

Assessing the Underpinnings of Performance Funding 2.0: Will This Dog Hunt?

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Performance funding in higher education

- > *Performance funding*- determining (some part of) state budgetary allocations to public HE institutions by means of an **outcome-based formula**.
- > The theory is quite simple: pay for outcomes (e.g. degrees rather than enrollments) and you'll get more of them; the institutions will figure out how to do it, as it should be.
 - Resource dependence theory – orgs respond to their major funders
 - “New public management” (NPM) ideas suggest leaving the details to those closest to the ground
- > Many outcomes are used across states but the dominant ones in PF regimes have always been:
 - Degrees awarded (or related measures)
 - Student year-to-year retention
 - Recently, STEM degrees (or related measures)
 - Recently, underrepresented student measures



Phases of Performance Funding in Higher Ed

- > In the *PF 1.0* phase (roughly, 1980s and 90s but some such regimes still persist):
 - Small % of state funding is at stake (nearly all <5%)
 - Typically, it is “bonus” funding on top of base
 - Much instability – PF regimes came and went (and sometimes came back again)
 - Around the “dotcom” recession, many PF regimes died due to refocus on “core” budget

In *PF 2.0* we see two new features:

- Perf funds are embedded in base funding (you don’t get base \$ if you don’t perform)
- Larger % of state funding is involved – up to 80% or so in TN and Ohio
- A number of states are now >5%



Performance funding in Ohio & Pennsylvania

Why these two states?

- > Strong PF commitment– Both states have a relatively long PF history spanning governors
- > Both have made important refinements over time, suggesting commitment
- > In PA, a 2010 reform tied some tuition revenue (not just state funds) to performance and allowed individual institutions to choose some indicators
- > In OH, Gov Kasich sharply increased the % of state \$ tied to performance: 50% is based on degree awards and 30% on student course completions
 - This regime was enacted in 2011-12 and was fully in place for 4-year schools in 2014
 - CCs are on a slower track but not far behind (not part of this study)



Theoretical framing of our research

Two main conceptual perspectives

- > **Principal-agent theory**- principals have limited control over agents who may have different values and who exercise some discretion
 - State as principal: theory of action - NPM (local discretion w/ accountability)
 - Institutional leaders & managers are viewed as both agents and principals
 - Faculty and front line staff are viewed as agents
- > **Policy implementation theory**- look for multiple tools like: *consistent messaging*; *R&D on what works*; *thoughtful planning*; *investment in data systems & related tools*; *manipulating lower level incentives & accountability*; *strategic additional staffing*; *“backward mapping”* from front line knowledge



Our research in Ohio

Studied documents and conducted interviews over Fall-Winter 2015-16

> A total of 37 interviews with:

- State leaders/officials and
- Campus leaders, heads of relevant units, deans/associate deans, chairs and faculty on 3 very different campuses:
 - a research university
 - a moderately selective doctoral granting university
 - an “access-oriented” university



Ohio's PF formula for 4-year institutions

Complex STEM & at-risk student weights

- > 50% of a school's state funding is now determined by a 3-year retrospective average of its *degree awards*
- > 30% is determined by a 3-year average of its *course completions* (students who pass counted at the end of the course)
- > *STEM* courses & degrees are *weighted* according to computations of historical cost differences across 16 STEM field categories
- > *At-risk student course & degree completions are positively weighted* based on regression-based calculations of historical impact of risk factors: *age, low-income, ethnicity, & first generation student* status are the major ones.



Major findings from Ohio

1. The “completion gospel” message has gotten across

- > This came across clearly in interviews at all locales and levels including faculty – getting students to complete degree programs is understood to be of much greater importance than in the past and a high priority.
- > The PF funding regime is consistent with this message and even faculty are aware of PF in general terms
- > But, as is also pointed out by Dougherty and Natow (2015), it is not possible to attribute the emphasis on completion to PF alone – lots of other messaging along the same lines from many sources.
- > Withdrawing PF at this point could undermine the message.



Major findings from Ohio

2. The state has required campus completion plans – campuses are taking many steps

- > State Dept of HE judged campus plans to be quite variable in quality & strategies but is working on coaxing improvements and sharing ideas
- > We saw most emphasis on:
 - more data collection & monitoring completions at program & central levels
 - additional & more strategically designed advising;
 - attention to gatekeeper courses (STEM); some “streamlining” of requirements
 - “early warning” data systems & interventions with students;
 - more (& more strategic) tutoring resources;



Major findings from Ohio

3. Faculty seem generally on board

- > Hard to judge from a few interviews, some with leaders (e.g. senate), chairs
- > Faculty are generally aware of the budgetary regime but we heard no sign of pressures to weaken standards or the like (pass rates, grade inflation)
- **Messaging (and that received or at least articulated to us) was in terms of professional values around helping students, improving programs, etc.**
- “Streamlining” programs could impact quality though
- Faculty and chairs sometimes mentioned improving “quality of admitted students” in tandem with boosting completions



Major findings from Ohio

4. Direct budgetary incentives are largely at aggregate levels

- > At this point campus allocations from the state are driven by degree and course completions but not so for internal campus allocations (yet)
- > One factor is that the calculations are fairly complex (3 year avg, STEM & at-risk weights) and there is a lag
- > Campus leaders may also feel that units and faculty would resist direct budgetary incentive pressures more than exhortations in professional terms to “do what is right for students”
- > Another factor is that *enrollment still matters* – tuition revenue is a growing share of campus revenues relative to the state’s share, and students must be enrolled before they can complete – so budgeting can’t afford to ignore enrollments
- > Some campuses are struggling with enrollment declines (Ohio has a declining youth cohort)



