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AUTHOR	Seppanen, Loretta	
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ABSTRACT

This paper discusses policy issues faced by two-year colleges in the state of Washington during the first year of implementation of performance funding. Four key policy questions were reviewed: (1) the reward versus entitlement paradigm shift, which forces educators to alter expectations about "entitlement" to higher education funding and accept allocation based on performance; (2) state versus local priorities that can cause conflicts between state-level approaches to performance and autonomy at the college or district level; (3) whether performance funding motivates colleges to improve performance; and (4) what happens when performance funding results in reallocation of resources away from nonperforming institutions. In Washington state several practical difficulties were encountered in designing the performance funding system for the state's community and technical colleges. They included complexity, timeliness problems, and the problems inherent in a funding system based on unstable, quantitative indicators. Despite these problems, the first year of performance funding resulted in new understandings of student development and highlighted areas of the system that needed improvement. An excerpt from a report on performance-based funding by Brenda Norman Albright focusing on strategies for using performance measures and outlining key principles is appended. (CH)

Performance Funding on the Bleeding Edge: No Improvement, No Funding

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Loretta Seppanen
Senior Research Manager
360 753-3685 Lseppanen@SBCTC.ctc.edu

Washington State Board for Community and Technical Colleges

While Performance Funding in Washington State is a reality which will results in allocation of funds based on performance for the 1998-99 year, it is a process still in transition. To keep up with changes see the SBCTC Web Site: http://www.SBCTC.ctc.edu for Management Research, Policy Analysis, and Planning

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This paper was reviewed by the AIR Forum Publications Committee and was judged to be of high quality and of interest to others concerned with the research of higher education. It has therefore been selected to be included in the ERIC Collection of AIR Forum Papers.

Dolores Vura
Editor
AIR Forum Publications

Performance Funding on the Bleeding Edge: No Improvement, No Funding

This paper describes the practical difficulties and the policy issues the two-year colleges in Washington State have faced during this first year of implementation of performance funding. It will also describe several emerging signs of benefits as a result of accepting the challenge of performance funding. The practical difficulties include the complexity and timeliness of measures of student outcomes, and the problems inherent given a focus on quantitative evidence. A central policy issue arises from the conflict between the old "entitlement" view of inputs-based funding and the newer environment that mixes entitlement and performance-based funding. Other policy issues include the questions of state-level versus local priorities, how to motivate improved performance rather than mere compliance behavior and how to address the problem of the gap that can arise as a result of the reallocation between the colleges that demonstrate performance and those that do not.

Performance Funding on the Bleeding Edge: No Improvement, No Funding

This year, colleges in 8 states are operating under performance funding mandates: Arkansas, Florida, Minnesota, Missouri, Ohio, South Carolina, Tennessee and Washington. (Ewell 1998, Burke 1997, Christal 1998)[1] While Washington has a comparatively small 1 percent of the operating budget on the table for (Christal 1998)[2], the process of implementing performance funding has challenged staff at colleges and at the state-level education agencies. This paper describes the practical difficulties and the policy issues the two-year sector has faced during this first year of performance funding. It will also describe several emerging signs of benefits as a result of accepting the challenge of performance funding. The practical difficulties include the complexity and timeliness of measures of student outcomes, and the problems inherent given a focus on quantitative evidence. A central policy issue arises from the conflict between the old "entitlement" view of inputs-based funding and the newer environment that mixes entitlement and performance-based funding. Other policy issues include the questions of state-level versus local priorities, how to motivate improved performance rather than mere compliance behavior and how to address the problem of the gap that can arise as a result of the reallocation between the colleges that demonstrate performance and those that do not.

The difficulties and issues in Washington parallel Brenda Albright's observations on performance funding written on behalf of the State Higher Education Executive Officers (SHEEO) (Albright, 1998).) The lessons from Washington are most applicable to other predominately state-funded community and technical college systems. While the four-year institutions in Washington are also under a requirement to implement performance funding, this paper will focus only on the two-year sector.

[1] The number of states with a performance-funding mandate changes over time and varies somewhat depending on the source of information. This listing is based on information from Burke, JC. **Performance-funding Indicators: Concerns, Values, and Models for Two- and Four-year Colleges and Universities**, 1997 and a presentation by Peter Ewell to the Washington State Board for Community and Technical Colleges on March 4, 1998.

[2] Tennessee allocates 4 percent of the budget based on performance funding, Colorado and Missouri allocate 2 percent although Colorado has not yet used the performance results for allocation purposes.

