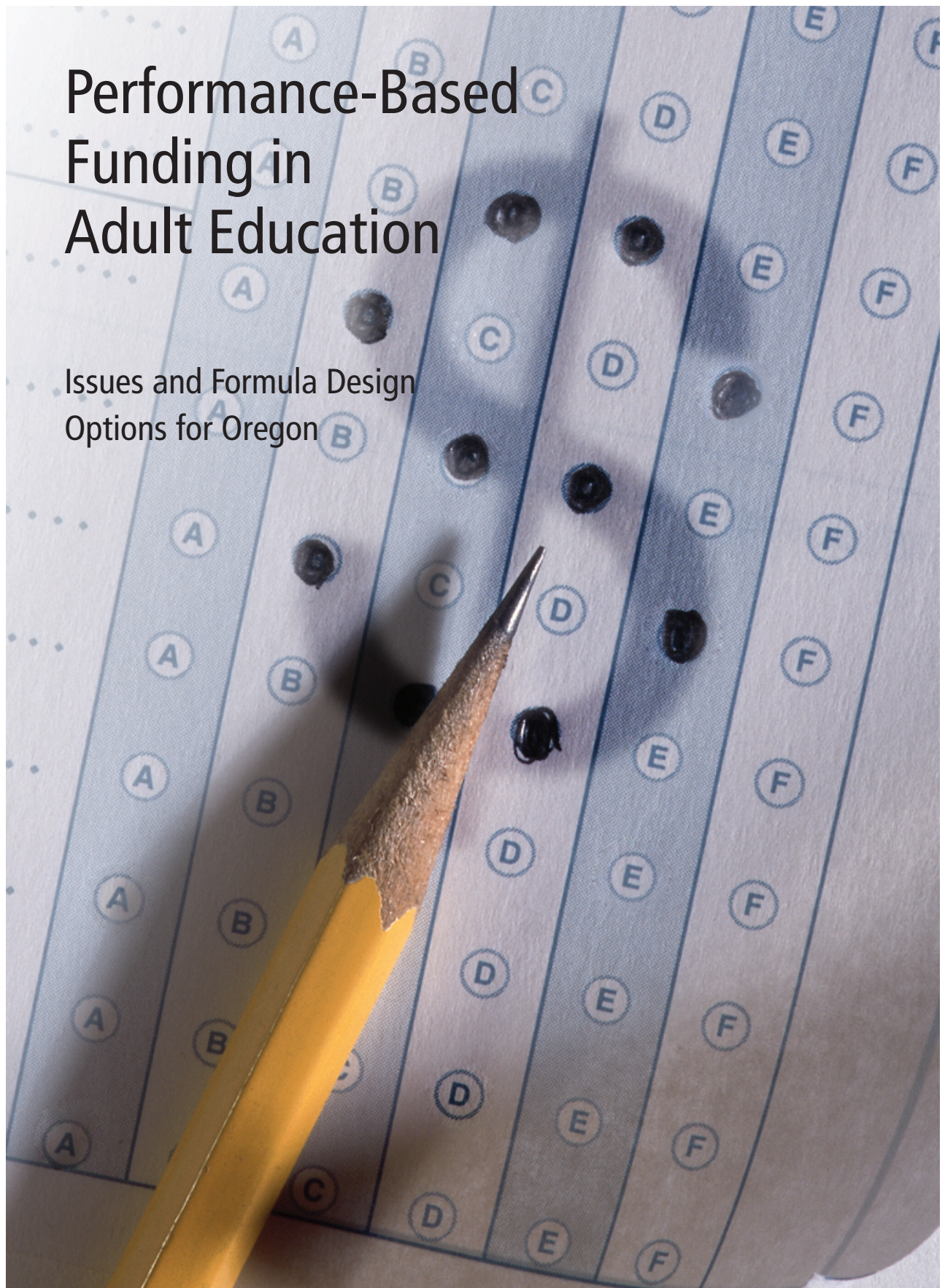


Performance-Based Funding in Adult Education

Issues and Formula Design
Options for Oregon





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Issues and Formula Design Options for Oregon

Review of the Literature



PREPARED FOR

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Contents

List of Figures and Tables	iv
OREGON ADULT EDUCATION FUNDING SYSTEM	1
Adult Education Funding: State Resources	2
Adult Education Funding: Federal Resources	2
Developing a Performance-based Funding System	4
1. What is an appropriate amount of resources to allocate using performance criteria?	5
2. Should resources be allocated on a regional or institutional basis?	6
3. How should performance resources be distributed?	7
Category I: Measures Contained within the National Reporting System	7
Category II: Process Measures of Program Performance	9
Category III: Provider Attainment of Performance Benchmarks	9
4. What is an acceptable period between the recording of outcomes and the allocation of resources?	10
5. Should program outcomes be differentially weighted?	11
Educational Gain.	11
Core versus Secondary Measures	12
6. Should providers be insulated from drastic changes in their funding eligibilities?	12
APPENDIX A	15
California.	16
Kansas.	17
Indiana	19
Missouri	22
Washington.	24

List of Figures and Tables



Figure 1	Percentage of Community College Major Revenues, by State, District Taxes, and Tuition Sources: Academic Year 1990–91 through 2004–05	3
Table 1	2005–06 Title II Grant Allocations	4
Table 2	National Reporting System for Adult Education (NRS) Core and Secondary Measures Used in State Performance Funding Formulas . .	8
Table 3	The Performance Calculator for Missouri: FY05	12

Oregon Adult Education Funding System

The Adult Education and Family Literacy Act (AEFLA), Title II of the Workforce Investment Act of 1998 (P.L. 105-220) requires states to document whether or not adult education service providers are improving the quality of their instructional services. To reward effective providers, a number of states have adopted performance-based funding (PBF) systems that allocate federal and/or state adult education resources based on student and program performance. Early evidence suggests that these new funding systems are helping to hold local providers accountable for their program outcomes, while improving provider effectiveness by focusing instructors' attention on the links among curriculum, instruction, and performance.