Major findings from Ohio

5. Differences across campuses

- > Broadly, the differences seem to reflect campuses' strategic position and capacity.
- > The more a campus (or program) has discretionary resources, strong human capacity and well prepared applicants to enroll, the better off it is likely to be in a world that rewards outcomes rather than inputs. Campuses and units that fit this description are reasonably confident about their prospects in this environment.
 - They are well aware that whom they enroll is critical to success and are paying careful attention to this.
- > The “access-oriented” entities are more worried that: (1) they need to enroll enough tuition-paying students to remain viable in the new environment; and (2) they wonder how they are going to cope with improving completions with the kinds of students they can attract.
 - Some of these schools are trying to find ways to attract better prepared students, which is a mixed bag at best for service to their mission.



Major findings from Ohio

6. Looking ahead

- > There is a lot of enthusiasm in Ohio for the completion focus and the history and extent of institutionalization suggests it will outlive Gov. Kasich.
- > The simple numbers show that degrees have grown faster than enrollments overall – this is all that most politicians need to push ahead.
- > There is of course much to be said for improving the rates at which students complete meaningful degree programs. It is desirable that institutions are improving data and methods for ensuring better outcomes and that faculty seem to be mostly on board.
- > *Unintended consequences* to watch for:
 - Reinforcing incentives for *greater admission selectivity* (unless it implies actually helping to prepare incoming students better).
 - Untenable pressures and *budget cuts for under-resourced schools working with the neediest students.*



Research in Pennsylvania

Our research focused on “comprehensive” institutions (not research universities)

- > PA State System of Higher Education (SSHE) consists of 14 regional “comprehensive” universities – mostly UG + master’s (no doctorates); the research universities are totally separate and quite decentralized in governance, they have no PF regime.
- > SSHE has done PF since 2002 – one of the longest running programs in U.S.
- > The PA PF system emphasizes degrees, retention, STEM and, now, campus priorities.
- > Due mainly to campus dissatisfaction, a 2010 reform led to two big changes:
 - Campuses can choose two optional PF indicators tied to their strategic plan;
 - PF drives 2.4% of total system operating budget, all held back from state appropriations (rather than 8% of state appropriations as before)
- > We met with a total of 19 state system officials and the full range of players on two SSHE campuses: one fairly selective, with a healthy resource base located in an urban area; the other in an outlying area actively pursuing additional enrollments and resources



Pennsylvania findings

- > As in Ohio, the message about the importance of student completion has gotten through loud and clear. Campuses are doing many things that look similar to those in Ohio.
- > All parties seem pleased about the 2010 PF reform, particularly about the ability to get funded on a basis that connects to their strategic emphases. Campus strategic plans are taken quite seriously.
- > Campus officials complain about rigidities resulting from system bureaucracy and especially collective bargaining-imposed limitations on pursuing incentive based strategies. A key concern was with the uncertainty about year to year budgets created by the PF formula.
- > The better situated and resourced campus was much more confident than the other one that it could continue to prosper in the PF environment (e.g. the other had great difficulty rewarding STEM faculty).
- > State leaders seem pleased with the results of the PF regime, although rigorous research (Hillman & Tandberg, 2014) casts doubt that it has affected much. As in Ohio, the fact that most basic outcome numbers have increased seems to be enough to sustain central leadership support.



Overall conclusions and implications

The findings are a mixed bag

- > In these two prominent PF states, the message from the top about the increased importance of student performance has gotten through. There is lots of promising-looking activity around increasing student retention, completion, & in STEM, and considerable buy-in.
- > While one can't say how much of this is from PF per se vs. other similar messages, removing PF might well weaken the message.
- > It is too early to tell if “leading edge” regimes like Ohio's that tie most state funding to performance will produce the desired results but rigorous statistical studies of earlier regimes have been disappointing. Jury is still out.



Overall conclusions and implications

- > The better resourced institutions with applicant pools that permit selectivity are confident about better results and might well be able to achieve them.
- > But this success will likely be partly due to admission strategies they are pursuing. (Note: Kelchen & Stedrak, 2016, have national results suggesting a relationship between PF and both tuition discounting & enrolling fewer Pell students.)
- > Unfortunately, the colleges with the most needy and challenging student mixes tend to be those with the lowest capacity. They are faced with a tough choice if they need better student outcomes. Either:
 - Seek to brand themselves in a way that allows for more selectivity, i.e. “better” students.
 - With limited capacity, try to perform better with the students they have.



Possible design improvements

- > A basic design flaw in most PF regimes, including those in these two states, is that they assume that paying for performance will uniformly produce it.
- > There seems clearly to be a *need for upfront investments at the more challenged*, usually lower capacity, institutions for both *infrastructure* investments and investments in *strategic capacity and coaching* to help them figure out how to achieve better results with the local students they need to serve.
- > Another possibility would be investments that would aid these institutions in *outreach to local schools & community colleges to actually improve preparation* of the students they get.
- > After these steps these institutions might reasonably be held accountable for results.
- > Absent such steps, the story of PF in higher education may just be another one (like NCLB in the K-12 sector) of the advantaged doing fine and the needy being left further behind.



Works cited

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