Specific of Washington's Performance Funding Requirements

In Washington, the biennial budget established state-level improvement goals for the community and technical college system in four areas. In setting these outcome goals for the 97-99 period, the legislature expressed an openness to change based on review by the educational community prior the next budget cycle. Thus, the current goals are subject to change in the near future:

- Increase the median wage of job preparatory students to $12 an hour (currently $10 an hour).
- Increase to 67 percent the rate at which transfer-oriented students successfully transfer (currently 49 percent for transfer-oriented students who complete 30 quarter credits before leaving).
- Increase to 85 percent the rate of students who successfully complete core courses (currently 80 percent).
- Increase to 95 percent the efficiency rate of student educational goal achievement Graduation Efficiency Index is a measure of college-level credits required versus those taken (currently at 81percent, 95 percent is essentially one more class taken than the minimum required for a degree).

The Washington Legislature assigned the State Board for Community and Technical Colleges (SBCTC) the responsibility for determining if districts have developed effective annual improvement plans and if districts can demonstrated improvement. As incentives for performance, $2.7 million in 1997-98 funds was held in reserve until the State Board approved the first year district plans. Institutional researchers along with academic, student services and financial administers and faculty worked throughout the summer and fall of 1997 to develop these plans. These plans, reviewed and approved by the Board in December 1997, attempt to mix the requirement for accountability for performance and improvement efforts. In the plans colleges describe improvement strategies for the 1997-98 year and related indicators which can be measured during the year.

Currently $4.1 million for 98-99 is pending allocation based on performance on the 1997-98 plans and on the quality and effectiveness of the strategies in the 1998-99 plans. Colleges will achieve a performance reward in the second year of funding if they can show year to year improvement on college-selected quantitative indicators that track their contribution to these larger system-level goals as detailed in their approved plans. Most of these indicators track student progress while at college, though some look only at processes, for example, the percentage of students enrolled in work-based learning activities. The monies left after this initial allocation will become available as incentive funds for selected colleges[3].

In contrast to the Washington approach, Florida and Missouri colleges receive performance funds based on the number of outputs of specific kinds. Colleges with the greatest number of desired outputs get the largest share of the performance funds, with all colleges being assured some share of the allocation. South Carolina's system is currently in process, but appears to be based on input and process indicators that are more directly manageable than outcome indicators. Arkansas colleges must achieve specific outcome standards to receive performance funding. Colleges need not show annual improvement in the level of performance (Burke, 1997). Ohio's system focuses on peer review of college initiatives rather than on quantitative indicators as in the Washington system (Albright, 1998). Colorado two-year colleges have just completed their first analysis of performance levels, however the mechanism for funding performance has not yet been established. An advisory committee on a Performance Based Incentive System for Illinois community colleges is recommending new funding for a performance funding system based on outputs and standards based outputs (Illinois Community College Board, 1998).

Policy Issues in Washington

This paper reviews the responses in Washington State to four key policy questions that stem from the move to performance funding:

- **Reward versus Entitlement Paradigm Shift**: Brenda Albright suggests that the performance funding means that educators must alter their expectations about what she calls the

[3] Details of the allocation process for the $4.1 million are under discussion during the summer or 1998. For final details see the Performance Funding section of the SBCTC home page: http://www.SBCTC.ctc.edu.

"entitlement" of higher education funding and accept allocation partially based on performance.

- **State versus Local Priorities**: The state-level nature of funding places a premium on a state approach to performance. That state approach can conflict with the autonomy and uniqueness at the college or district level.
- **Motivating Improvement**: What motivates colleges to improve performance? Can performance funding serve that function rather than call forth a mere compliance approach?
- **The Haves and Have Nots Gap**: What happens as performance funding results in reallocation of resources away from institutions that do not perform over time?

Reward versus Entitlement Paradigm Shift: While 99 percent of the funding in Washington continues to be allocated based on the FTE formula (inputs), performance-funding calls for acceptance of 1 percent of funding based on reward for successful improvement. It has not been easy to make the implicit paradigm shift away from the 100 percent inputs funding approach.

The initial fund source for performance funding came from a 1-percent budget cut. This approach rather than using funds above the base level has greatly added to the difficulty in making a paradigm shift. Staff and faculty see the requirement to improvement performance and a budget cut as incongruent. The incongruity led many to reason that the legislature imposed performance funding is a punishment for some shortcoming. Given this "punishment perspective," some staff argue that legislators need to be better informed about the successes of the colleges. They reason that once informed, legislators will remove the punishment of performance funding.

