

Value-Added Funding

A Simple, Easy-to-Understand Model to Reward Performance

The mere mention of so-called “performance funding” makes college presidents and the higher education community nervous. It’s an understandable reaction to a concept that too often results in an overly complex outcome. Still, the basic principle of “investing the limited resources states have in the results they want” is fundamentally sound — and an essential step for states to take *in combination with* other key policy reforms in order to significantly increase student success and boost college completion.

It’s time for a better, cleaner, simpler approach. Let’s replace complex funding schemes that are fed into a

“black box” at state budget agencies and produce nearly unpredictable outcomes. Higher education leaders need certainty. And elected officials want accountability for results and a funding approach that benefits students.

Complete College America believes all of these outcomes are within reach, by using a funding model built on a straightforward structure that values the most important goals — **access, progress, and success** — and is simple to customize, and, most important, easy to understand. We call it Value-Added Funding. Here’s how it works:

The Basic Plan

Begin by assigning each freshman student a value of 1. A sophomore receives a value of 1.2, a junior or a student with an associate degree is valued at 1.4, a senior at 1.6, and a bachelor’s degree earner at 1.8. This system clearly rewards access, retention, and progression — and students who transfer into an institution with credits already earned become more valuable than ever. And by definition, a student is valued by the number of courses he or she actually has *completed*, not simply attempted or was enrolled in on the day students are “counted” for funding purposes.

A college then computes an index for its base year. It can “improve” its performance and increase its financial

support each time it adds a freshman or a transfer student and whenever it advances a student toward graduation. More student access and success leads to more base funding. Students who do not make timely progress or who drop out become missed opportunities.

Funding changes from year to year will not swing wildly or unpredictably. And each year will produce a compounding effect that will become more significant over time — as the pool of “1.4 students” become “1.6 students” who become “1.8 students.” The use of a three-year rolling average will not diminish the compounding, but it would create a “smoothing” effect that could enhance predictability.

OUR GOAL: By 2020, six out of 10 young adults in our country will have a college degree or credential of value.

U.S. students don’t just need to go to college; they need to complete college. Access has improved — we are sending more students to higher education — but success has declined. In just 10 years, six of 10 new jobs will require a college education, but fewer than half of students who enter college today finish with a degree or credential. Those who do complete college are taking longer, paying more, and graduating with more debt.

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Optional Enhancements for a Customized Approach

Simple options can be added to the basic plan to target specific student success and completion outcomes that states may choose to reward, including:

- Closing attainment gaps by adding an additional value of .2 for each Pell grant student.
- Enhancing economic development by adding a value of .2 for each STEM (science, technology, engineering, math) or nursing student.
- Improving the performance of “flagship” institutions that already have better undergraduate completion rates by: 1) adding a value of .2 for master’s and

doctoral graduates in fields of special importance to the state and its labor market needs, 2) adding a value of .2 to each student who graduates on time (generally in four years), and/or 3) providing a state funding match for federal research grants.

- Boosting community colleges by: 1) adding .2 for each student who completes the gateway math and English courses, 2) assigning a value of 1.2 to each student who earns a one-year technical certificate, and/or 3) valuing each student at 1.2 who transfers with 30 credit hours before earning a degree.

A Special Note: Valuing Transfer and Part-time Students

A new majority has emerged on American college campuses: more than 75 percent of students are now pursuing higher education while delicately balancing some complex combination of jobs, family, and school. This means that more students are transferring from college to college, and more than 40 percent of all students can only attend part-time.

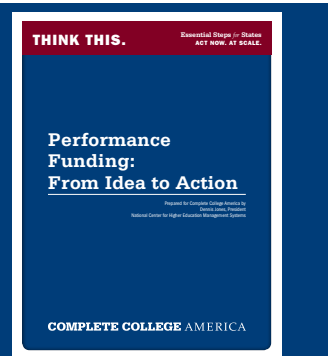
With time as their enemy — because the longer it takes to complete a degree, the less likely it will ever happen — students need to easily take their hard-earned credits with them as they change schools. And they need more structured pathways to success that make it easier to attend full-time. As states and institutions develop new policies to make this possible, transfer and part-time

students must be valued in new funding approaches. Under Value-Added Funding, they are.

- Transfer students: In addition to providing a bonus to community colleges that transfer students, there is a built-in incentive for four-year institutions to accept transferred credits because students with more credits add value to the schools’ indices.
- Part-time Students: All part-time students are valued and proportionally represented in an FTE (full-time equivalent) count as they are today. Part-time students also are proportionally credited with the same value-added weights as described above.

Want More?

The accompanying THINK THIS. brief makes the case for why colleges and universities should shift to a system of performance-based funding.



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The Value of Value-Added Funding

Rewarding performance is the right approach, regardless of the enterprise. In higher education, it sends a strong signal to institutions, students, and taxpayers alike that a state measures its return on investment in student access, progress, *and* success. Value-Added Funding does this and more. It stays true to the basic principle of “investing the limited resources states have in the results they want” and accomplishes it with simplicity, clarity, and predictability.

States can easily enhance and customize their Value-Added Funding to address specific needs. They can encourage and reward progress toward closing persistent college attainment gaps. And they can recognize and reward both flagship institutions and community colleges for their unique and equally valuable missions. With

Value-Added Funding, all students are counted and all students count, including part-time and transfer students. This approach does not depend on new money or require setting aside money. It is structured on base funding adjustments, which most colleges are accustomed to, eliminating the mystery. Value-Added Funding is fair, it clearly and cleanly rewards state priorities, and it has a compounded impact each year.

Most important, Value-Added Funding benefits those who matter most: the students. Regardless of their status and the complexity of their lives, their progress through college is rewarded, and their graduations are celebrated. When higher education adds value like that, everybody wins.

Value-Added Funding at a Glance

Displayed another way, Value-Added Funding looks like this:

Basic Structure

Freshman	1.0
Sophomore/AA or AS Graduate	1.2
Junior	1.4
Senior	1.6
BA or BS Graduate	1.8

Optional Enhancements

Closing Attainment Gaps (Pell Students)	+ .2
STEM, Nurses	+ .2
Flagship Options	
Master's, Doctoral Graduates	+ .2
On time BS or BA	+ .2
Research Match in federal research grant funds	+20% of growth

Community College Options

Gateway Course Completion	+ .2
Technical Certificate Completion	= 1.2
Transfers with 30 credits	= 1.2
Associate Degree Graduates	= 1.4

Part-time Students

Value proportionally (full-time equivalency of 30 credit hours per year).
Receive the same value-added weighting as full-time students.

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Additional information and data sources are available at completecollege.org.

Complete College America is a national nonprofit organization working with states to significantly increase the number of Americans with a college degree or credential of value and to close attainment gaps for traditionally underrepresented populations.

Leading national foundations are providing multiyear support to Complete College America: the Carnegie Corporation of New York, the Bill & Melinda Gates Foundation, and Lumina Foundation for Education.