Midwestern Higher Education Compact

Completion-based Funding for Higher Education

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International Context

Internationally, several countries are linking funding of higher education to expected outcomes. Management principles of economy, efficiency, and effectiveness are becoming measures of good governance in higher education as well as in business. Managing by outcomes or outputs rather than inputs has led to some performance-based and/or incentive funding models – rewarding *actual* rather than *promised* performance levels.

One of the incentives being considered is tying a portion of institutional funding to student success. This funding may be packaged as additional incentive dollars – awarded to institutions if they achieve certain performance benchmarks – or it could be incorporated into funding formulas, essentially replacing a portion of an institution's enrollment-based appropriation with a completions-based component. In some cases, governments and higher education institutions sign agreements or make other formal contractual arrangements that are based on expected outcomes; in other cases, governments simply tie performance funding to block grants or to funding formulas.

The following examples illustrate possible uses of outcome-based funding for higher education.

Australia

The Learning and Teaching Performance Fund in Australia is based on student satisfaction with generic skills, student satisfaction with good teaching, overall student satisfaction, full-time employment, further part-time or full-time study, all bachelor students' progress rates, and commencing bachelor students' retention rates. Australia's Higher Education Disability Support Programme is based on the number of domestic students with a disability enrolled at the institution, weighted by the retention and success ratios for those students.

Canada

In international comparisons, Canada has been awarded an "A" grade and ranks first out of 17 peer countries for college completion and has been awarded a "B" grade and ranks fifth out of 17 peer countries on university completion (OECD data as reported on the website, http://www.conferenceboard.ca/HCP/Details/education.aspx).

In 1967 the province of Quebec established a pre-university program as a way of making postsecondary education more accessible. The program, which is offered after Grade 11, replaces the extra year of high school, covers one year of community college, and is a prerequisite for university acceptance. According to the Conference Board of Canada, between 1990 and 2006,

college participation rates for those aged 17 to 19 were consistently above 35 percent in Quebec, compared with only 10 percent in the rest of Canada (http://www.conferenceboard.ca/).

Czech Republic
The Czech Republic uses formula-funding criteria for higher education such as the number of degrees awarded or the number of graduates.

Denmark
The public budgets for teaching and learning activities are exclusively based on output measures – based on the number of credits obtained by students each year. This mechanism is known as the "taximeter" model.

England
In England, the goal to widen participation and access to higher education resulted from concerns expressed when a new system of fees was introduced to British public higher education during the 2006-07 academic year. Under the new system, higher education institutions can charge tuition fees of any amount from £0 to £3,000. However, England's Office for Fair Access (OFFA) was established to prevent institutions from charging fees above £1,200 if those institutions do not make adequate provision for widening access and encouraging participation, especially for those students from under-represented groups.

As part of the process, the higher education institutions are required to set milestones toward improving access and report them to the Higher Education Funding Council (HEFC) and OFFA. The data reported by an institution may include completion data since ensuring the success of students in their programs of study is one of the program's goals (http://www.hefce.ac.uk/widen/).

England's OFFA must approve an access agreement with each institution that charges the new variable tuition fees. If institutions do not meet the milestones they set, they will not be sanctioned unless a serious breach of the agreement has been made. If a serious breach has been made, a public higher education institution can be fined up to £500,000 or about 110% of the amount promised but not spent on bursaries (grants) or outreach work. The HEFC's Widening Access and Participation Strategic Advisory Committee monitors progress in implementing key performance targets relating to all of the goals aimed at widening participation in British higher education.

Finland
The block grant funding formula for polytechnics includes the number of students enrolled (70%) and the number of graduates (30%, including the postgraduate level). The grant for universities includes the number of degrees (including post-graduate programs).

Netherlands
There is some variance in the funding of higher education institutions in the Netherlands. Generally, however, the funding for universities includes factors based on the number of first year students and number of degrees awarded – 37% is a base component for teaching and learning activities; 50% is calculated from the number of diplomas; and 13% is based on the number of first year students. The funding for universities of applied science includes factors

based on the number of students leaving the institutions without a diploma and the number of students leaving with a diploma. In the latter case, if students take more than 4.5 years to graduate from a university of applied science, a proportionate factor of less than 1.0 is applied to the formula.