SBCTC is addressing this issue of how performance funding is viewed by continued system conversations about the context of performance funding. For example, Peter Ewell, a leading expert on performance funding came to the state in March of 1998 as a part of this on-going conversation.

State versus Local Priorities: While accreditation standards on institutional effectiveness allow each college to address accountability concerns in their own unique way, state-level performance funding pays little heed to local priorities. The four state goal areas must become priorities for every college regardless of how important each is to that college. This inherent pull to state priorities is a commonly criticized aspect of performance funding.

To partially address what is regarded as an inappropriate focus on state priorities, Washington established a process with a focus on local short–term strategies related to each of the four state goals. Colleges than select short-term indicators appropriate to their strategies from a fairly extensive common listing (available on the SBCTC web site.) The local choice of indicator approach is inherently a more complex than use of the four system indicators. Other states have advised this more complex approach arguing that local and multiple indicators are more consistent with the views of college staff about the complexity of performance (see especially the Missouri perspective, Stein, 1996).

As the performance funding system is further developed in Washington, several alternatives are possible: 1) college option indicators, unique to each college, or 2) "stretch goals." The latter, Ewell describes as negotiated targets unique to each college for a specific indicator. To qualify as stretch goals the targets must be reasonably high for the college, but may be well below other colleges. For example, a college at a considerable distance from a four-year institution might negotiate for a 55 percent transfer rate, while colleges in closer proximity to four-year institutions might set goals at the 70 percent level.

Motivating Improvement: Starting from a punishment perspective described earlier did not help the issue of motivating colleges to improve. In addition the four legislative goals were established without the normal inclusive decision-making process. The "ownership" issue is being addressed as the Washington community and technical colleges develop an alternative list of performance goals for the 1999-01 biennium and beyond. That process, currently underway, starts by first framing system goals, then secondly selecting appropriate indicators to measure system and college improvement. The process assures involvement of the various college constituencies.

The current performance funding approach marries allocation of funds for performance with the improvement effort. Further more the performance improvement is in "real time." That is, to achieve a performance award each year colleges must demonstrate improvement over the prior year. As colleges look at the indicators for this current year compared to the trend of the past years, it is becoming clearer that improvement and performance funding may make a poor marriage. In many cases, colleges have implemented sound strategies for improvement yet the performance indicators moved downward. Given more time, the indicators might well increase. In other cases, the performance indicators show improvement but colleges are not confident in a direct relationship between the strategies and these "real time" indicators.

Given this poor marriage of improvement efforts and annual performance funding, the system is currently considering other ways to provide an incentive to improvement. Ewell recommended a mix of incentive and performance funding as in the Missouri model. Funding could be set aside for projects aimed at areas where agreement exists that improvement is needed, such as improving the success rates for students of color. Funds could be awarded to colleges willing to take a risk to explore new approaches to improving student learning and willing to share with other college what they learn from the experiment. Performance funding might then be restricted to measuring outputs in areas of strength such as job placement and student success after transfer.

The Haves and Have Nots Gap: Several states deal with the potential increased gap in funding created by performance funding by awarding some of the funds on process and output indicators. Colleges that are unable to improve outcomes on a year to year basis still capture funds for implementing desired best practices such as accreditation for vocational programs or for counts of graduates. So far, Washington has not adopted either of these strategies. The legislature did, however, allow for award of the 1998-99 funds partially on the quality and effectiveness of strategies in the 1998-99 plans. The State Board recently approved a proposal to award half the 1998-99 dollars based on approval of these strategies. The award of funds for quality and effectiveness of strategies is a means to minimize the potential gap between colleges based on performance levels while keeping the focus clearly on improved performance.

Practical Difficulties Washington

There are numerous practical problems in designing a system of performance funding. Two that will be described here are:

- **Complexity and Timeliness of Measuring Improvement**: The business of measuring improvement especially related to student outcomes is complex. While performance funding necessitates simple approaches and few indicators, the complexity of students' outcomes might better be addressed with multiple indicators viewed together rather than standing alone. The lag time between current actions and the opportunity to measured outcomes is often substantial (more than four years for the transfer rate indicators, for example) yet funding decisions need to be made annually.
- **Inherent Problems of Funding on Quantitative Indicators**: Peter Ewell describes the issues of statistical instability related to quantitative indicators. Furthermore colleges do not control all of the factors which impact the typical quantitative indicators.

