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# HOLDING POSTSECONDARY INSTITUTIONS ACCOUNTABLE: PERFORMANCE BASED FUNDING

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Policy Brief No. 3

**Background:** This brief is one in a series aimed at providing higher education policymakers and advocates with an evidence base to address how to best serve students in light of the challenges facing higher education. This brief was authored by a University of Massachusetts Amherst graduate student in the Higher Education program as a course assignment for EDUC 674B: Higher Education Policy and was reviewed for accuracy by Professor Sade Bonilla.

## CENTRAL TOPIC

With increasing workforce demands for highly trained and educated workers across all industries, postsecondary education is more important than ever for both individuals and the national and local economies. Such increased demand, combined with the ever-rising costs of tuition, has led the public to urge the government to fund public colleges and universities to provide affordable access to postsecondary education. In turn, federal and state governments are tasked to hold institutions accountable for their efficient use of public resources in providing quality education to their students.

## KEY INSIGHTS

### Breaking Down the Issue

- The U.S. ranks 10<sup>th</sup> among OECD countries in percentage of postsecondary attainment at 50 percent for ages 25 to 34.
- In order to increase number of college graduates, the government is implementing various accountability measures for publicly funded institutions to provide quality education and student support for completion.
- Performance Based Funding (PBF) is one measure used by some states to encourage institutions to focus on student outcomes beyond enrollment.
- PBF, while successfully influencing institutional behaviors, may have some unintended consequences, namely in “gaming the system” that warrants attention if implemented.

### Recommendations

- State legislators implementing PBF must consider the multiple contexts within their state, including the structure of their public colleges and university systems and the student population served and not served by these institutions, in deciding what metrics should be used to assess student outcomes and what percentage of funding should be allocated based on PBF.
- Some considerations legislators should take when establishing PBF metrics is awarding points for enrolling and supporting underrepresented students as well as awarding more points for degrees than for certificates.
- Finally, states should minimize the percentage of institutional budgets accounted for by PBF, especially for institutions that primarily serve under-resourced students.

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**ISSUE**

In 2019, postsecondary degree attainment for Americans aged 25 to 34 was at 50 percent, placing 10<sup>th</sup> among Organizations for Economic Cooperation and Development (OECD) countries.<sup>1</sup> While former president Obama’s ambitious goal of becoming a global leader in percentage of college graduates by 2020 has not been achieved,<sup>2</sup> his push for increased accountability from postsecondary institutions remains important to stakeholders. Students and families hold institutions accountable for the quality and value of their education, employers expect institutions to produce well-qualified candidates to meet workforce demands, and the public hopes to benefit from the societal contributions of institutions from research and educated graduates.<sup>3</sup>

In addition, the federal and state governments as major funders expect postsecondary institutions to spend their budgets efficiently.<sup>4</sup> One of the ways state governments are holding institutions accountable for an efficient use of public resources is by implementing performance-based funding (PBF). PBF, unlike traditional enrollment-based funding, allocates state funding to public institutions based on students’ outcomes.<sup>5</sup>

**CASE STUDIES**

**Texas**

The Texas legislature uses PBF for its community colleges through the Student Success Points (SSP) system. The SPP system designates a certain number of points per each of the 11 milestones achieved by students enrolled in community colleges, including developmental education (remedial) completion, credit hours taken, degree obtainment, and transferring to a four-year institution.<sup>6</sup> For some milestones such as those under the College Readiness metric, only first-time undergraduate students qualify for points.<sup>7</sup> The Texas Higher Education Coordinating Board calculates per pupil SSP each fiscal year, then uses a 3-year average to appropriate points to each community college district (i.e., multi-campus systems).<sup>8</sup> In 2018, the funding rate for SSP was \$172 per point, based on the \$180 million appropriated for the SPP system, approximately 10 percent of total funding for community colleges.<sup>8</sup>

**The Student Success Point System<sup>8</sup>**

<b>College Readiness</b> Developmental Education Completion in Math = 1 point (pt) Reading = 0.5 pt Writing = 0.5 pt	<b>First College-Level Course</b> Passing First Course in Math = 1 pt Reading = 0.5 pt Writing = 0.5 pt
<b>Progress to Credential</b> Completed Credit Hours at the Same Institution 15 Semester Credit Hours (SCH) = 1 pt 30 SCH = 1 pt (additional to above)	<b>Credentials Awarded</b> Degree/Certificate Earned = 2 pts Bachelor’s of Applied Technology (BAT) Associates degree Level 1 or Level 2 Certificate Advanced Technology Certificate Completion of Core Curriculum in Critical Field = 2.25 pts
<b>Transfer</b> Transfer to 4-year Institution after Completing 15 SCH = 2 pts	

