

# MEMORANDUM

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**TO:** Joint Budget Committee

**FROM:** Amanda Bickel, Joint Budget Committee staff

**SUBJECT:** Update on Higher Education Performance Funding

**DATE:** January 28, 2014

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On December 5, 2013 the Colorado Commission on Higher Education (CCHE) reviewed and approved plans regarding how performance funding structure authorized in S.B. 11-052 would be associated with institutional performance contracts. Because this submission was not publicly available prior to staff's higher education budget briefing, staff recommended that, once the plan was available:

“The Joint Budget Committee and the Education Committees should consider whether the proposed funding scheme appears likely to meet desired goals, request that the Department make changes if necessary, and consider changing the triggers so that implementation can begin as early as FY 2015-16.”

**After reviewing this submission, staff has significant concerns about the Department's proposal.** Staff is troubled by the large number of different metrics used: each institution is using metrics that are largely unique. As a result, **staff is dubious that the proposed performance system can provide a fair basis for comparing institutional performance or serve as a reasonable basis for funding.**

- Staff counts 71 discrete measures being used among 16 governing boards.
- CCHE offered 23 common indicators, but institutions could choose among them and were not required to use more than two (of their choice).
- Of measures in use, 52 are institution-developed. Some common indicators are only used by one governing board.

*Essentially, each institution has been allowed to choose its own test.* If the system is allowed to proceed as currently anticipated, each institution's performance on its individualized test will then be compared to the performance of other institutions on their individualized tests. Institutions that do better on their personalized test will receive a larger share of total performance funding than those that do worse. *Under this system, institutions may be rewarded primarily for their skills at selecting metrics.* Those that chose poorly will suffer; those that chose well will benefit.

Metric Example: The Colorado School of Mines will have at least 90 percent of bachelor degrees awarded in the Science, Technology, Math and Engineering areas. This represents 10 percent of its performance calculation. Is there any risk that it will fail this measure?

*This approach is unique to Colorado*, insofar as staff has been able to determine. Other states that have sought to implement performance funding have worked with institutions to identify a limited number of metrics (5-10) that apply to all institutions in a particular class (research, regional 4-year, 2 year). Although the weight of specific metrics may vary by institution and there is always some customization for differences across institutions, *no other state appears to have allowed each institution to pick all of its own metrics.*

The Department's submission (attached) diplomatically describes the challenges and opportunities of the new system as follows:

#### Challenges

- As currently envisioned, the potential amount of performance funding would be relatively low and raised the question whether the amount of funds will be incentive enough to create a long-term change in behavior.
- The balance mentioned above between flexibility (tailored metrics) and the need for meaningful statewide comparisons makes a very intricate and complicated allocation tool, which can be viewed as less transparent and difficult to explain to constituents.
- Defining measurements *consistently* is a challenge due to the high number of metrics and individual means of measuring the data. Completing a model that applies the measurements consistently is vital as consistent input is needed for fair outputs.
- There is potential for a perception of weak or insignificant performance contracts where governing boards vary significantly in setting goals and metrics.
- Funding levels adequate to trigger performance funding may not be realistic for several years.

#### Opportunities

- Many institutions have self-selected and weighted challenging, meaningful indicators that align with the primary goals of the Master Plan:
- The Master Plan and contracts were built collaboratively with institutional input at every stage of the process which is a necessary component for sustained success:
- This system and approach will generate years of meaningful, relevant measurement data that is not currently collected regardless of how quickly the State is able to return to performance funding levels:
- The current approach provides opportunity for the institutions to gauge performance against initially selected indicators and make any necessary or desired changes:
- Likewise, there is an opportunity for the CCHE to work with the governing boards and institutions to evaluate the performance contracts and indicators to ensure the optimal alignment with the goals of the Master Plan.

Staff is aware that there has been extensive work by Department and institutional staff on the performance contracts and metrics submitted thus far and that changing course at this time may be difficult. Nonetheless, in staff's opinion the approach will need to be substantially

changed if the General Assembly hopes to use this data to compare institutional performance or to provide a basis for funding the institutions.