One of the typical problems mentioned by Albright is not an immediate concern in Washington. That is, the potential for change in legislative priorities on a year to year basis and thus the lack of continuity in the approach to performance funding. Performance funding in Washington was initiated with bipartisan support. The Democratic Governor included a performance funding initiative in his budget proposal. Similar language appeared in the proposals of the Republican controlled House and Senate budgets. Thus it is reasonable to assume that performance funding, based on evidence of improvement, is likely to remain a legislative priority in Washington State.

Complexity and Timeliness of Measuring Improvement: There is a time lag between students starting in college and the measurement of traditional outcome indicators like a transfer rate or earnings after leaving college. The college actions that impact these indicators occur two to four years before the results can be observed. Yet the Washington legislators expected only a one-year lag between the initial performance funding mandate and the first year of funding based on performance. Washington community and technical colleges used two strategies to address this lag problem:

Core Course Completion Outcome: When the legislature asked for a retention indicators, rather than using a traditional fall to fall retention or the substantial progress indicator[4] Washington two year colleges use, the SBCTC staff recommended the core course completion rate. This rate can be observed as soon as most grades for the term are posted, about two months after the end of the term. For purposes of performance funding, Washington colleges used winter quarter completions data (the number who obtained a passing grade divided by the number who were enrolled for a grade, most non-completers withdraw or drop out of the course.) While this indicator is generally regarded as conceptually sound, the soundness lies in the trend line, not the specific year to year variations.

Short-term Indicators: As described earlier, colleges focus on short-term indicators rather than on the transfer rate or the earnings of graduates, each of which has a three to five year lag between student initial enrollment and the measurement. These short-term indicators each bear a connection to the long–term ends. For example, colleges are tracking the retention of transfer students from winter to spring quarter. Improved retention should lead to improved transfer rates in the long-term. Again, the soundness of this approach is in the trend analysis, not necessarily the year to year variance upon which allocation decisions can be made.

Inherent Problems of Funding on Quantitative Indicators: Ewell argues that many quantitative indicators suffer from year to year variation unrelated to factors controlled by the college, or what he calls statistical instability. While quantitative indicators are critical for public accountability, this variance unrelated to quality is problematic. Minimizing the weight of each quantitative indicator helps to limit this inherent problem. During these first years of performance funding efforts in Washington, this minimizing is being achieved in by use of multiple short-term indicators.

[4] The substantial progress indicator is based on tracking a cohort of new degree-seeking students for 7 quarters after initial enrollment. Those who enroll for at least 4 of the seven quarters (not necessarily sequentially) are regarded as having made substantial progress toward their goal. The SBCTC and colleges use this indicator to

Benefits

While still in the first year, the performance funding process in Washington community and technical colleges has resulted in some benefits. The key benefit relates to the development of new common understandings of what happens to students. The process of reviewing a series of quantitative outcome data has led to a more common understanding of the areas that need improvement in the system. For example, it is now evident that math, particularly developmental math, is the area with the lowest course completion rate at almost every college. It is also clear that despite evidence that work-based learning is an appropriate strategy for most vocational and many transfer-oriented students it plays only a minor role at the colleges with less than 10 percent of all students participating in such activities.

The system anticipates a credibility building benefit from performance funding. Many believe that engaging in this type of public accountability will reinforce confidence in the system and improve communication with policy leaders. In the long run, this improved communication has the potential of resulting in funding enhancements for quality initiatives in addition to the funding for increased enrollments.

Clearly it is much too early to determine if performance funding in Washington community and technical colleges will result in increased effectiveness, productivity and retention. These ends can only be achieved if faculty and other front-line staff are involved and supported in efforts to improve student learning. It is clear that significant changes in the approach to performance funding are needed if it is to lead to these ends.

Reference

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monitor the differential retention of degree-seeking students by race and ethnic background, disability and program area. The indicator requires slightly more than two years of elapsed time.

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THE TRANSITION FROM BUSINESS AS USUAL TO FUNDING FOR RESULTS

This article is excerpted from a report on performance-based funding by Brenda Norman Albright and provided with permission of SHEEO. It focuses on strategies for using performance measures in higher education and outlines key principles that can guide states' explorations of performance-based funding.

Although most people do not question the overall value of a college education, institutions of higher education in these times must make a compelling case to the public and to political leaders that this value is real and that such institutions deserve financial support. Officials from system, coordinating, and governing boards have discovered that they must work with legislators and governors to find innovative ways to change the budgetary status quo, which until recently had left out the question of "value" in the funding process. In some states, long-standing budgetary systems have been abandoned, being replaced by completely new funding frameworks. In these instances, funding systems have been radically redesigned to include performance-based funding initiatives. Under these systems, performance measures are reported in the budget process and then tied either directly or indirectly to funding decisions.