It is anticipated that the upcoming reauthorization of the federal Workforce Investment Act will expand upon accountability requirements contained in the current legislation. Although new legislation has yet to be finalized, it appears that Congress is considering increasing states' commitment to allocating resources using competitive criteria. Should this occur, integrating PBF into state funding formulas may be one way states respond to new federal requirements.

To prepare for the introduction of PBF in Oregon, the Department of Community Colleges and Workforce Development (CCWD) convened a working group in March 2005 to identify the principles, factors, and structures that should drive formula development. Working group members, consisting of state administrators and local program directors, proposed a comprehensive set of indicators and factors that should be considered when distributing Title II funding. Members also recommended that the state hire a policy analyst to synthesize group findings and provide evidence-based research to identify the most effective and efficient factors for inclusion in the formula.

In July 2006, the CCWD contracted with MPR Associates, Inc. to assist the state in designing a performance-based funding formula and to assess its potential effects on local providers. To ground project activities, MPR proposed synthesizing findings from its forthcoming report to the U.S. Department of Education, Office of Vocational and Adult Education, on the use of performance funding systems in three states—**Indiana, Kansas, and Missouri**.¹ Researchers also agreed to profile PBF systems in the states of **California** and **Washington**.

This paper summarizes the key issues that working group members should consider as they develop the new state formula. The paper opens with an overview of Oregon's

¹ Klein, S. (forthcoming). *Cross-Case Report: Performance-Based Funding in Adult Education*. Washington, DC: U.S. Department of Education, Office of Vocational and Adult Education.

current state and federal formulas for distributing adult education resources, followed by a discussion of important formula components. Recommendations from the 2005 working group are included throughout the paper to illustrate the approaches formula development may take. Detailed descriptions of other state approaches for allocating PBF resources are included in Appendix A.

ADULT EDUCATION FUNDING: STATE RESOURCES

Adult education services in Oregon are offered through the state's community college system; however, unlike many states, Oregon does not separate state adult education funding from other state resources awarded to providers. Instead, community colleges are reimbursed for adult learners on a full-time enrollment (FTE) basis, with payments awarded at the same rate as other reimbursable students. Although contact hours serve as the basis for determining providers' funding eligibility, adult education reimbursements are neither categorical nor reported as a separate line item within institutional allocations. Instead, colleges receive a single quarterly FTE reimbursement that includes resources for all reimbursable education programs.

As a result, it is difficult to calculate the exact amount of state funding that community colleges receive for delivering adult education services. Total public resources for Oregon's community college funding are a combination of state general fund and local property taxes. In the past, general funds represented about 56 percent of major revenues available to community colleges; currently that is closer to 45 percent (figure 1). The funding formula does not reimburse for current FTE. Rather, it looks at a rolling average of past enrollment (partially for stability and predictability). For the past few years, adult education has represented about 11–12 percent of reimbursable FTE.

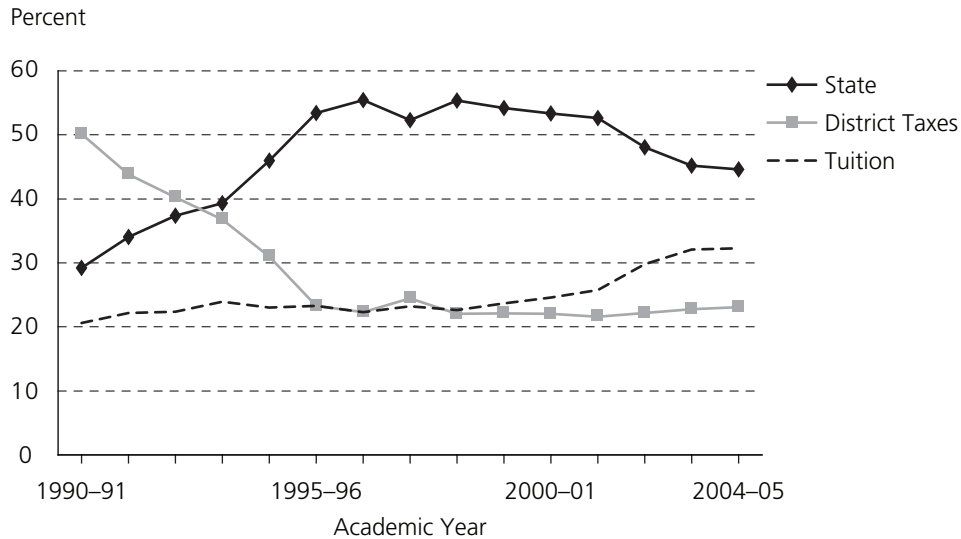
Community college administrators determine how much, and in which ways, general fund resources are allocated to support adult education programs. Consequently, the percentage of state adult education funding that flows to campus adult education programs varies across colleges and within institutions from year to year.

Oregon colleges also obtain additional resources from local tuition and fees, contracts with business and other partners, and institutional grants for program services. Colleges may also charge for services related to AEFLA, and many campuses collect a small fee or tuition for ABE, GED, and ESL participation.

ADULT EDUCATION FUNDING: FEDERAL RESOURCES

The Oregon DCCWD administers the allocation of federal AEFLA resources to 17 community colleges, 1 community based organization, and the Oregon Department

Figure 1 Percentage of Community College Major Revenues, by State, District Taxes, and Tuition Sources: Academic Year 1990–91 through 2004–05



SOURCE: Oregon Department of Community Colleges and Workforce Development. "Graph: Community College Major Revenues." Salem: 2006.

of Corrections. Resources support a number of functions and programs, including ABE, ASE, ESL, EL/Civics, tutoring, and correctional education.