Norway
Funding for higher education in Norway factors in the number of credits accumulated by students (according to six cost categories of studies), the number of international student exchanges, and research-based indicators.

Spain
Funding for higher education in Spain differs by region. Generally, higher education funding factors in the number of first year students, the number of students enrolled (excluding post-graduate students), the cost per student, the field of study, the number of credits accumulated by duration students, the number of graduates (including at post-graduate level), the number of students completing each year of study, the level of qualifications of academic staff, the income from non-public sources, and the average study duration.

Sweden
Funding for higher education in Sweden factors in the number of students enrolled (excluding post-graduate students), the field of study, and the number of credits accumulated by students.

General Resources

- *Tertiary Education for the Knowledge Society: OECD Thematic Review of Tertiary Education: Synthesis Report, Volume 1, Chapter 4, "Matching Funding Strategies with National Priorities, 2008, pg. 192,* http://oecd-conference-teks.iscte.pt/downloads/OECD_vol1.pdf
- Higher Education Funding Council for England, Widening Participation, http://www.hefce.ac.uk/widen/

National Context

State appropriations to public colleges and universities have historically been made on the basis of enrollments rather than completions. As such, institutions often have little incentive to ensure that students successfully complete courses and earn degrees. However, given current and future workforce needs and state financial difficulties, higher education funding based on seat time is being carefully scrutinized while funding based on course or degree completion rates or other indicators of success is being given serious consideration. States are considering ways to incent institutions to not just enroll students but also to ensure that they earn the credentials needed in the workplace.

Performance-based funding may represent a relatively small percentage of a state's higher education budget, but some experts assert that it can lead to some rather remarkable results. The challenge for states is to create a financing system that is clearly understood and yet flexible enough to account for differences in institutional mission and demographics. The same set of guidelines and performance targets should probably not be applied similarly to community colleges, bachelor's and master's degree institutions, and research universities.

The following summaries provide a sampling of incentive funding initiatives for higher education in various states.

Indiana
In the 2007-2009 biennium, Indiana adopted performance-funding incentives for degree completion, on-time graduation, and two-to-four-year transfer activity. Even though the percentage of funding derived from performance-funding incentives is relatively small, the value is set to increase over time and spans several budget cycles. The state's public higher education institutions are directed to shift the focus gradually from enrollments to outcomes.

For each additional bachelor's degree, higher education institutions would receive an additional $5,000, and for each additional associate's degree they would receive $3,500. For example, if a university produced 100 more bachelor's degrees in a given year than the prior year, it would receive an additional $500,000. The plan notes that it may be necessary to adjust the subsidy-per-credit-hour rate upwardly, which is currently $3,500, to offset any unintended and dramatic shifts in institutional funding as the formula is optimized.

The Indiana Commission for Higher Education is to consider *additional* ways (such as course completions) to incorporate performance-funding incentives into the state higher education funding formula as part of its 2009-2011 biennial budget. The current enrollment growth adjustment uses an annualized full-time equivalency (FTE) enrollment count that records "attempted" credit hours at the beginning of each academic term:

Enrollment Growth = 4-year average FTE enrollment – Actual FTE enrollment x $3,500

(See page 6, http://www.che.state.in.us/Reaching%20Higher/Versions%20for%20Distribution%20-%20All/3-College%20Completion-7-7.pdf.)

The envisioned credit-completion incentive would use the same rolling average, but the census date would occur at the *end* rather than at the beginning of the term:

> Credit-Completion Growth = 4-year average completed credit hours – Actual completed credit hours x $3,500
>
> (See page 6, http://www.che.state.in.us/Reaching%20Higher/Versions%20for%20Distribution%20-%20All/3-College%20Completion-7-7.pdf.)

