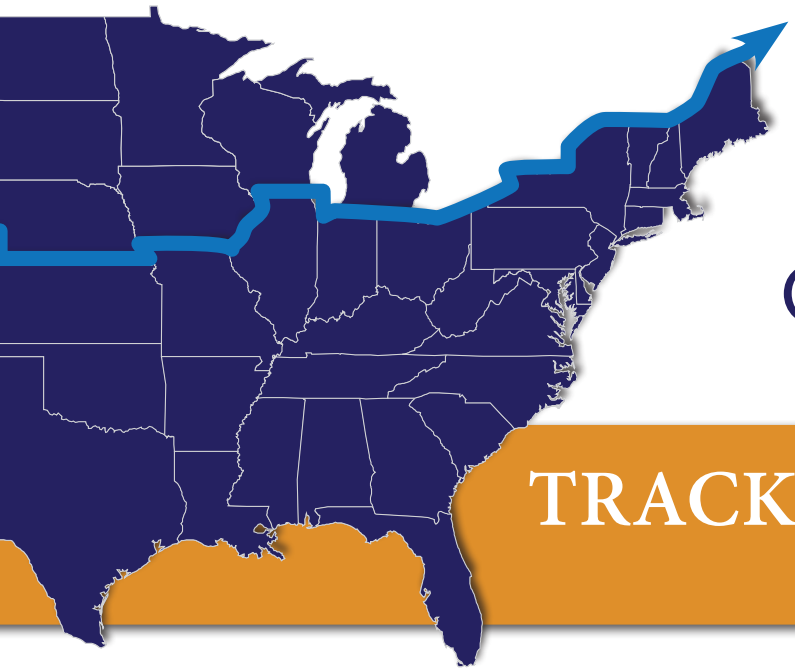

CollegeProductivity

TRACKING MOMENTUM:

DECEMBER 2011 | EDITION 6

Performance Funding *Student Incentives* *New Models* *Business Efficiencies*

FOUR STEPS TO FINISHING FIRST

An Agenda for Increasing College Productivity to Create a Better Educated Society.

Tracking Momentum is a quarterly newsletter produced by HCM Strategists with support from Lumina Foundation. HCM is a public policy and advocacy consulting group focused on finding effective solutions in education and health. Tracking Momentum provides updates on how states and colleges are advancing Lumina's Four Steps to Finishing First productivity agenda. For more information, see www.collegeproductivity.org. The views expressed in this publication are those of the authors and do not necessarily represent those of Lumina Foundation, its officers and directors or employees.

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Tracking Momentum

Step 1: Why Performance Funding?

Public funding should pay for results. Incentives should drive institutions to adopt models and efficiencies that produce more graduates with high-quality degrees. Research and **Four Steps to Finishing First** recommend state funding formulas based on these principles:

- Allocate at least 5 percent of *existing* funding for completion of degrees
- Build incentives around state goals
- Measure yearly progress
- Take institutional differences into account

What Research Says About Performance Funding 2.0

Performance Funding 2.0 strategies incorporate lessons from a decade of policy innovation. Research by **Joe Burke of the Rockefeller Institute at the State University of Albany** and **Kevin Dougherty of Teachers College at Columbia University** undergird what we know did NOT work in the funding 1.0 policies of the late 1990s and early 2000s. South Carolina's 1995 policy offers a snapshot of why some first-generation performance plans collapsed a few years after adoption.

Today, statewide data systems allow metrics that account for mission differentiation and the success of 21st Century Students. Institutions participate in development and revision, and university panels identify ways to improve student success and "capture" more money.

Recognizing the Leaders

As educators and lawmakers study promising options, they look to **Indiana**, **Florida**, **Ohio**, **Pennsylvania**, **Tennessee** and **Washington**. Each has adopted, sustained or strengthened performance formulas since 2009. The Indiana Commission for Higher Education tasked with strengthening its performance funding this year, turned to the Strategy Labs for assistance. Martha Snyder, Policy Lead for Step 1, summarized how states implement effective principles in a **working draft** released August 2011.

