state and local (2010 – Source: SHEEO):
  - Washington: 7.4% (90% of U.S.; rank – 37th)
  - U.S. Average: 8%

Source: higheredinfo.org (NCHEMS)
Higher Education Appropriation per Capita
- Washington: $233 (83% of U.S.; rank – 29th)
- U.S. Average: $281

Higher Education Appropriation/FTE
- Washington: $4,788 (81% of U.S.; rank 32th)
- U.S. Average: $5,906

Total Educational Revenues (Appropriations & Net Tuition Revenue)/FTE
- Washington: $8,215 (74% of U.S.; rank–49th)
- U.S. Average: $11,043

Source: NCHEMS/SHEF-SHEEO
Washington Tuition Support of Higher Education – In Comparison

Washington Tuition & Fees – 2012-2013

Community Colleges (weighted):
- Wa: $4,236
- WICHE (w/out Cal): $3,184

Universities (weighted):
- Wa: $10,624
- WICHE: 8,308

Range
- Comprehensive Universities: $7,933--$9,009
- Research Universities
  - UW: Resident: $12,155; Nonresident: $29,710
  - WSU: Resident: $12,302; Nonresident: $25,384
NASSGAP 2011-2012 Academic Year Estimates

- Washington: $1,077/FTE student
  - 223% of U.S. Average
  - highest nationally

- U.S.: $482/FTE student
How Washington Compares

Competitiveness

Demographics

Finances

Productivity
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Public Two-Year Institutions

Source: NCES, IPEDS Completions and Finance Surveys; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Public Bachelor’s & Master’s Colleges & Universities

Source: NCES, IPEDS, Completion and Finance Surveys; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Public Research Universities

Source: NCES, IPEDS Completion and Financing Surveys; U.S. Census Bureau, American Community Survey (Public Use Microdata Samples)
Credential & Degrees Awarded Per $100,000 of Education & Related Expenditures – Total: Public Colleges & Universities
The New Normal for Funding

- What the new normal is beginning to look like
  - Expenditure strategies
    - The cheap way out -- $10,000 degree
    - Outsourcing
      - WGU expansion
      - Outsourced
  - Revenue enhancement strategies
    - Chase rich students
    - Rethink tuition discounting & financial aid (PIF)
  - Performance funding; the wave to catch
    - Blends finance and productivity agendas
    - 16 states implementing, 3 in transition, 19 in discussions
    - Seeping into institutional finance – RCM
<table>
<thead>
<tr>
<th>STATE</th>
<th>DRIVER(S)</th>
<th>STATUS</th>
<th>COVERAGE</th>
</tr>
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<tbody>
<tr>
<td>Alaska</td>
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<tr>
<td>Arizona</td>
<td>Governing Board, Governor, Legis.</td>
<td>Proposed</td>
<td>Four Year Only</td>
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<td>California</td>
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<tr>
<td>Colorado</td>
<td>Legislature, Coordinating Board</td>
<td>Enacted, not Implemented</td>
<td>Two and Four Year</td>
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<tr>
<td>Hawaii</td>
<td>Governing Board</td>
<td>Implemented Not implemented</td>
<td>Two Year Four Year</td>
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<td>Idaho</td>
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<tr>
<td>Montana</td>
<td>Governing Board</td>
<td>Implemented for 2014-2015</td>
<td>Two and Four Year</td>
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<tr>
<td>Nevada</td>
<td>Governing Board, Legislature, Gov.</td>
<td>Implemented</td>
<td>Two and Four Year</td>
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<tr>
<td>New Mexico</td>
<td>Legislature, Gov. State Department</td>
<td>Implemented (in part)</td>
<td>Two and Four Year</td>
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<tr>
<td>North Dakota</td>
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<tr>
<td>Oregon</td>
<td>Governing Board Gov/Legislature</td>
<td>Implemented Enacted</td>
<td>Four Year Two and Four Year</td>
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<td>South Dakota</td>
<td>Governing Board, Legislature</td>
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Seven Keys to Designing Performance Funding Models

1. Identify key stakeholders
2. Establish broad consensus on a public agenda
3. Identify appropriate measures
4. Define adequate institutional progress
5. Allocate sufficient funds
6. Foster favorable conditions for compliance
7. Evaluate and adjust
1. Identify key stakeholders

Know who will be anxious about Performance (outcomes) funding

- Postsecondary institutions
  - Especially important for you to be involved in design of performance funding model
  - But beware; if you over play your hand, you won’t be involved