Oregon distributed approximately \$4.7 million in federal AEFLA funding in the 2006-07 program year. Approximately \$3.5 million of these resources were allocated as a flat grant of \$50,000 to each institution, with remaining resources distributed based on the number of adults in the target population served (table 1). Enrollment reimbursements are calculated using a three-year rolling average of a college's federally reportable headcount, with resources proportional to the institution's share of the total state enrollment, also averaged over three years. The state also provided a one-time allocation of approximately \$400,000 in FY06-07 to hold-harmless providers for decreased federal resources. This grant was calculated as an 8 percent increase in each college's basic grant and 15 percent increase in each college's EL/Civics allocation.

Similarly, federal resources for EL/Civics, tutoring, and corrections are allocated as a base award with additional resources based on the number of enrolled students. Base allocations for FY07 were set at \$25,000 for EL/Civics, \$13,000 for tutoring, and \$10,000 for corrections.

Table 1**2006–07 Title II Grant Allocations**

College	Basic Grant	CODs	Tutoring	Corrections	EL/Civics	Total Award
Total	\$3,420,213	\$38,700	\$294,900	\$330,000	\$537,007	\$4,620,820
Blue Mountain	162,348	19,000	—	—	38,734	220,082
Central Oregon	150,601	—	15,688	18,538	41,984	226,811
Chemeketa	440,485	—	32,158	—	70,183	542,826
Clackamas	225,272	—	15,367	22,033	—	262,672
Clatsop	80,800	—	15,086	—	—	95,886
Columbia Gorge	101,432	—	14,946	—	37,230	153,609
DOC	—	—	—	88,700	—	88,700
Klamath	124,030	9,700	15,187	—	42,025	190,942
Lane	282,087	—	16,009	38,478	46,291	382,865
Linn Benton	151,071	—	15,427	15,787	—	182,285
Mount Hood	332,280	—	—	38,936	55,393	426,609
Oregon Coast	87,934	—	14,384	13,037	37,758	153,113
Portland	644,677	—	—	19,626	43,366	707,669
Portland LC	—	—	91,257	—	—	91,257
Rogue	210,363	—	20,563	45,526	57,912	334,364
Southwestern	100,151	—	—	13,381	35,036	148,568
Tillamook Bay	64,866	—	14,244	—	—	79,110
Treasure Valley	90,326	10,000	—	—	31,095	131,421
Umpqua	171,490	—	14,585	15,959	—	202,034

— Not applicable.

SOURCE: Oregon Department of Community Colleges and Workforce Development.

DEVELOPING A PERFORMANCE-BASED FUNDING SYSTEM

Integrating PBF into a state’s funding formula is a complex task that requires balancing the needs of multiple providers with state goals for improving the delivery of adult education services. Care must also be taken to ensure that small and rural providers, colleges serving large populations of ESL or low-level learners, and those with other unique characteristics are able to compete for performance resources. States that have succeeded in adopting PBF to allocate adult education resources initially struggled to develop allocation formulas because of these challenges. Although no one formula is appropriate for all state conditions, Oregon state administrators can improve the likelihood of successful formula implementation by answering some of the following questions during the development process. These questions include:

1. What is an appropriate amount of resources to allocate using performance criteria?

Historical funding practices and political factors make it unlikely that Oregon's existing state allocation formula can be changed without obtaining input from state board of education members, the community college presidents' council, community college providers, and other adult education stakeholders. While modifying the existing formula may be beyond the scope of the advisory council, members will need to consider how the structure of the state formula will affect the allocation of performance funding. Members should also consider whether changes are warranted in the state FTE allocation formula and, if so, how it should be modified to support a more effective allocation of adult education resources.

For now, it appears that state efforts to introduce PBF will be limited to federal AEFLA resources. As a first consideration, advisory council members will need to establish the amount of resources to be allocated as performance funding and which program streams should be included. Answering these questions requires determining how federal resources are used at the college level (i.e., salaries, training, materials) and their relative importance to the provision of specific programs (i.e., tutoring, corrections, EL/Civics).

If federal resources comprise a substantial proportion of adult education program funds, then advisory council members may be able to motivate providers by disbursing only a small amount of funding using performance criteria. Conversely, if federal funds are used primarily to purchase supplementary services or can be supplanted with institutional resources, then PBF may have little effect unless substantial resources are earmarked.

To date, states using performance funding have limited its use to distribute a portion of basic grant funds, with resources for other program areas distributed based on learner contact hours. Among the five states profiled for this paper, **Kansas** stands out for its commitment to performance funding: in FY05, the state allocated roughly 87 percent of its combined federal and state funding based on provider performance. Since the base funding allocated to local providers is not, by itself, sufficient to maintain basic program operations, all programs must compete aggressively for additional funding.

Although a substantial amount of program funding is at risk each year, with the full amount unknown at the time providers begin budgeting for the upcoming year, conversations with **Kansas** program directors reveal that few are concerned with their program's survival. This is because directors are confident that they can produce the number and type of outcomes necessary to maintain their program operations.

Missouri has opted for a more modest approach to PBF, allocating roughly 19 percent of its combined federal and state funding in FY05 based on provider performance. However, unlike other states, **Missouri** has increased its commitment to PBF over time. When it was introduced in FY02, performance funding comprised just 6 percent of total provider allocations. State investment in PBF has gradually increased by maintaining the state allocation for performance-based funding and lowering the amount of resources allocated based on contact hours.

