Performance-Based Funding for Higher Education

Executive Summary

Funding for higher education in Missouri, when adjusted for inflation, has decreased over the past decade. In light of lower funding levels, there have been calls to distribute the state's limited higher education funds more responsibly. Performance-based funding is meant to provide financial incentives for institutions to grant degrees and improve on-time graduation rates. HB 2602 and SB 1077 would create performance-funding formulas for each university and two-year college funded by the state.

Highlights

- A majority of empirical studies demonstrate that performance-based funding is not associated with significant improvements in the outcomes being measured.
    - States that allocate larger portions of higher education funding based on performance are most likely to see shifts in the number and type of credentials awarded, such as increased short-term certificate completion and decreased associate degree completion.
- Common institutional responses to performance-based funding policies include increasing selectivity in admissions, lowering standards for degree completion, and improving institutional student support systems.
- Performance-based funding may disproportionately benefit larger, high-resource institutions. In the absence of equity incentives, these funding models are also associated with reduced higher education enrollment for underrepresented students.

Limitations

- Funding incentives are not the only factor that contributes to student enrollment, retention, and degree completion. Achievement gaps due to prior academic preparation, family circumstances, financial security, and student motivation have also been associated with postsecondary student outcomes.
- Additional research is needed to understand what funding incentives are most effective to increase postsecondary enrollment and completion for traditionally underserved students.

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Research Background

Missouri & Higher Education Funding Formulas

When adjusted for inflation, funding for higher education in Missouri has decreased over the past decade (Figure 1).[1] Most states have shifted away from enrollment-based funding models and now consider school performance to some extent when they allocate higher education funding.[2] Missouri currently has reporting requirements for performance metrics (RSMo 173.1006) and criteria for university funding increases (RSMo 173.1540) in statute, but has not funded performance-based allocations since 2017. HB 2602 and SB 1077 would create performance-funding formulas for each university and two-year college funded by the state. The formulas would be based on a three-year average performance score of the school multiplied by the number of enrolled students. The funding formulas differ slightly between colleges. The earnings figures will be adjusted for cost-of-living and not include unemployed or students in graduate programs. The funding formula will be phased in and not be 100% of state funding until 2026.

Under this legislation, university funding would be based on the incomes of students that graduated six and ten years ago (30%); the average earnings of Pell Grant recipients (25%); the proportion of Pell grant recipients (20%); the proportion of recent graduates in education, law enforcement, or social work who work in Missouri in these fields (15%); and the proportion of graduates that stay in Missouri for work or graduate school the year following graduation (10%). Two-year college performance scores will be determined using the average earnings of students that graduated three and five years ago (40%); the earnings of graduated Pell Grant recipients (30%); and the proportion of students that are Pell Grant recipients (30%).

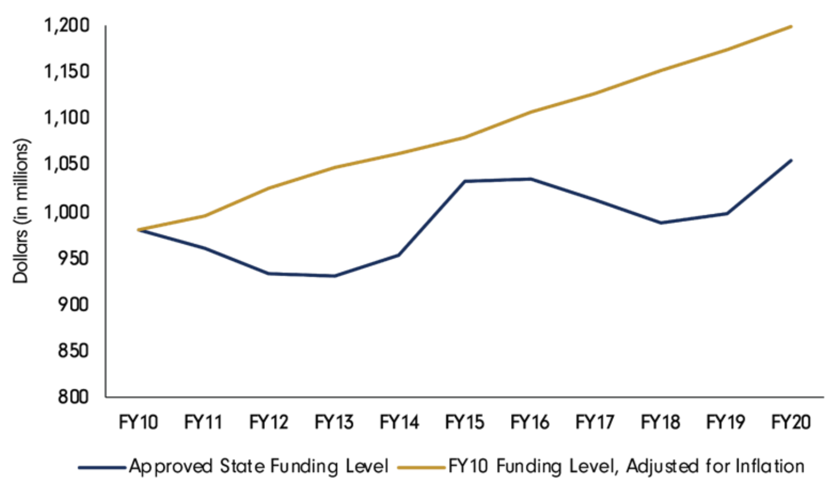

Figure 1. Missouri higher education funding. The blue line represents total funding levels for FY10-20, excluding returns and multi-year appropriations.[1] The gold line indicates the funding level required, adjusted for inflation, to maintain FY10 levels of support.