**Massachusetts**

The Massachusetts legislature formerly implemented PBF for a few years around 2012 with a focus on community colleges but have since shifted away from PBF.<sup>9</sup> Instead, the state administers a competitive grant program, the Higher Education Innovation Fund (HEIF), to public institutions to design and implement innovative approaches to better student outcomes.<sup>10</sup> The state then replicates successful programs in other campuses to address similar issues around student success. Some examples of past HEIF initiatives that have been adopted throughout the state include the Developmental Education Initiative, a redesigning of remedial programs to increase retention and persistence,<sup>11</sup> as well as the 100 Males to College initiative, which builds college-going identity among low-income Black and Latino male high school students to positively impact their postsecondary success.<sup>12</sup> In 2019, the state allocated \$2.5 million for the HEIF grant program for continuing successful programs and funding new ones.<sup>10</sup>

## POLICY LOGIC

The overarching goal of PBF is to increase accountability for postsecondary institutions to demonstrate the value they return to students and the public for the funding and tuition they receive. By shifting the focus of financing systems from enrollment to performance, PBF incentivizes institutions to invest in ways to increase student retention, persistence, and success rather than just in student entry.<sup>5</sup>

Additionally, milestone designs such as the one through the SSP system, reward institutional efforts to focus on student progress and achievement, rather than placing value only on terminal accomplishments such as degree completion.<sup>7</sup>

Texas is one of 7 states out of 29 that use PBF only in the 2-year public sector.<sup>5</sup> Seventy-five percent of bachelor's degree earners from Texas had attended community colleges at some point;<sup>13</sup> yet, student persistence rate at community colleges remains low at 49 percent in 2020.<sup>14</sup> Therefore, Texas incentivizes 2-year public institutions through PBF to address issues of postsecondary degree attainment most effectively within the state's context.

## EVIDENCE

Evidence shows inconclusive results on the effectiveness of PBF on quantifiable student outcomes, but research does suggest that PBF influences institutional behavior overall. Much of the literature that attempt to measure PBF effectiveness tend to focus on student characteristics rather than institutional ones, and there is no firm evidence that PBF has a significant effect on remedial completion rates, retention, or degree completion that controls for student input.<sup>15</sup> When considering PBF as an accountability measure to incentivize institutions to adjust their student success practices, PBF positively influences some institutional behaviors.<sup>5</sup> Institutions participating in PBF prioritize student achievement and engage in data-driven practices,<sup>15</sup> through efforts such as adding tutoring and supplemental instruction programs and mandating new student orientations.<sup>5</sup>

Some major unintended consequences of PBF are the significant differences in funding receipt based on the student demographics served by institutions and the lowering of academic quality and expectations. In their 2017 study of PBF in Texas, McKinney and Hagedorn found that student characteristics that resulted in more SSP per student included being Asian, 19 years old or younger, a high school graduate (as opposed to General Educational Development [GED] holder), and Pell-grant recipients.<sup>16</sup>

"Pell-grant recipients" may be a counter-intuitive characteristic but considering the 40 percent rate of Free Application for Federal Student Aid (FAFSA) completion among Pell eligible students at community colleges,<sup>17</sup> the "recipient" characteristic may signify higher persistence in relation to SSP,<sup>16</sup> rather than signifying low-income as generally associated with Pell "eligible" students. Outcomes as a function of student characteristics may result in institutions directing their recruitment efforts toward more desirable students based on these characteristics, potentially reallocating need-based state funding to students of less need.<sup>18 19</sup>

Institutions may also lower academic quality and expectations to gain more PBF, by making successful outcomes easier to attain, rather than helping students meet higher standards.<sup>18</sup> Such practices can be observed by an increase in the number of certificate attainment to count as degree completion instead of an associates or a transfer/bachelor's degree.<sup>20 21</sup>

## RECOMMENDATIONS

Performance-Based Funding can be a beneficial tool for policymakers to influence institutional behavior if used cautiously. State legislators must consider multiple layers within the context of the state, including which institutions to implement PBF, what metrics should be used to assess outcome, what percentage of institutional budget will be rewarded through PBF, and any additional incentives for outreach efforts. States where students have better access to community colleges should implement PBF at 2-year institutions to incentivize student success efforts, while other states may consider PBF at 4-year institutions or in both sectors. States need to be specific and thoughtful about the metrics to which they wish to hold institutions accountable. For example, when using degree completion

as a metric, awarding more PBF for associates degrees and transfers may adjust institutional behaviors from pushing short-term certificates.

Incentivizing under-resourced schools to better serve under-resourced students is not efficient nor equitable. States should minimize the percentage of institutional budget accounted for by PBF to prevent institutions from adjusting recruitment behavior based on student characteristics for survival. Additionally, states can prevent selective recruitment by rewarding outreach to underrepresented groups by making diversity as a success metric or offering points for program initiatives such as those that assist student FAFSA application to increase Pell-grant recipients on campus.

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