California, Indiana, and Washington have all opted for a more limited use of PBF. In **California**, 100 percent of federal funding is allocated based on performance; however, since the majority of adult education funding comes from the state, PBF accounts for just 7 percent of total statewide spending. **Indiana**, in contrast, limits performance funding to just 5 percent of federal funding. Since performance funding accounts for only a fraction of overall resources, program directors report that they budget based only on guaranteed resources, using PBF to provide supplemental services, such as professional development or equipment and supplies. And although the total allocation comprises a small percentage of total resources, the state director reports that providers often act as though 90 percent of resources are at risk because they are unwilling to give up any potential resources.

Finally, **Washington** limits its performance funding to just 2 percent of its federal AEFLA funding. According to state administrators, local providers respond positively to the use of performance funding, even though overall resources distributed using performance criteria are quite small. To illustrate, a state administrator related how providers from all over the state are currently contacting him to check the status of their performance funding, since the state is currently two weeks behind in calculating provider funding eligibility.

2. Should resources be allocated on a regional or institutional basis?

Oregon adult education providers currently apply for funding on an institutional basis. During advisory council deliberations in March 2005, members expressed interest in adopting a regional funding approach modeled after that used in **Washington**. Under this approach, the state would first allocate resources on a regional basis, based on identified geographic need, and then fund applicants within regions on a competitive basis. This approach is also similar to that used in **Missouri**, which associates federal resources with a funding district, not an individual provider. Should an existing provider withdraw from the **Missouri** system, the state would identify a new provider within the district and transfer the resource allocation to the new agency.

Linking resources with regions can help ensure that state resources are distributed equitably across the state, with resources concentrated in areas of greater educational need. Distribution factors identified by the Oregon working group in 2005 included:

- ESL/LEP population
- Race-ethnicity
- Level of educational attainment
- Age of population
- Oregon dropout rate
- Poverty status
- Employment status
- Immigration trends
- TANF participation

In considering whether to add a regional factor to the allocation of AEFLA funds, advisory council members may wish to consider the extent to which regional factors affect learners' access to adult education services. Members will also need to determine whether available funds will be sufficient for the expansion of services at additional sites and/or providers within regions.

Given the relatively high fixed costs associated with staffing and equipping programs, earmarking resources on a regional basis could potentially reduce funding to existing agencies located within a single, low-need region, or fail to provide sufficient resources to support new programs in other regions. Earmarking resources based on regional characteristics also will require that state administrators continually update regional demographic data to account for the state's rapidly changing population. If this causes resource pools to change statewide, institutions may also have difficulty maintaining stable services.

3. How should performance resources be distributed?

Once resource levels have been established, advisory council members will need to identify criteria for allocating resources among providers. Ideally, measures will align with and reinforce the values and goals that advisory members have identified for PBF operation. A review of measures identified by the 2005 Oregon advisory panel and measurement approaches used in other states provides a plethora of options for advisory group consideration. These measures fall into three broad categories:

Category I: Measures Contained within the National Reporting System

All states currently report performance outcome data for core and secondary measures contained within the National Reporting System for Adult Education (NRS). States must report on a set of federally established core measures, which include outcome, descriptive, and participation measures, and have the option of reporting on a set of secondary measures, which include outcomes related to family and community.

Each of the states profiled in this report uses NRS core and/or secondary measures to allocate PBF resources to local providers, although state approaches vary considerably. Of the five states, only **Indiana** uses all of the federal core and secondary measures to allocate resources, while **Kansas** confines its measures to the NRS core (table 2). Remaining states allocate resources primarily based on the number of learners making educational level gains in ABE, ASE, or ESL programs, or on the number of learners earning a GED or high school diploma.

Washington is unique in that, although it uses educational gain to determine provider eligibility, performance is determined by whether or not learners make a statistically significant CASAS gain of 3 or 5 scale score points, depending upon their pretest score, rather than by learners' completion of an educational level. When questioned, state administrators were unable to assess whether this discontinuity affects state performance on the NRS or local providers' incentive to achieve level completions.

Table 2 National Reporting System for Adult Education (NRS) Core and Secondary Measures Used in State Performance Funding Formulas

	California	Indiana	Kansas	Missouri	Washington
Core measures					
Educational gain	⊙	⊙	⊙	⊙	⊙
Received GED	⊙	⊙	⊙	⊙	⊙
Entered employment		⊙	⊙		
Retained employment		⊙	⊙		
Entered postsecondary education or training		⊙	⊙		
Secondary measures					
Achieved work-based project learning goal		⊙			
Reduction in receipt of public assistance		⊙			
Achieved citizenship skills	⊙	⊙	⊙		
Voted or registered to vote		⊙			
General involvement in community activities		⊙			
Increased involvement in children's education		⊙	⊙		
Increased involvement in children's literacy activities		⊙	⊙		

During interviews, state administrators and local program directors reported that the NRS core indicators, and particularly the measures of educational gain and GED receipt, provide meaningful data on program performance. Directors in **Indiana** and **Kansas** raised some concern about the value of retained employment in the state formula, in part because of the difficulty of collecting post-program follow-up data and in part because of the belief that instructors should only be evaluated on learner performance for those currently enrolled in a program.

Program directors in **Indiana** did not universally support using secondary NRS measures to award performance funding. According to one individual, adult education agencies should be judged based on whether or not they have succeeded in imparting basic literacy skills to prepare learners to earn a GED credential. He and other directors suggested that secondary NRS measures, such as registering to vote or reading more to children, are harder to measure, due to the high mobility associated with adult learners, and less important than those dealing with learners' educational progress.