Indiana Resources

- *Reaching Higher with Accountability: Embracing Accountability for Results,* Indiana Commission for Higher Education, June 13, 2008
  http://www.che.state.in.us/Reaching%20Higher/Versions%20for%20Distribution%20-%20All/1-%20Accountability-7-7.pdf
- *Reaching Higher with College Completion: Moving from Access to Success,* Indiana Commission for Higher Education, June 13, 2008
  http://www.che.state.in.us/Reaching%20Higher/Versions%20for%20Distribution%20-%20All/3-College%20Completion-7-7.pdf
- *Higher Expectations: Reaching Higher: Strategic Directions for Higher Education,* Entrepreneur.com (IN Business Magazine), Nov 2008,
  http://www.entrepreneur.com/tradejournals/article/190197270.html

Louisiana

Louisiana's governor and legislature have called for a new performance-based incentive funding pool to strengthen the postsecondary education system and make institutions more competitive. Colleges and universities will be able to earn these funds based on measured results in focused areas of desired improvement that are linked to each institution's specific mission. (See http://www.la-par.org/Publications/PDF/PerformanceFundingMay2008.pdf.)

Missouri

Missouri abandoned performance funding due to budget cuts.

Ohio

Ohio's proposed performance goals are in line with the state's 10-year strategic plan for higher education (http://uso.edu/strategicplan/). Both course completions and degree completion are included in the goals. Funding takes institutional mission into consideration. Also, extra support would be given for STEM areas and at-risk students. Rather than using the current funding formula based on 14th day enrollment reports, enrollments would be funded based on course completions (grade D or higher) and by the statewide average cost of individual programs.

For undergraduate students, the expected completion rate would be weighted for risk factors and based on course completion rates at each campus by discipline area and by subsidy level (developmental, general studies or technical, and baccalaureate). Master's and professional (non-medical) students would be funded based on course completion only and on the statewide average cost of programs but not weighted for risk factors.

Ohio Resources

- *Funding Formula for Ohio's Universities Based on Outcome Goals: Recommendations of the IUC Subcommittee of the OBR Subsidy Funding Consultation,* September 3, 2008 (Pgs. 2-3)
  http://www.rpia.ohio-state.edu/Univ-system/docs/Compiled%20funding%20recs%20-%20FINAL.doc

Oklahoma
Performance funding has averaged $2.2 million per year and has been distributed by the Oklahoma State Regents for Higher Education. The focus of the incentives is on student retention, graduation, and degree completion (http://www.okhighered.org/studies-reports/brain-gain/braingain2008-update.pdf).

South Carolina
South Carolina has abandoned performance funding, in part, due to complexity.

Tennessee
Performance funding began in Tennessee in the early 1980s. Dr. Joseph Burke, senior fellow at the Nelson A. Rockefeller Institute and co-author of *Achieving Accountability in Higher Education: Balancing Public, Academic, and Market Demands,* recommends that 3-5% of a total university budget be tied to outcomes, and he points to Tennessee as an example. The state has approximately 5% of its total higher education budget based on student improvement and performance. Data reported by the state includes the percentage of students taking remedial or developmental courses that subsequently complete college-level courses one year later.

Tennessee Resources:
- Performance Funding: Frequently Asked Questions, Tennessee's government website http://www.tennessee.gov/thec/2004web/division_pages/academic_pages/performance_funding/performancefundingfaq.html
- Review of *Achieving Accountability in Higher Education: Balancing Public, Academic, and Market Demands* http://www.career.org/iMISPublic/AM/Template.cfm?Section=CWR1&CONTENTID=17423&TEMPLATE=/CM/ContentDisplay.cfm
- *Ready to Assemble: A Model State Higher Education Accountability System,* Kevin Carey and Chad Alderman, Education Sector, pg. 6, http://www.educationsector.org/research/

Texas
Performance funding – especially course completions and degrees awarded – has been proposed in Texas. In 2007, the Texas Legislature enacted Senate Bill 1231 which provides that, except for several specific instances of good cause, undergraduate students entering as first time freshmen at a Texas public institution of higher education in the fall of 2007 or later will be limited to a total of six dropped courses during their undergraduate career (Texas Education Code, Sec. 51.907).

Washington
The Washington State Board for Community and Technical Colleges established an incentive funding program that rewards 2-year colleges when students pass key landmarks on the way to a degree. Colleges compete against themselves for continuous improvement. Funding is stable and predictable, and cumulative over time.

