

THE LANDSCAPE OF PERFORMANCE-BASED FUNDING IN 2020

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In an effort to hold public colleges and universities more accountable for their outcomes, policymakers in many states have turned to performance-based funding (PBF), allocating a portion of state funds based on student outcomes, such as retention, completion, or post-college employment.¹ States across the political ideology spectrum have enacted PBF systems, with more liberal states, such as California and New Jersey, and more conservative states, such as Oklahoma and Arkansas, included among PBF adopters.

A growing body of academic research that examines the impact of PBF policies demonstrates that they typically have had little to no effect on degree completion outcomes.² While doing little to improve college completion, PBF policies have raised a host of equity concerns. For instance, research indicates that PBF policies have:

- Led to restricted enrollment among low-income and minority students who have been found to be less likely to graduate on time relative to their peers,³

¹ Kelchen, R. (2018). *Higher education accountability*. Baltimore, MD: Johns Hopkins University Press.

² Hillman, N. W., Hicklin Fryar, A., & Crespín-Trujillo, V. (2018). Evaluating the impact of performance funding in Ohio and Tennessee. *American Educational Research Journal*, 55(1), 144-170. Hillman, N. W., Tandberg, D. A., & Gross, J. P. (2014). Performance funding in higher education: Do financial incentives impact college completions? *The Journal of Higher Education*, 85(6), 826-857. Rutherford, A., & Rabovsky, T. (2014). Evaluating impacts of performance funding policies on student outcomes in higher education. *The ANNALS of the American Academy of Political and Social Science*, 655, 185-208. Sanford, T. & Hunter, J. M. (2011). Impact of performance-funding on retention and graduation rates. *Education Policy Analysis Archives*, 19(33), 1-27. Shin, J. & Milton, S. (2004). The effects of performance budgeting and funding programs on graduation rate in public four-year colleges and universities. *Education Policy Analysis Archives*, 12(22), 1-26. Umbricht, M. R., Fernandez, F., & Ortagus, J. C. (2017). An examination of the (un)intended consequences of performance funding in higher education. *Educational Policy*, 31(5), 643-673.

³ Umbricht et al., 2017. Kelchen, R., & Stedrak, L. J. (2016). Does performance-based funding affect colleges' financial priorities? *Journal of Education Finance*, 41(3), 302-321.

- Led to increases in short-term outcomes, such as certificate production, sometimes at the expense of associate degree completion,⁴ and
- Increased funding disparities across public institutions.⁵

Amid these concerns, policymakers in some states have built equity metrics into PBF systems, providing funds for institutions that graduate more racial minority, low-income, adult, academically underprepared, and/or veteran students.⁶ Recent research indicates that equity metrics may help boost enrollment among some underserved student groups, which is an encouraging finding as more states consider adopting these metrics.⁷

However, PBF systems vary substantially across states in regard to the institutions that are subject to performance funding, the percentage of funds linked to student outcomes, the metrics on which institutions are evaluated, and whether and how equity metrics are defined. In this brief, we offer the most up-to-date and detailed description of the landscape of performance funding for higher education as it exists in Fiscal Year 2020 (the current fiscal year as of this brief's publication). To compile this information, we drew on state budgets and legislative documents as well as higher education commission and board minutes, reports, presentations, and other documents. In instances where the information we gathered was unclear or if details were unavailable, we reached out to state higher education agencies in particular states for clarification.

Prevalence of PBF Policies

The map below shows the current status of each state's PBF system in Fiscal Year 2020. States are classified in one of four ways: states in dark blue have PBF systems in place through legislation or board approval that are funded in 2020; states in light blue have PBF systems in place through legislation or board approval but did not allocate funds using performance criteria in 2020; states in purple are in the process of implementing a PBF system; and states in red do not have a PBF system in place in 2020.