Category II: Process Measures of Program Performance

To encourage providers to undertake programmatic changes, **Kansas** has identified 25 measures of program quality believed to be associated with successful programs. Points are awarded based on evidence from a state monitoring visit, program end-of-year reports, follow-up surveys, and records maintained by state agency staff. Awarding points based on process indicators allows smaller programs to compete on equal footing for performance-funding resources, since providers are awarded points for achieving particular benchmarks, such as having a technology plan incorporating the use of current technology in instruction, rather than just for the number of learners achieving measurable outcomes. Adoption of program quality or other process measures can also ensure that programs are following state-approved data collection or testing procedures.

In **Kansas**, state expenses include paying for monitoring team salaries and travel, coordinating with team members on the conduct of visits, and administering award data to calculate performance allocations. Allocating resources based on process indicators can impose a significant burden on local providers. Program directors report that they invest time preparing for monitoring team visits, using the monitoring instrument to conduct self-assessments, updating and reviewing participant files for accuracy, and meeting with monitoring team members during the one-day visit.

Category III: Provider Attainment of Performance Benchmarks

In addition to allocating resources based on learner outcomes, **Indiana** awards resources based on the attainment of 15 state-negotiated performance benchmarks associated with the NRS measures. Provider resources are calculated by multiplying

the number of performance targets they achieve by a state-established rate for each measure.

As with quality indicators, awarding resources based on provider attainment of negotiated performance targets levels the playing field, since providers are essentially competing against themselves to earn performance resources. This means that smaller providers can earn as much as or even more than larger providers. However, since the size of a performance award is a function of the number of providers achieving a positive outcome, programs are unable to accurately predict the size of their performance allocation when budgeting for the following fiscal year.

4. What is an acceptable period between the recording of outcomes and the allocation of resources?

Provider allocations are based on retrospective data, meaning that current year resources are a function of prior year performance. In most states, program allocations are based on learner outcomes from the preceding fiscal year, meaning that provider eligibility in FY06 is determined by program performance in FY05. This one-year lag means that program directors begin budgeting for the upcoming fiscal year without complete information on performance outcomes for the fourth quarter of the current program year.

In **Kansas**, program providers project their budgets by extrapolating from past program performance. To minimize the effect of fourth quarter outcomes on program resources, the state initially based funding on the first three quarters of the academic year, reserving \$100,000 to compensate providers for their fourth quarter results. The following year, the state increased funding to \$200,000 and, beginning in FY06, to \$500,000 because too many providers appeared to be cutting back services in the fourth quarter.

Indiana also asks program directors to project their level of funding for the following fiscal year without data on fourth quarter outcomes. Since the state allocates only 5 percent of funding based on performance, program directors report that they are not concerned about losing resources midyear should they fail to achieve their projected targets. This is because directors typically budget based on funding that they are assured of receiving, relying on performance and incentive money to provide supplemental instructional services or to purchase instructional materials.

Although the one-year lag between outcomes and reimbursement can place providers at risk of unexpected resource shifts, immediate reimbursement reinforces the connection between performance and results. Linking funding to prior year perfor-

mance also enables providers to respond more rapidly to program changes, such as unanticipated growth in enrollment.

In contrast, program funding in **Missouri** is based upon performance data collected during the fiscal year two years preceding the current one. This two-year lag provides program directors with more complete information when they begin their budgeting process. However, since programs experience a delay between when they record outcomes and when they are reimbursed, providers may have difficulty expanding programs to new sites, because a program experiencing substantial enrollment growth is forced to carry its increased costs for one year until state allocations catch up with its expanded needs.

5. Should program outcomes be differentially weighted?

Adult education programs serve learners with different academic and English language abilities. Believing that learners progress at different rates, administrators in three of the five states profiled in this report assign differential weight to learner outcomes. The weights vary by state, with administrators attaching different levels of support for different learner or programmatic outcomes to compensate for the additional costs of educating lower-level learners.

Educational Gain

Kansas and **Missouri** provide additional resources for lower-level learners participating in ABE and ESL programs, in the belief that these learners have greater difficulty achieving a positive educational gain. To allocate resources, state administrators analyzed program performance data in an effort to quantify the rate at which learners make measurable advances. In this way, **Kansas** administrators determined that lower-level learners took approximately 1.8 hours to make a learning gain, compared to 1.0 hour for those at higher levels. Consequently, the state elected to double the value of an outcome for learners in the five lowest educational functioning levels of the NRS (two lowest ABE levels and three lowest ESL levels).

Similarly, administrators in **Missouri** compared the number of contact hours recorded for ESL students to those for ABE/ASE participants in calculating the value of learners' performance outcomes. Based on a review of the relative effort required to achieve a learning gain, state administrators recommended developing a separate rate for ESL students in the second year of formula operation (table 3). This adjustment was in addition to the existing weight provided for lower-level learners completing Level 1 or Level 2 ABE programs.

Although differentiated weighting can ensure that providers have an incentive to serve all types of learners, it is not clear whether supplemental weighting can actually

Table 3**The Performance Calculator
for Missouri: FY05**

Levels of advancement	Amount	Students advancing	Total
AEL level 1 completion	\$200	0	\$0
AEL level 2 completion	150	0	0
AEL level 3–5 completion	75	0	0
GED	150	0	0
ESL level 1 completion	250	0	0
ESL level 2 completion	175	0	0
ESL level 3–5 completion	100	0	0

SOURCE: Missouri Department of Elementary and Secondary Education.

discourage providers from undertaking needed reforms. It may be, for example, that the absence of a supplemental weight might encourage providers to intensify their efforts to improve programs serving lower-level learners, because in the absence of improved instruction, students would not make reimbursable educational gains.