Data from 2006-2007 were used to establish a baseline. In 2007-2008, colleges became familiar with and adopted the new measures; the year was considered a learning year for all colleges. The first performance year is 2008-2009. The system creates incentives to help students build and maintain their academic momentum toward higher achievement whether they are among the least prepared or the most college-ready. The dollar value per point is set conservatively so that funds

available should cover all projected rewards. There is no upper limit to the number of points that can be earned by a college. If funds available do not cover all earned rewards, the unfunded points will be "banked" for incentive rewards the following year.

Student Achievement Initiative Momentum Point Calculation

Washington State Board for Community and Technical Colleges

How do Colleges Realize Student Achievement Rewards?

A college derives financial rewards when its student achievement improves…that is, when the total momentum points earned by its students go up.

How will the Momentum Points be Calculated?

One point is awarded each time a college student….

- Makes nationally recognized standardized test gains in math or in English language reading or listening as measured by pre- and post-testing or by earning a GED or high school diploma
- Passes a remedial math or English course with a qualifying grade to advance toward college-level work
- Earns the first 15 college-level credits
- Earns the first 30 college-level credits
- Completes the first 5 college-level math credits
- Earns a certificate backed by at least one year of college, earns a two-year degree or completes an apprenticeship

How will the Awards be Distributed?

- Each college will receive awards for improvements in student achievement measured by net gains in its total momentum points. If a college's enrollments decrease, point increases will be calculated on prorated enrollments so that colleges are not penalized.
- The initial baseline year is 2006-07 and the first performance year is 2008-09.
- The first performance awards will be distributed in October 2009 and will become part of each college's base allocation.
- Subsequent awards will be distributed for *additional* improvements in a college's momentum points; that is, when total points above the most recent highest year increase or when the rate increases.

What is the Dollar Value of Each Momentum Point Increase?

- Prior to each academic year, SBCTC will set the dollar value per point based on the total dollars available for awards.
- If estimated total system points are less than the actual points achieved, excess points are "banked" and paid to the colleges in the following year.

How Much Money will be Used to Pay for Increases in Momentum Points?

- Colleges received $1.75 million in 2007-08 as seed money for student achievement efforts, targeting TRIO-eligible students, now part of colleges' base allocations.
- The Board has set aside $500,000 for the first performance year, to be distributed in October 2009, to become part of colleges' base allocations.

Source: http://www.sbctc.ctc.edu/college/education/momentum_point_calculation_mar07.pdf

Resources for Washington State Board for Community & Technical Colleges (SBCTC)

- *Student Achievement Initiative Momentum Point Summary*
  http://www.sbctc.ctc.edu/college/education/measuring_std_achievement_000.pdf
- *Student Achievement Initiative Momentum Point Calculation*
  http://www.sbctc.ctc.edu/college/education/momentum_point_calculation_mar07.pdf
- *Student Achievement Initiative: How Colleges Can Use Momentum Points to Implement an Achievement Strategy*
  http://www.sbctc.ctc.edu/college/education/momentum_points_000.pdf
- Sept 12, 2007 SBCTC Agenda Item
  http://www.sbctc.ctc.edu/college/education/proposal_to_board_sept07.pdf
- *Meeting Washington State's Needs for an Educated Citizenry and Vital Economy: An Initiative for Measuring Colleges and Awarding Funds for Improving Student Achievement and Success*, October 2007 (Research Report No. 07-1)
  http://www.sbctc.ctc.edu/college/education/resh07-1_mtg_wa_st_needs_for_an_educ_citizenry_and_vital_econ.pdf

General Resources

- *Good Policy, Good Practice: Improving Outcomes and Productivity in Higher Education: A Guide for Policymakers*, a joint report from the National Center for Public Policy and Higher Education and the National Center for Higher Education Management Systems, November 2007, http://www.highereducation.org/reports/Policy_Practice/GPGP.pdf
- Making Opportunity Affordability state initiatives, Lumina Foundation for Education
  http://makingopportunityaffordable.org/files/20081216_fact_sheet.pdf
- *Performance Funding 2.0 (Inside Higher Ed*, Dec. 17) *http://www.insidehighered.com/news/2008/12/17/perform*