Ohio's Challenge Programs of the 1990s tied smaller amounts of institutional appropriations to performance outcomes. The impact of this policy laid the groundwork for the more expansive formula changes in 2009:

- Reduced median time to degree for in-state bachelor's degree graduates from 4.7 years in 1999 to 4.3 years in Fiscal Year 2003.
- Increased the percent of in-state bachelor's degree graduates earning their degree in four years or less from 34 percent in 1999 to 43 percent in 2006.
- Increased the number of at-risk students who received bachelor's degrees by 13 percent and decreased average time to degree for at-risk students.

median time to degree for in-state bachelor's

number of at-risk students who received bachelor's degrees increased by 13%

State Summary

State	Sector	Metrics	Percent	Mission Differentiation	Base or Bonus	Notes
Indiana	*All*	***Successfully completed credit hours; degrees awarded; on-time graduation; increase in degrees completed by low-income students; research incentive for four-year instituitons***	*5 percent*	*Research Incentive*	*Base*	*Only applies to resident students*
Florida	2-year only	Time to Degree; Successful Completion of College Preparatory Program; Completions of Programs in Targeted Critical Needs (Nursing, Teacher Preparation); Completers; Job Placement; Transfers	Less than 5 percent	N/A	Bonus in first year; transitioned to base allocation	
Washington	2-year only	Student Success Points: Building toward college-level skills (basic skills gains, passing pre-college writing or math) ; First-year college retention (earning 15 or 30 college credits); completing college-level math (passing necessary college math courses); completion (earning a certificate, two-year degree or apprenticeship)	Less than 5 percent	N/A	Bonus	
Pennsylvania	4-year only	Student success: Degrees conferred and closing achievement gaps; Access: Student enrollment and faculty diversity; Stewardship: Private support and use of resources.	8 percent of state allocation	Yes: Institutions get to choose five metrics based on their instituional mission and strategic goals (within guidelines and approved by Chancellor)	Base	
Ohio	All	University main campuses: Course and degree completions weighted by cost of program. At-risk students and certain STEM fields have higher weight. Maintains funding for graduate and medical education (distributed through performance-based indicators). University regional campuses: Primarily course completions with shift to include degree completions, both weighted by cost of program. At-risk students and certain STEM fields have higher weight. Small portion reserved for campus contributions to the state's Strategic Plan. Community Colleges: Primarily enrollment based. Small (but increasing) portion through student success points (successful completion of developmental courswork; accumulation of 15 and 30 credit hours; degree completion; transfer with at least 15 credit hours)	Main campuses: 100% (FY 2011, 68% course completion; 10%percent degree completion which increases in proportion each year; 15% campus contribution to state strategic plan (graduate and medical school); Regional campuses: 100% (FY 2011, 90% course completions; 9% percent campus/mission contributions to state strategic plan); Community Colleges: 5% increasing annually.	Yes; Sector specific formulas	Base	Hold-harmless phase in period; campuses do not lose more than a certain percentage of prior year's funding. Increases each year. Formulas are run and unadjusted outcomes are shared with all institutions.
Tennessee	All	Four-year schools: student progress metrics (accumulation of 24, 48 and 72 hours); student completion metrics (bachelor and associate degrees; doctoral and law degrees; masters and ed specialist degrees; six-year graduation rate; degrees per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions (research and service expenditures). Includes an at-risk premium. Two-year schools: student progress metrics (accumulation of 12, 24 and 36 hours; remedial and developmental success; student completion metrics (associate degrees; certificates granted; awards per 100 FTE; transfers out with at least 12 credits); instutional efficiency and functions metrics (work force training; job placements; dual enrollment students)	100 percent with 4-year phase-in factor	Yes; different metrics for four-year and two-year schools. Plus, specific weights are applied to each otucome metric based on Carnegie Classification of institution.	Base	Phase in factor applied over first four years of model. Phase in accounts for differnece between institution's enrollment-based allocation and instituiton's outcomes-based allocation. Factor drifts to 1.0 where it will have no impact on calculation

How to Counter Common Arguments Against Step 1

Heard one of these?

- *Performance funding will force us to "cream" the best students and will hurt access.*
- *Colleges must have a reasonable operating base before performance funding is adopted.*
- *Incentives for completion will "water down" quality.*

Funding formulas based on the effective principles described address these concerns. A sharp message helps as well. The Productivity Strategy Labs commend work coming out of **California**, a Strategy Labs state. In May 2001, California State University Sacramento's Institute for Higher Education Leadership and Policy released an **excellent brief** with talking points that colleges, legislators, governing boards and other leaders can use when common objections arise.

States to Watch

Arkansas, **Illinois** and **Texas** are three Strategy Labs states that came out of Complete College America's (CCA) 2010 and 2011 policy academies with resolve to adopt performance funding. CCA and the Productivity Strategy Labs share **the same advice on effective performance funding principles.**

Under legislative mandate, the Arkansas Higher Education Coordinating Board is completing recommendations to tie performance to part of each institution's base funding, starting in 2013-2014. Over the past eight months, groups with broad state and institutional representation crafted mandatory measures as well as optional metrics each institution can use based on its mission.