Core versus Secondary Measures

Indiana has taken a different approach to weighting program outcomes. According to state officials, a majority of the learners in state programs function below the 9th-grade level or are ESL students. Consequently, state administrators made no effort to weight outcomes differentially because all providers serve learners with high needs. Although the state does not provide supplemental resources for educational gains made by learners in different programs, the state has opted to weight NRS outcomes differentially, with secondary NRS outcomes reimbursed at half the amount awarded for a core NRS measure.

According to state officials, the decision to double-weight NRS core measures was, in part, a response to the emphasis placed on them by the U.S. Department of Education, which bases its reports to Congress on state performance on these measures. Administrators also sought to focus providers' attention on the NRS core in the hope of qualifying **Indiana** for incentive funding through AEFLA.

6. Should providers be insulated from drastic changes in their funding eligibilities?

States profiled in this report fully implemented their performance-funding systems in the year following formula development. Although states did not provide a hold-

harmless clause to insulate providers from drastic funding changes, many sought to protect providers by augmenting resources and providing additional training to providers in proper data collection and reporting techniques.

To soften the immediate effect of new performance funding systems, states typically released additional federal resources held back from earlier years. While these amounts were not sufficient to entirely offset provider losses and were limited to the first year or first two years of formula implementation, their availability helped providers adjust to the new funding system.

Recognizing that PBF could cause structural changes in the way that programs operate, **Missouri** administrators surveyed providers to identify the types of support they would need to incorporate performance funding into their institutional budgets. Providers identified three areas:

- Data Collection—support in building an electronic adult data collection system, including resources for data-entry staff salaries, hardware and software upgrades, and materials and supplies.
- Marketing—support in publicizing adult education programs and services, including resources for supplies, activities, and personnel.
- Technology—support for improving instructional technology, including resources for purchasing instructional software, operational software, and other materials and supplies.

State administrators set aside 10 percent of FY02 provider funds for support in these areas, with data collection and marketing resources based on a rolling three-year average of a program's enrollment, and technology resources on a rolling three-year average of a program's total expenditures. Providers were also required to develop a local plan, containing a proposed budget and expenditure narrative, to qualify for resources. The availability of these funds varies from year to year; for example, in FY03 the state dropped the marketing component from the funding formula to compensate for reductions in funding.

Ultimately, the amount of resources allocated based on performance will determine whether Oregon should adopt a hold-harmless provision. If initial resources are limited to a fraction of state resources, then state administrators may choose not to insulate providers from initial changes in their funding. The availability of additional resources that can be added to the formula can also soften the impact of funding changes. According to the Oregon state director, the state has up to \$400,000 that can be added to formula distributions in the base year, potentially offsetting some of the funding losses incurred by colleges.

Appendix A—Selected States' Adult Education Funding Systems



California

The California Department of Education (CDE) administers the state's adult education non-credit courses and high school diploma programs. For the 2004–05 school year, CDE supported program services in 496 agencies. Service providers include adult schools located in public school districts, public community colleges with CDE grants funded by the Adult Education and Family Literacy Act (AEFLA), Title II of the Workforce Investment Act of 1998 (P.L. 105-200), community-based and faith-based organizations, county offices of education, state agencies, and libraries. Community colleges also provide non-credit courses in some areas and operate through memoranda of understanding (MOU) with adult schools to prevent duplication of efforts.

California earmarks roughly 7 percent of its total adult education resources for distribution among eligible service providers as performance funding. Under the current system, local providers are guaranteed a base level of funding, drawn from state resources, which is distributed across providers based on learner contact hours. Providers compete for federal resources allocated based on performance points. Allocations to local providers are distributed using the following criteria.

Base Funding: 100 percent of state resources are allocated to providers each year as base funding determined by average daily attendance (ADA) at adult schools and full-time-equivalents (FTEs) at community colleges.

Performance Funding: 100 percent of federal resources are allocated based on performance criteria. Providers compete for federal funding by accumulating payment points on state-established benchmarks for learner outcomes. Payment points are awarded to agencies for each student who had the following:

- Programs and Students (TOPSpro) entry record
- Comprehensive Adult Student Assessment System (CASAS) standardized pretest
- CASAS standardized posttest
- TOPSpro update record

To earn a point, programs must show that students also have achieved a significant learning gain, such as passing a Citizenship Interview Test, an English Literacy/Civics (EL Civics) Civic Participation Additional Assessment, or the GED test, attaining a high school diploma, or completing two instructional levels.

The state caps the number of payment points per student that a program can earn to ensure that state funds are distributed to numerous programs throughout the state. New providers or programs are funded using a formula based on the statewide payment point average and agencies' negotiated enrollment figures for that program.

Kansas¹



The Kansas Board of Regents (KBOR) administers adult education, with services offered in 31 technical and community colleges, local school district adult learning centers, two community-based organizations, and a university. Before the introduction of performance funding, 36 programs offered services.

In FY00, the KBOR adopted a new formula for allocating its federal and state adult education resources among eligible service providers. Under the current system, local providers are guaranteed a base level of funding, drawn from state resources, which is equally distributed across all providers. Providers compete for federal and remaining state resources allocated based on provider performance. Performance is assessed by the state by measuring specific effects of programs, including learner outcomes and other administrative and programmatic outcomes. The state earmarks roughly 88 percent of its total adult education resources for distribution among eligible service providers as performance funding. Allocations to local providers are distributed using the following criteria.

Base Funding: Each fiscal year, 50 percent of state adult education resources are evenly divided as base funding among all eligible programs in the state.

