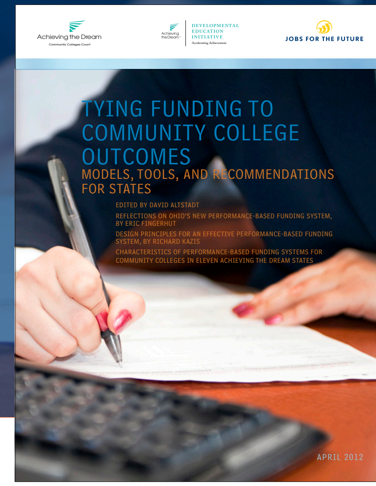
# TYING FUNDING TO COMMUNITY COLLEGE OUTCOMES

## MODELS, TOOLS, AND RECOMMENDATIONS FOR STATES

## EXECUTIVE SUMMARY




EDITED BY DAVID ALTSTADT

REFLECTIONS ON OHIO'S NEW PERFORMANCE-BASED FUNDING SYSTEM, BY ERIC FINGERHUT

DESIGN PRINCIPLES FOR AN EFFECTIVE PERFORMANCE-BASED FUNDING SYSTEM, BY RICHARD KAZIS

CHARACTERISTICS OF PERFORMANCE-BASED FUNDING SYSTEMS FOR COMMUNITY COLLEGES IN ELEVEN ACHIEVING THE DREAM STATES

Driven by economic and educational imperatives, public policymakers, higher education leaders, and philanthropic and advocacy groups are mobilizing aggressive national and state campaigns to bolster college completion. Campaigns to improve student success are particularly concerned about the performance of our nation's community colleges. According to U.S. Department of Education statistics, in 2008 only 26 percent of first-time beginning community college students attained a degree or certificate within five years.

In response to this challenge, state governments are testing the power of several policy levers to change individual and institutional behaviors in ways that increase and accelerate college completion. One of these is the formula used to allocate public funding to institutions. Recently, several states have experimented with new performance-based funding models that allocate some percentage of state support on the basis of institutional progress in improving student retention, progression, or completion of credentials, not just on enrollment levels.

Performance-based funding systems for two- and four-year colleges are not new, but most past efforts were abandoned fairly quickly after encountering resistance and failing to produce intended results. Today, though, many state policymakers and advocates believe that funding models can be designed to avoid the pitfalls of the past. Additionally, state fiscal constraints and deepening employer concerns about workforce readiness are driving states toward greater accountability in public higher education—to more transparency in reporting institutional performance and, ultimately, toward tying funding to institutional results.

This brief presents a set of JFF-produced tools that can help states design performance-based funding systems that can influence student and institutional behavior, avoid unintended consequences, and withstand shifts in political and economic climates. These "Performance Funding 2.0" tools are based primarily on the experience of states participating in Achieving the Dream and the Developmental Education Initiative that have moved toward a new performance funding model in recent years.

## REFLECTIONS ON OHIO'S NEW PERFORMANCE-BASED FUNDING SYSTEM: DEFUSING A TICKING TIME BOMB

Ohio revamped its higher education funding for Fiscal Years 2010 and beyond, putting in place three new funding formulas:

**University main campuses** are now funded primarily on the basis of course completions. The share of resources allocated for degree completions will rise over time, from 5 percent in FY2010 to 20 percent in FY2013.

**University regional campuses** are now funded primarily on course completion rather than course enrollment. Factoring in degree completion is under consideration. The formula also gives weight to at-risk students.

**Community colleges** are still funded primarily based on enrollment, acknowledging their historic mission to expand access and prepare academic-deficient students. However, in keeping with the trends of Performance Funding 2.0, a small but growing portion of the state subsidy is awarded based on the number of students who achieve "success" points.

"Defusing a Ticking Time Bomb" is a first-hand reflection on the origins, design, and implementation of Ohio's new performance-based funding system, written by its lead architect, former Chancellor of the Ohio Board of Regents Eric Fingerhut.

Chancellor Fingerhut makes five recommendations for other states considering a performance-based funding plan:

> Move quickly on the basic decision to shift to performance-based funding.

> Be clear, inclusive, and patient in the process of shifting to performance funding.

> Proactively make the case for the need for performance-based funding and its potential benefits.

> Calculate the formula and publicize it in year 1, even if the impact only phases in gradually.

> Remember that presentation and process are critical to winning the debate.

## DESIGN PRINCIPLES FOR AN EFFECTIVE PERFORMANCE-BASED FUNDING SYSTEM

At the request of the Campaign for College Opportunity in California, JFF's Richard Kazis prepared recommendations for California policymakers as they debated whether and how best to implement performance-based funding. His recommendations can guide state leaders as they think through design and implementation issues—and as they seek to address challenges related to equity, sustainability, and political buy-in.

States should identify the goals and behaviors they wish to encourage before they worry about design specifics. The technical aspects of designing a performance funding system should be secondary to achieving clarity and consensus on the state's higher education goals and priorities. Technical aspects of design should also be addressed in the context of stakeholder buy-in. States should consider carefully how they will address faculty concerns and engage faculty in both the design and roll-out.

Kazis recommends that states:

> Reward both progress and completion.

> Protect the academically and economically vulnerable.

> Make the incentive big enough to change institutional behavior.

> Implement the new formula gradually and with predictability.

> Get buy-in from key stakeholders, including faculty.

> Introduce performance-based funding in the context of a higher education improvement and efficiency strategy.

## CHARACTERISTICS OF PERFORMANCE-BASED FUNDING SYSTEMS FOR COMMUNITY COLLEGES IN 11 ACHIEVING THE DREAM STATES

In recent years, seven states in the Achieving the Dream and Developmental Education Initiative state policy network have shifted funding for community colleges to reward student success, not just access (Hawaii, Indiana, Massachusetts, North Carolina, Ohio, Oklahoma, and Washington). Several more states, including Arkansas, Connecticut, Texas, and Virginia, are considering implementation of performance funding schemes right now. This brief includes a matrix that summarizes similarities and differences among the network's states that have performance-based funding for their community colleges, including information such as the percent allocated by performance funding, and the metrics used to determine awards.

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JOBS FOR THE FUTURE

TEL 617.728.4446 FAX 617.728.4857 info@jff.org

88 Broad Street, 8th Floor, Boston, MA 02110
122 C Street, NW, Suite 650A, Washington, DC 20001

WWW.JFF.ORG