⁴ Hillman et al., 2018. Hillman, N. W., Tandberg, D. A., & Fryar, A. H. (2015). Evaluating the impacts of "new" performance funding in higher education. *Educational Evaluation and Policy Analysis*, 37(4), 501-519. Li, A. Y., & Kennedy, A. I. (2018). Performance funding policy effects on community college outcomes: Are short-term certificates on the rise? *Community College Review*, 46(1), 3-39. Li, A. Y., & Ortagus, J. C. (2019). Raising the Stakes: Impacts of the Complete College Tennessee Act on Underserved Student Enrollment and Sub-Baccalaureate Credentials. *The Review of Higher Education*, 43(1), 295-333.

⁵ Hagood, L. P. (2019). The financial benefits and burdens of performance funding in higher education. *Educational Evaluation and Policy Analysis*. <https://journals.sagepub.com/doi/10.3102/0162373719837318>

⁶ Cielinski, A., & Pham, D. (2017). *Equity measures in state outcomes-based funding: Incentives for public colleges to support low-income and underprepared students*. Washington, DC: Center for Law and Social Policy.

⁷ Gándara, D., & Rutherford, A. (2018). Mitigating unintended impacts? The effects of premiums for underserved populations in performance-funding policies for higher education. *Research in Higher Education*, 59(6), 681-703. Kelchen, R. (2018b). Do performance-based funding policies affect underrepresented student enrollment? *The Journal of Higher Education*, 89(5), 702-727.

Colleges and Universities Subject to PBF

The figure below lists the 32 states with PBF systems that are currently funded and indicates whether performance funding applies to four-year universities, community colleges, or all public institutions. In most PBF states, public institutions in both the four-year and community college sectors are subject to performance funding (20 states). Two states (New Jersey and Oregon) apply performance funding to only the four-year sector, and 10 states apply PBF to only the community college sector.

States with PBF Funding as applied to type of public institution

| | 2-year | 4-year | All |
|----------------|--------|--------|-----|
| Alabama | ✓ | | |
| Arkansas | | | ✓ |
| California | ✓ | | |
| Colorado | | | ✓ |
| Connecticut | ✓ | | |
| Florida | | | ✓ |
| Hawai'i | | | ✓ |
| Illinois | ✓ | | |
| Indiana | | | ✓ |
| Kansas | | | ✓ |
| Kentucky | | | ✓ |
| Louisiana | | | ✓ |
| Michigan | | | ✓ |
| Montana | | | ✓ |
| Nevada | | | ✓ |
| New Jersey | | ✓ | |
| New Mexico | | | ✓ |
| North Carolina | ✓ | | |
| North Dakota | | | ✓ |
| Ohio | | | ✓ |
| Oklahoma | | | ✓ |
| Oregon | | ✓ | |
| Rhode Island | | | ✓ |
| South Carolina | ✓* | | |
| Tennessee | | | ✓ |
| Texas | ✓ | | |
| Utah | | | ✓ |
| Vermont | | | ✓** |
| Virginia | ✓ | | |
| Washington | ✓ | | |
| Wisconsin | | | ✓ |
| Wyoming | ✓ | | |

*technical colleges only

**University of Vermont excluded

Percent of Funds Tied to Performance

The percentage of funding tied to performance outcomes in Fiscal Year 2020 also varies considerably across PBF-participating states. For example, Arkansas allocates <3% of appropriations to PBF,⁹ Nevada ties 20% of appropriations to PBF,¹⁰ Kentucky allocates 70% of appropriations to PBF,¹¹ and Ohio ties 80% of appropriations to PBF for its four-year universities and 100% of appropriations to PBF for its two-year colleges.¹² States sometimes include stop-loss or hold harmless provisions that protect institutions from losing out on base funds or at least limit the loss of base funds that they previously received, especially in the first few years of PBF implementation. Kentucky's PBF system, for example, includes stop-loss and hold harmless provisions that prevent institutions from losing more than around 1-2 percent of base funds during its first few years.¹³

In states where larger shares of funds are tied to performance, there is often a transition period during which an increasing percentage of funds are linked to performance. For instance, Nevada linked five percent of state funds to performance in the first year of the new funding formula (Fiscal Year 2015¹⁴), 10 percent in the second, 15 percent in the third, and 20 percent thereafter.¹⁵ Similarly, in California, which recently enacted a PBF policy for its community college system, 10 percent of funds will be tied to performance in the first year, with plans to increase to 20 percent in future years.¹⁶ While most PBF systems link base state funds to performance, some provide bonus funds or allocate new funds for institutions based on performance metrics (rather than

⁹ Arkansas Acts 998, 1024 of 2019. Arkansas Department of Higher Education. (2018). *Operating recommendations*. Little Rock, AR: Author.