#### **Committee Options:**

- The Committee should consider carrying legislation—or recommending legislation to the Education Committees—to modify S.B. 11-052. For example, statutory change could require CCHE, in consultation with the institutions and nationally-recognized experts, to develop a more limited collection of performance metrics (e.g., no more than 10) to be used for performance funding. Such legislation could require the Department to apply current best-practice principles in developing and implementing such a system, such as rewarding success in serving underrepresented populations and more effectively balancing the need for common measures with unique institutional characteristics (e.g., by allowing measures to be both common to institutions and differently weighted for different institutions.)

This would also provide an opportunity to require performance measures in areas of specific interest to Committee members (e.g., tuition levels, post-college employment, academic rigor), though staff would caution that some performance areas are very hard to measure and staff generally believes the number of measures should be reduced, rather than expanded.

- If the Committees are not interested in pursuing legislation at this time, staff recommends a letter be sent to CCHE, as well as the Education Committees, highlighting concerns and asking the Department to work with the National Center for Higher Education Management Statistics (NCHEMS; its current contractor) and the institutions to substantially narrow the number of indicators used for performance funding. The Committee should request a prompt response (so that it can decide whether to pursue legislation). If the Department is receptive to instituting changes, the Committee should request regular updates identifying the measures to be used, baseline data, etc.
- Because of staff's concerns about current metrics, the JBC and Education Committees should consider repealing those portions of statute that *require* a certain level of performance funding *and those that restrict the amounts*. Currently, statute requires that in FY 2016-17 or when institutional funding is restored to \$706 million (whichever is later) 25 percent of funding over \$650 million shall be directed to performance funding. This would amount to about \$14 million (at \$706 million) or about 2 percent of total funding. A strong performance system should direct a larger share of funding to performance; a weak one should not include any funding for this purposes. The General Assembly should restore its own flexibility in determining performance funding amounts.

#### **Additional Background and Resources**

##### **Key Provisions of S.B. 11-052 (Section 23-1-108, C.R.S.):**

- By Sept. 1, 2012: CCHE to submit higher education Master Plan

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- By Dec. 1, 2012: ensure Master Plan is implemented through renegotiated performance contracts with the institutions.
- By Dec. 1, 2013: create a performance-based funding plan to appropriate to each governing board a performance funding amount based on each institution's success in meeting performance contract goals. Recommend needed statutory changes.
- FY 2016-17: First year in which performance funding may implemented. Only occurs if governing board funding restored to at least \$706 million, in which case performance funding would be 25 percent of amount over \$650 million. If the Governor's FY 2014-15 budget request is approved, over \$103 million will still need to be added to hit the \$706 million trigger.

**NCHEMS:** The National Center for Higher Education Management Systems (NCHEMS), with which the State is currently contracting for assistance on this project, released a report with Complete College America in October 2013. It includes a list of seventeen design and implementation principles for performance systems and describes the status of efforts in other states. The majority of states are pursuing performance/outcomes-based funding to some degree. The entire report is relatively brief and can be reviewed at the attached link:

[http://www.insidehighered.com/sites/default/server\\_files/files/Outcomes-Based%20Funding%20Report%20\(Final\).pdf](http://www.insidehighered.com/sites/default/server_files/files/Outcomes-Based%20Funding%20Report%20(Final).pdf)

**NCSL:** The National Conference of State Legislatures (NCSL) provides a less-detailed overview of performance-based funding in the states with design recommendations. <http://www.ncsl.org/research/education/performance-funding.aspx>

**Staff Budget Briefing:** The staff higher education budget briefing, dated December 3, 2013, [http://www.tornado.state.co.us/gov\\_dir/leg\\_dir/jbc/2013-14/hedbrf.pdf](http://www.tornado.state.co.us/gov_dir/leg_dir/jbc/2013-14/hedbrf.pdf) Includes additional background information, including:

- History of performance metrics in Colorado--the Quality Indicator System (H.B. 96-1219) and the performance measurement system (S.B. 04-189)—and responses to these systems.
- Description of the Tennessee system. Tennessee distributes almost all state higher education funding through a carefully designed outcomes-based system.