

Performance-based funding for higher education



Highlights

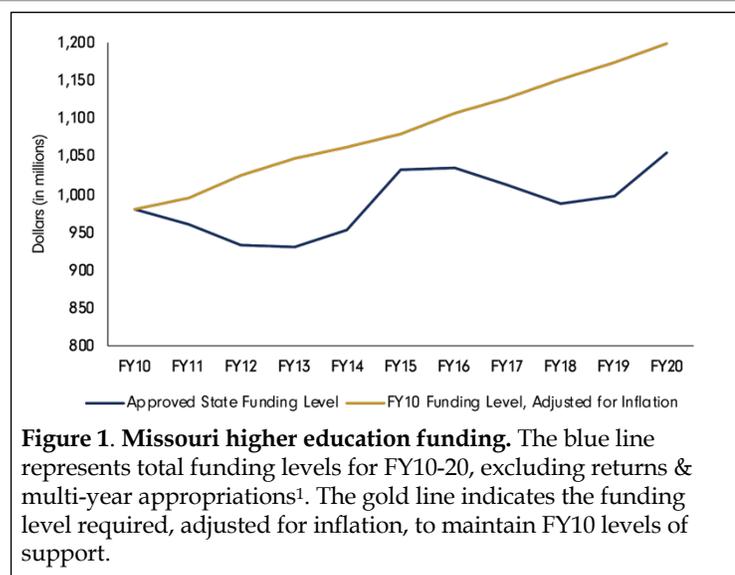
- A majority of empirical studies demonstrate that performance-based funding is **not associated with significant improvements in the outcomes being measured**. States that allocate larger portions of higher education funding based on performance are most likely to see shifts in the number and type of 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.

What is performance-based higher education funding?

When adjusted for inflation, funding for higher education in Missouri has decreased over the past decade¹ (Figure 1). In light of lower funding levels, there have been calls to distribute the state's limited higher education funds more responsibly. Most states have shifted away from enrollment-based funding models and now consider school performance to some extent when they allocate

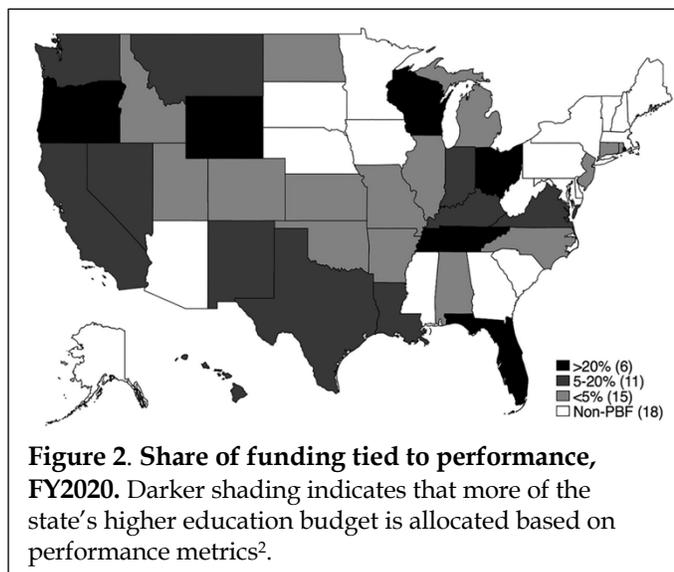


This science note was prepared by MOST Policy Initiative, Inc. a nonprofit organization aimed to improve the health, sustainability, and economic growth of Missouri communities by providing objective, non-partisan information to Missouri's decisionmakers. For more information, contact Dr. Brittany Whitley – brittany@mostpolicyinitiative.org.

higher education funding². Performance-based funding is meant to provide financial incentives for institutions to grant degrees and improve on-time graduation rates. 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.

How does Missouri’s performance-based funding model compare to 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 measures³. Although performance-based funding increases occurred in 2014-2017, no budget requests for performance-based allocations were approved between FY 2018-2020.



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 universities⁴. 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”, 2016) now specifically accounts for minoritized populations by providing premiums for success of low-income, adult and underprepared students.

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Overall, performance-based funding has not been associated with improved outcomes for most college students². 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 requirements². 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 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.

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