Performance Funding: Performance awards are distributed based on provider performance during the fiscal year two years preceding the current one, meaning that funds lag two years behind recorded outcomes. Resources are distributed based on providers' performance using the following distribution formula:

- *Learner Outcomes*—Fifty percent of federal funds are allocated based on the number of successful learner outcomes on selected core and secondary measures contained within the National Reporting System for Adult Education (NRS), the accountability system for the federal AEFLA. States are required to report on the core measures in the NRS, which include outcome, descriptive, and participation measures, and they have the option of reporting on the secondary measures, which include outcomes related to employment, family, and community. Resources are distributed based on providers' performance on the following indicators:
 - ⊙ Completed one of the functional academic performance levels for ABE, ASE, and ESL learners as specified in the NRS.

¹ Information for Kansas excerpted from Klein, S. (2006, August 2). *Kansas Case Study Report: Performance-Based Funding in Adult Education*. Washington, DC: U.S. Department of Education, Office of Vocational and Adult Education.

- ⊙ Entered employment.
- ⊙ Retained employment.
- ⊙ Received GED.
- ⊙ Entered postsecondary education or training.
- ⊙ Acquired U.S. citizenship skills.
- ⊙ Increased involvement in children’s education.
- ⊙ Increased involvement in children’s literacy activities.

Educational gain outcomes are doubled for learners in the five lowest educational functioning levels of the NRS (two lowest ABE levels and three lowest ESL levels). In practice, this means that lower level learners count twice toward a provider’s number of learner outcomes.

- *Program Quality*—Fifty percent of federal and 50 percent of state funds are allocated based on the number of quality points a program receives relative to the statewide total of quality points generated that year. Quality points are awarded based on provider performance on 25 measures encompassing 10 quality indicators. Points are awarded based on evidence presented during a state monitoring visit, data in programs’ end-of-year reports, data derived from follow-up surveys, or records maintained by KBOR staff.

To illustrate, a program accounting for 5 percent of statewide learner outcomes in FY04 would qualify for 5 percent of the 50 percent of federal and 50 percent of state resources allocated for this factor in FY06. Similarly, a provider accounting for 3 percent of the statewide quality points awarded in FY04 would qualify for 3 percent of the combined 50 percent of federal and 50 percent of state resources allocated for this factor in FY06.

Indiana²



The Indiana Department of Education (IDE) administers adult education in the state, with program services in 2004 offered by local providers organized into 43 comprehensive program districts. Local providers within a district may consist of local school districts, state colleges, and community-based organizations. A total of 70 general educational development (GED) testing sites also exist.

In FY01, the IDE adopted a new formula for allocating its federal adult education resources among eligible service providers, while retaining its existing formula for allocating state funding. Under the current system, local providers are guaranteed a base level of funding, drawn from federal and state resources, sufficient to maintain their existing programs. Providers compete for federal resources based on their performance. This performance-based funding (PBF) accounts for roughly 5 percent of total adult education resources distributed to local providers in the state. Allocations are distributed using the following criteria.

Base Funding: Roughly 85 percent of federal and 100 percent of state resources are allocated as base funding using the following distribution criteria:

- *Federal Resources*—Providers automatically qualify for 90 percent of the federal resources in their 1999–2000 base budget. This base remains constant over time and is associated with a funding district, not an individual provider. Should an existing provider withdraw from the system, the state would identify a new provider within the district and transfer the resource allocation from the old to the new agency.
- *State Resources*—Providers automatically qualify for 90 percent of their reimbursed expenditures for the summer/fall term of 1991 and spring term of 1992, or, for new programs, a base amount established at the close of its first full year of operation. This base remains constant unless an agency's expenditures fall below its base during a given period; when this occurs, the reduced reimbursement becomes the new base. Remaining appropriations or new state dollars are distributed on the basis of enrollments, such that over time a greater percentage of the state appropriation is based on demand (i.e., enrollment growth or decline).

² Information for Indiana excerpted from Klein, S. (2006, August 2). *Indiana Case Study Report: Performance-Based Funding in Adult Education*. Washington, DC: U.S. Department of Education, Office of Vocational and Adult Education.

Performance Funding: Approximately 15 percent of federal resources are distributed based on provider performance on the core and secondary measures contained within the NRS. Federal performance resources are allocated based on the number of adult learners achieving outcomes on state-identified core and secondary performance measures. Incentive grants are also provided for agencies meeting their state-negotiated performance levels for 15 measures of educational gains included in the NRS core measures. Performance funds lag one year behind the recording of outcomes, meaning that local providers' eligibility in FY06 is determined by program performance in FY05. State performance measures include:

Performance—Number of provider outcomes, calculated by summing the number of adult learners who achieve any of the following:

- Completed a level or completed a level and advanced to a higher level.
- Entered employment, retained employment, obtained a GED or secondary school diploma, and entered postsecondary education or training.
- Achieved work-based project learning goals, left public assistance, acquired citizenship skills, increased involvement in their children's education or literacy activities, voted or registered to vote, and increased involvement in community activities.
- In family literacy programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED, entered postsecondary education or training, increased involvement in their children's education or literacy activities.
- In workplace literacy programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED, and enrolled in postsecondary education or training.
- In corrections programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED, and entered postsecondary education or training.

Local provider eligibility is calculated by multiplying the total number of individuals achieving a positive outcome on the state-identified NRS core and secondary measures by a state-established rate for each measure. The amount awarded for a secondary NRS performance outcome is half the amount awarded for a core NRS measure. For example, in FY05, providers earned \$16.45 for each learner outcome on a core NRS measure, and \$8.22 for each learner outcome on a secondary NRS measure.

Incentive—Funding for districts meeting their state-negotiated performance levels for the following NRS core measures:

- Completed one of 11 educational levels for ABE, ASE, and ESL learners as specified in the NRS.
- Further education and training.
- Entered employment.
- Retained employment.
- High school completion.

Local provider eligibility is calculated by multiplying the total number of negotiated performance targets achieved by a state-established rate that is equivalent for each measure. For example, providers earned \$635.59 for each of 15 performance measures that met or exceeded their state-negotiated performance target.