Illinois continues to develop metrics to fulfill a legislative requirement for performance funding, using suggestions from four-year institutions and the community colleges. Lieutenant Governor Sheila Simon is a champion of this process, which has active participation by the House and Senate.

Texas has recommitted to engaging institutions when creating performance models. In September, peers from Tennessee went to Austin to share lessons and advice, including how institutions helped develop a new funding formula. The state has two outcomes formula work groups – one to consider a formula and metrics for community and technical colleges, the other for "general" academic institutions. Both workgroups consist of broad institutional representation and are making great progress with expectations to offer respective consensus recommendations to the Texas Higher Education Coordinating Board by March 2012.

Pay for Student Success Now – Don't Wait for New Money

In many states, funding has not kept up with enrollment, and historical inequities between colleges and sectors persist[1]. Nevertheless, America must educate more people with the resources in hand. Reform cannot wait for ideal conditions.

Several states working on Step 1 will not realize the benefits of reform *until* they make the stakes real. They must allocate existing funding based on progress toward state goals. Arizona, Colorado, Kentucky and West Virginia are encouraged to take this necessary, unfinished step to make taxpayer dollars work harder for students and to generate job growth. What is the policy rationale for 5 percent? It is large enough to be an effective incentive, whereas metrics linked only to small, new dollars create reporting burdens but show few results. That is a key lesson of performance funding 1.0.

Secretary of Education Urges Colleges to Rein In Costs

On November 29, Secretary of Education Arne Duncan urged colleges to "think more creatively" about how to contain rising tuition costs by increasing productivity. To view the full article, **click here.**

[1] "State Higher Education Finance FY2010." State Higher Education Executive Officers, Boulder, CO, updated April 12, 2011; and Trends in College Spending: 1999-2009." Delta Cost Project, Washington, DC, 2011.

Metrics that Measure the Success of 21st Century Students

Today's college students typically attend school part-time and have been out of high school for a number of years. These 21st Century Students may be adult workers who need to re-enter college to complete credentials. Many of these students will enter at one school and complete their credential at another. They may be Latinos, African Americans and Native Americans students whom educators and policymakers want to complete college in much higher numbers than now. They all need to complete college to fill good jobs and contribute to a stronger economy.

What metrics can performance funding formulas include to reward the success of these students?

- *Low-income student incentive:* Typically measured as Pell eligible students. Provides extra weight for these students who successfully reach student progression and certificate or degree completion benchmarks.
- *Adult student incentive:* Typically measured as students 25 years or older. Provides extra weight for these students who successfully reach student progression and certificate or degree completion benchmarks.
- *Student progression:* Number of students accumulating 15, 30, 45, 60, etc. credit hours. This measures student progression
- *Remedial and Developmental Success:* The number of full-time and part-time students who were enrolled in any remedial or developmental course or instruction who then successfully completed college level courses in a subsequent semester.
- *Transfers out:* The number of students who transferred from a two-year to four-year institutions with at least 15 student credit hours.

On Wednesday November 30, Jamie Merisotis, President and CEO of Lumina Foundation, testified before the Higher Education and Workforce Training Subcommittee regarding **Keeping College Within Reach: Discussing Ways Institutions can Streamline Costs and Reduce Tuition**. The following is a quote from the testimony:

"Providing performance funding or targeting incentives for colleges to graduate more students with quality degrees and credentials gives institutions the means to invest resources in ways that increase completion, shorten time to degree and reduce the cost of delivery."

To view the full testimony, **click here.**

Who do you call? Performance Funding Advice Available through the Productivity Strategy Labs

Your Step 1 First Point of Contact: Martha Snyder, HCM Strategists (Martha_snyder@hcmstrategists.com)

Sample Peers in the Strategy Labs Network, accessible through KC.org

Peter Garland, Pennsylvania State System of Higher Education

Jason Dudich, Indiana Commission for Higher Education

Richard Petrick, Business Forum for Higher Education and the Economy, Ohio Business Roundtable

Russ Deaton, Tennessee Higher Education Commission

Experts

Brenda Albright, independent consultant

Mary McKeown Moak, MGT of America

Dennis Jones, National Higher Education Management Systems

Nancy Shulock, Institute for Higher Education Leadership and Policy