¹⁰ Nevada System of Higher Education. (2018). *Higher education funding formula summary*. https://nshe.nevada.edu/wp-content/uploads/file/Initiatives/fundingformula/Funding%20Formula%20Summary_2017%20Leg%20Approved_1-9-18.pdf

¹¹ Kentucky Council on Postsecondary Education. (2018). *Performance funding*. Retrieved from <http://cpe.ky.gov/ourwork/performancefunding.html>

¹² Ohio Department of Higher Education. (2019). *State share of instruction handbook*. Retrieved from https://www.ohiohighered.org/sites/default/files/uploads/financial/ssi/FY20_FY21_University_SSI.pdf

¹³ Kentucky State Legislature. (2017). *Kentucky State Bill 153*. Frankfort, KY: Author.

¹⁴ Nevada System of Higher Education. (2018). *Higher education funding formula summary*. Reno, NV: Author. Retrieved from https://nshe.nevada.edu/wp-content/uploads/file/Initiatives/fundingformula/Funding%20Formula%20Summary_2017%20Leg%20Approved_1-9-18.pdf

¹⁵ Nevada System of Higher Education. (2019). *2019-2020 operating budget*. Reno, NV: Author. Retrieved from <https://nshe.nevada.edu/wp-content/uploads/file/BoardOfRegents/Agendas/2019/12-dec-mtgs/bff-refs/BFF-3b.pdf>

¹⁶ California State Assembly. (2018). *2018-19 legislative budget conference committee: Close out agenda*. Sacramento, CA: Author. Retrieved from <https://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/June%208%20Final%20Close%20Out%20Agenda.pdf>

using performance metrics to allocate base funds). For example, Michigan uses performance metrics to determine how to allocate increases in state funds from one year to the next.¹⁷

Outcome Metrics

The performance outcomes used in PBF formulas are not consistent across all PBF states, but degree completion is included as an outcome metric in most PBF systems. ***In addition to degree completion, performance metrics also often include retention, transfer to four-year institutions, credit accumulation, on-time graduation, degree completion in high-demand fields, and graduates' wages.*** Some states' PBF metrics include a focus on degree production in STEM and health-related areas. In recent years, these areas have seen an increasing level of focus from policymakers, as STEM and health fields are considered to be vital for the welfare and economic growth of states. For instance, Oregon's PBF formula includes tying funding to degree attainment, with extra weight being placed on completion in STEM and health fields.¹⁸ Several states also include metrics for graduate degree completion (for institutions that offer graduate degrees). As an example, Tennessee's outcome metrics for universities include associate, bachelor's, master's, doctoral, and law degrees.¹⁹ In some states, outcome metrics are determined by the state or higher education agency. In other states, institutions can select one (or more) of the outcomes metrics on which they will be assessed from an approved list.

Equity Metrics

Although most states with active PBF systems link performance funds to equity metrics, the targeted groups of students differ across states. Low-income students are the group of students most frequently considered in PBF systems, with around 80% of PBF states including metrics or bonuses for graduating low-income students. ***Among the 32 states that tie appropriations to performance, around 60% outline race as a consideration in their PBF formula.*** The lower proportion of PBF systems that tie performance funds to graduation of racial minority students may reflect efforts by policymakers to avoid addressing race in PBF policy design.²⁰

¹⁷ Zielak, P. (2019, October 30). *Fiscal brief: FY2019-20 public university performance funding*. Lansing, MI: House Fiscal Agency. Retrieved from http://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_Public_Univ_Performance_Funding_fy19-20.pdf