- Equity-oriented non-profit organizations
  - Address concern that performance funding results in more selective admissions
1. Identify key stakeholders

Best In The West

- New Mexico: Created a broad based group to develop and accept concept – higher ed, state gov, business, community; significant Governor involvement
- Nevada: very significant buy in at all stages by education leadership; significant Governor involvement
- South Dakota: Board of Higher Education approached the legislature
2. Establish broad consensus on a public agenda

A public agenda should drive postsecondary reform efforts

- Desired Outcomes (Goals) must precede processes
- Often Outcomes and Processes Get Confused
- Metrics need **EXPLICIT** targets
2. Establish broad consensus on a public agenda

- New Mexico – neat and clean
  - Graduates for Economy of the Future
  - More
  - More strategic – Economic Development
  - Greater equity in student outcomes
  - Research for Economy of the Future
- Colorado
  - Completion agenda
  - Reduce equity gaps
- Not so good
  - Oregon (1.0) – A solution in search of the problem
3. Identify appropriate measures

- Depends on who is looking:
  - From State Perspective
    - Less Is More: Promote institutional focus on state priorities by identifying only 4-5 outcomes aligned with the public agenda (Jones, 2012)
    - Consider both intermediate and ultimate outcomes (e.g., course completions, first-year retention, degree completions) (Jones, 2012)
    - Preserve mission differentiation
    - Different measures for different types of institutions (Jones, 2012)
    - Maintain focus on the success of underserved students
      - Ohio & Tennessee – bonuses for at-risk completions
3. Identify appropriate measures

- Depends on who is looking:
  - From An Institutional Perspective
    - More can make sense:
      - But must be understood throughout institution
      - Don’t let the perfect be the enemy of the good
  - Similar to state approach
    - Consider both intermediate and ultimate outcomes (at least initially)
  - Maintain focus on the success of underserved students
    - Ohio & Tennessee – bonuses for at-risk completions
3. **Identify appropriate measures**

**Best in the West on State Policy**

- **South Dakota – Keep It Simple**
  - Credit Hours Completed, Degrees Awarded (Number, not Rate), Sponsored Research
  - Weighted by level and cost

- **New Mexico**
  - Tiered: Research, Baccalaureate, and Associate
  - Valid and Reliable measure of educational attainment and workforce development

**Not so good:**

- **South Carolina, Nevada (1.0)**
  - Measuring everything = Measuring nothing
3. Identify appropriate measures

Best in the West at the Institutional Level

- Washington State University, Metropolitan State University (Denver) – strategic retrenchment
- University of Washington – Responsibility Centered Management
- Oregon, New Mexico, Nevada, South Dakota
  - Completed Courses as an interim measure
4. Define adequate institutional progress

- Ideal performance levels should balance aspiration and viability

- Continuous progress should be the name of the game
  - Allow currently high-performing institutions to compete (ceiling effect)
4. Define adequate institutional progress

Best in the West
- South Dakota 2.0
  - Focus on Increase in Numbers of Graduates, not just Number of Graduates

Not so good
- Oregon: Aspirational target – 40/40/20– is unachievable
5. Allocate sufficient funds

5 percent or less of state funding appears to be ineffective in increasing graduation rates (Sanford & Hunter, 2011)

Must work with more than “new money”
5. Allocate sufficient funds

Best in the West

New Mexico
- Base funding; but Base redefined
- Modest start, but building to much more

South Dakota
- Shared sacrifice
  - Institutions in base reallocation
  - State in increased appropriation

Tennessee – 100% (phased in)

Indiana --- Works with increases and cuts
5. Allocate sufficient funds

Not So Great

- **Colorado**
  - 25% sounds great
  - But delayed implementation,
  - And only on increased appropriations

- **Arizona**
  - Only on new money
6. Foster favorable conditions for compliance

Ensure adequate institutional resources (A governance responsibility)

- Institutional research staff
- Retention and graduation programs, student affairs staff
- Technical assistance for identifying and adopting best practices

- Remove state regulations that may thwart institutional autonomy needed to adapt (A legislative/gubernatorial responsibility)
7. **Evaluate and Adjust**

- Assure that data capacity for evaluation exists
  - State Longitudinal Data System
  - value-added assessments of learning

- Assess regularly whether it is working

- Modify to improve performance
  - Increasing size of incentive
Seven Keys to Designing Performance Funding Models

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7. Evaluate and adjust