Specific funding formulas vary between states based on (1) whether they apply to two- and four-year institutions, (2) the percentage of state funding calculated based on performance (Figure 2), (3) what performance/outcomes are measured, and (4) if additional incentives are offered. Many states add specific incentives to adjust funding levels based on student and institutional characteristics. Some states (not including Missouri) provide extra funds to institutions that award degrees in high-need fields (usually STEM). As of

2018, Florida and Louisiana were the only state models that accounted for job placement after graduation. Altogether, the emphasis that performance-based funding places on postsecondary metrics has been associated with improved data collection and reporting for higher education institutions.

Performance-Based Funding in Other States

Missouri has implemented and rescinded various performance-based funding programs since the 1990s. The current model, approved by the State Board of Education in 2018, requires that at least 90% of core funding increases are distributed based on performance measures. No more than 10% of funding increases can be distributed based on equity measures.[3] Although performance-based funding increases occurred in 2014–2017, no budget requests for performance-based allocations were approved between FY 2018–2020.

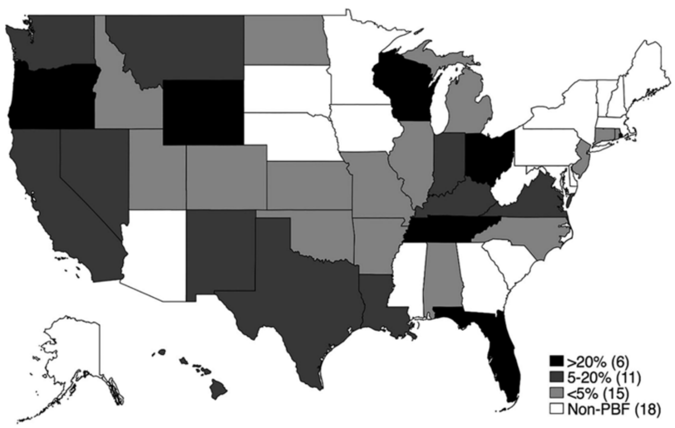

Figure 2. Share of funding tied to performance, FY 2020. Darker shading indicates that more of the state's higher education budget is allocated based on performance metric.[2]

Tennessee has used performance-based funding longer than any other state, and allocates one of the largest proportions of higher education funding in their current model. A 2017 report found that under their performance-based funding formula, enrollment increased at Tennessee community colleges but not at universities.[4] A higher proportion of students receiving Pell grants enrolled in both types of institutions but there was no change in Black or Hispanic student enrollment. Degree completion/transfer decreased for part-time students, but some benefits were observed for full-time students. However, improvements observed in the overall student population typically did not translate to better outcomes in the Pell recipient and underrepresented student subgroups. The most recent iteration of the Tennessee funding formula (OBF 2.0) now specifically accounts for minoritized populations by providing premiums for success of low-income, adult, and underprepared students.

Overall, performance-based funding has not been associated with improved outcomes for most college students.[2] There is evidence that institutional behavior changes in order to meet performance benchmarks. Common changes include improving student support systems, increasing admissions selectivity, and decreasing degree requirements.[2] There is strong evidence that most existing performance-based funding structures either worsen or do not improve the enrollment of underrepresented groups.[2,5,6] States with the largest proportions of state funding linked to performance (i.e., Ohio & Tennessee) tend to see the largest effects on the number of credentials that are awarded. While there do not seem to be improvements in associate and bachelor's degree completion, the strongest improvements appear to be in short-term certificate program completions at community colleges.[7,8] This suggests that community colleges may be emphasizing certificate completion, sometimes at the expense of associate degrees, despite the research showing limited labor market impacts of short-term certificates. Because a significant portion of low-income and underrepresented students typically attend these institutions, it is feasible that existing performance incentives may perpetuate economic inequality.

References

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