Performance-based funding represents a paradigm shift. Rather that the state meeting the institution's needs, the college or university meets the state's needs. Performance-based funding changes the funding equation by altering educators' expectations that programs or institutions are *entitled* to a certain level of resources; instead, it creates rewards for achievement and successful changes in institutional performance. These emerging result-centered strategies, with their strong emphasis on student learning needs, customer service, quality, and productivity, differ in process, focus, and structure from traditional funding approaches.

States that have implemented performance-based funding have identified the following advantages:

- Builds support from political leadership for higher education.
- Serves as an incentive to improve performance.
- Provides an alternative to enrollment-based subsidy approaches.
- Responds to calls for accountability.
- Connects planning goals with the budget.
- Serves as an image and credibility builder to reinforce confidence in higher education.
- Results in better communication with political leaders.
- Is more effective than considering only inflation and enrollment growth in funding decisions.

Almost all states agree that the practical problems of designing a system of performance measures are tremendous. Some difficulties include:

- Balancing institutional autonomy with state-level review and control.
- Addressing the complexities of measuring quality, particularly in student learning.
- Dealing with conflict when institutions "lower the bar" in setting goals.
- Using only quantitative measures that negate important institutional processes.
- Finding measures that adequately reflect differences in institutional mission.
- Adjusting to annual changes in legislative priorities rather than responding to long-range goals.

States that have implemented performance funding in higher education and in other government-funded sectors are at this point in time "pioneers," each with its own unique and evolving program. Many states vary the way that performance funding is implemented, recognizing the need to attend to individual missions rather than fit all institutions into a "one size fits all" approach. Many successful programs begin as pilot efforts, on small scales that are open to growth and adaptation. While there is no single best model, certain features seem to be working well in some states:

- **Missouri's Funding for Results Program** is a two-tiered system, with both state- and campus-level components. At the campus level, individual institutions are eligible for additional rewards if they design and implement mission-based performance-funding programs designed to improve teaching and learning. The system has generated considerable innovation and has enjoyed widespread support from campuses.

- **Ohio's Performance Service Expectations** uses a unique review process in which peer panels composed of institutional staff evaluate the performance of each campus. This system allows for an exchange of ideas about what works and what does not, and promotes the replication or adaptation of successful program components on other campuses

- **Tennessee's Improvement Features** are a noteworthy part of that state's funding plan. Success is defined not only as the attainment of standard benchmarks; schools can also demonstrate achievement by improving performance in weaker areas.

As a new model, performance-based funding in higher education is raising questions that will need to be answered over time.

- ***What motivates performance?*** Who should determine the incentives used in performance-based funding? Should this task fall to faculty members or administrators? Should it apply to whole systems or individual campuses? Examples have been cited that incentives determined at the top do not always work in predicted ways.

- ***What happens to non-performing institutions?*** If institutions do not measure up, do not meet benchmarks, or do not improve over time, what happens? Will the lack of additional funding further exacerbate already troublesome situations? Does performance-based funding have the potential to widen the gulf between the haves and have nots?

- ***Can institutions use performance measure reporting in a productive way?*** If the establishment and reporting of performance measures is a strictly top-down or externally driven process, can it affect real change in the classroom? How can institutions and legislators help faculty develop and become aware of the efficacy of measurement tools?

- ***Are higher education's performance measures tools that are no more sophisticated than a pencil?*** To date, colleges have used only rudimentary measures in their assessment of student learning and institutional effectiveness. Colleges rarely have adequate means to measure the goals of a diverse student population, making the attainment of these goals impossible to measure. Can colleges develop measures that will take into account the complexities of today's student population and the value that the college experience adds to that diverse population?

Is the use of performance measures in the budgetary process simply a new method for justifying additional resources for institutions, or is it a lever for real and positive change? Most state policymakers and political leaders perceive performance funding programs to be effective. Some institutional officials believe the strategy has built positive support for increased funding while others see only modest effects on teaching and learning and little systemic change. The ultimate test is whether front-line educators will embrace performance funding and use it to make a positive difference in our college classrooms.

For more information, contact Brenda Albright at 615-790-2739. For copies of the report The Transition From Business as Usual to Funding for Results: State Efforts to Integrate Performance Measures in the Higher Education Budgetary Process, contact the SHEEO office at 303-299-3686.

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