Missouri³

The Missouri Department of Elementary and Secondary Education (MDESE), Division of Career Education, administers adult education and literacy services offered in 45 programs throughout the state. Services are provided by local school districts, community colleges, and community-based organizations.

In FY02, MDESE adopted a performance-based funding system to allocate its federal and state adult education resources among eligible service providers. Under the current system, local providers are guaranteed a base level of funding, drawn from federal and state resources, which is distributed across providers based on audited learner contact hours. Providers compete for remaining federal and state resources allocated based on provider performance on two measures of student progress contained in the NRS. This PBF component accounts for roughly 19 percent of total adult education resources in Missouri. Allocations to local providers are distributed using the following criteria.

Base Funding: Each fiscal year, the state establishes a Base Funding Rate used to allocate resources based on a provider's total audited contact hours. For example, in FY06, the state established a Base Funding Rate of \$2.40 per audited contact hour, with half of the rate (\$1.20) distributed based on a program's total number of audited contact hours in the first preceding fiscal year for which audited totals are available (i.e., FY04 for the FY06 program year). The remaining half of base resources (\$1.20) are allocated based on a program's previous three-year average of its total audited contact hours (i.e., FY02–04 for the FY06 program year). These rates were initially set based on existing federal and state resources and the number of learner outcomes reported by providers.

Performance Funding: Performance resources are distributed based on the number of individuals who made academic progress on two measures defined in AEFLA:

- Received a GED.
- Completed one of the functional academic performance levels for ABE, ASE, and ESL learners as specified in the NRS.

Performance resources lag two years behind the recording of outcomes, meaning that local provider eligibility is determined by program performance in the two fiscal years preceding the current one. Local provider eligibility is calculated by multiplying the total number of individuals achieving a positive outcome by a state-established rate for each measure.

³ Information for Missouri excerpted from Klein, S. (2006, August 2). *Missouri Case Study Report: Performance-Based Funding in Adult Education*. Washington, DC: U.S. Department of Education, Office of Vocational and Adult Education.

Categorical Funding: Federal and state resources are earmarked for use in specific functions identified by the state. These include data collection funds to support data entry salaries and computing upgrades; marketing funds to offset provider advertising expenses; technology funds to purchase computer hardware and software; and One-Stop funds to support coordination with One-Stop Centers. Local provider eligibility is calculated by averaging three years of a provider's total expenditures in the category and awarding a fixed dollar amount based on their expenditures.



Washington

The Washington State Board for Community and Technical Colleges (SBCTC) administers adult education and literacy services offered in 50 programs throughout the state. A network of community colleges, and community- and faith-based organizations provides services. For funding purposes, the state is divided into 18 funding areas. State and federal funds are apportioned among these 18 funding areas based on population demographics; however, these funds are not entitlements to a particular provider, but rather are intended to address the needs of each community in the funding area.

Before FY04, the SBCTC used performance-based funding as a means of sanctioning providers for failing to meet their targeted performance goals. To do so, the state withheld 20 percent of providers' annual federal grant pending a review of their prior year outcomes. Providers were eligible to receive 100 percent, 75 percent, 50 percent, 25 percent, or none of their withheld resources based on a comparison of their targeted versus actual performance. Beginning in FY04, the state modified its funding formula to reward rather than punish performance. Roughly 2 percent of federal Title II resources are allocated based on performance. Allocations to local providers are currently distributed using the following criteria.

Base Funding

Federal Resources—Roughly 98 percent of federal resources are allocated across six funding areas, using an index of need to determine area resource eligibility. To award resources in 1999, the state initiated an RFP application process for a two-year funding cycle. Interested providers submitted an application proposing instructional programming, a description of the population to be served, a program budget, and proposed performance levels corresponding to each measure contained in AEFLA. A team of independent reviewers assessed program applications and recommended programs for funding. This process was repeated in 2001, using a three-year funding cycle; however, since legislation has not been reauthorized, existing grants have been extended each year up to the present.

State Resources—Each year, 100 percent of state resources are allocated to local providers based on the number of FTE learners participating in program coursework. State FTE allocations for adult education are equivalent to those for students participating in other community college programs, and colleges have discretion as to how these resources are allocated across institutional programs. Programs reaching less than 80 percent of their performance targets must submit a corrective action plan and obtain technical assistance. Programs failing to achieve 80 percent of their performance targets for three consecutive years are no longer eligible to participate in the state system; however, to date, no institution has been defunded.

Performance Funding

Providers are eligible to participate in the performance funding system if they either achieve 100 percent of their performance goals or record outcomes that equal or exceed $\frac{4}{3}$ of the state performance average. Providers failing to meet these criteria are ineligible to receive performance resources.

Performance measures used to allocate funding are based on the number and percentage of basic skills of students who:

- Earn a GED or high school diploma.
- Make a statistically significant CASAS gain of 3 or 5 scale score points, depending upon their pre-test score.

The state sets aside approximately \$200,000 of federal Title II funds for performance purposes. Providers qualifying to participate in the performance funding system receive resources based upon the number of their students who make performance gains. For example, a qualifying provider enrolling 5 percent of all students in the state making educational gains would qualify for 5 percent of the \$200,000 in federal resources set aside for performance funding.

Continuous Improvement

To encourage continuous improvement, the state inflates local provider targets each year using the following criteria:

- If a provider's performance rate is less than $\frac{2}{3}$ the state's average, the new rate for the provider is increased to become $\frac{2}{3}$ of the state average.
- If a provider's performance rate is $\frac{4}{3}$ or more of the state average, the new rate for the provider stays the same.
- Otherwise, the new rate for the provider is 1.02 times the provider's prior year rate.