¹⁸ Oregon Higher Education Coordinating Commission. (2019). *Outcomes-based funding for public universities*. Joint Committee on Student Success. Salem, OR: Author. Retrieved from <https://olis.leg.state.or.us/liz/2019R1/Downloads/CommitteeMeetingDocument/162761>

¹⁹ Tennessee Higher Education Commission (n.d.). Outcomes-based funding formula. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1_-_Outcomes_Based_Funding_Formula_Overview_-_One_Page.pdf

²⁰ Gándara, D. (2019). How the sausage is made: An examination of a state funding model design process. *The Journal of Higher Education*, 1-30.

In some states, PBF systems include equity metrics for specific minority groups, often reflecting local demographics. For example, Hawai‘i’s PBF formula ties funds to degrees awarded to Native Hawai‘ian students in an effort to boost access among this student population.²¹ Montana provides a portion of funding based on retention and completion of Native American students.²²

States also frequently include equity metrics or bonuses in PBF systems for institutions that graduate adult students, academically underprepared students, and/or veteran students. Many states’ PBF systems include multiple equity metrics. For instance, Ohio’s PBF formula awards extra weight for African-American, Native American, and Hispanic students, and also allows for additional funding for low-income, adult, or first-generation students, as well as students scoring below a 17 ACT in Math or English.²³

The weights states place on equity metrics vary substantially. Some states build equity metrics into performance metrics (that is, graduation among students from particular underserved groups is considered alongside overall graduation in the allocation of state funds). For example, Indiana’s completion metrics include a category for “at-risk” degree completion, which accounts for 20 percent of the performance funding formula.²⁴ Other states provide specific weights for graduating students from particular underserved groups. Colorado also assigns bonus weights to “priority populations,” including a 100 percent premium for low-income students and a 50 percent premium for students who complete a degree in a STEM or health field.²⁵

Conclusion

As a growing number of states turn to performance funding for higher education or make adjustments to existing PBF systems, information about these policies is increasingly important for researchers and policymakers alike. In this brief, we provide the most up-to-date, detailed information about the current state of PBF systems in the United States. In Fiscal Year 2020, 32 states have active, funded PBF systems in place,

²¹ University of Hawai‘i System. (2019). *Hawai‘i graduation initiative: Performance funding model*. Retrieved from <http://blog.hawaii.edu/hawaiigradinitiative/performance-funding-model/>

²² Montana University System. (2019). *Performance funding*. Retrieved from <https://mus.edu/data/performancefunding/MUS-PerformanceFundingCriteria5-19-16.pdf>

²³ Ohio Department of Higher Education. (2019). *State share of instruction handbook*. Retrieved from https://www.ohiohighered.org/sites/default/files/uploads/financial/ssi/FY20_FY21_University_SSI.pdf

²⁴ Indiana Commission for Higher Education. (n.d.). *Performance-based funding for public colleges and universities: Frequently asked questions*. Indianapolis, IN: Author. Retrieved from https://www.in.gov/che/files/Performance_Funding_FAQ_FINAL.pdf

²⁵ Colorado Commission on Higher Education. (n.d.) *Report on implementation status of the higher education funding allocation formula*. Denver, CO: Author. Retrieved from https://highered.colorado.gov/Publications/Reports/Legislative/General/2018/2018_AnnualReport_ImplementationoftheHigherEducationFundingAllocationFormula.pdf

one state has a PBF policy but does not currently allocate funds via performance mechanisms, and one state is in the process of transitioning back to PBF for its public four-year universities.

These PBF systems vary substantially across states regarding the percent of funds tied to performance, the metrics used to assess performance, and the extent to which equity metrics are included in performance funding formulas. The variations in how PBF systems have been implemented are likely to shape both the intended (degree completion) and unintended (restricted access, funding disparities) outcomes of these policies. In future briefs and papers, we will explore the effects of these variations on outcomes related to access, completion, and post-college success.

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