



PERFORMANCE FUNDING MODELS FROM STATE TO STATE

Illinois Board of Higher Education
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BRIEF HISTORY OF THE BASICS

- ❖ 35 States currently use Performance-Based Funding (PBF) Models
- ❖ Models differ widely from state to state
- ❖ Today's fiscal environment has forced states to carefully consider how their limited dollars are spent
- ❖ We will briefly look at 3 states and their experiences with PBF
- ❖ Tennessee and Ohio prove to have two of the best performance funding models in the nation by today's standards



Indiana



- ❖ PBF model was first implemented in 2003 and initially incentivized public research heavily
- ❖ The formula is reviewed and adjusted every two years
- ❖ The focus has shifted/evolved over time to metrics that measure outputs directly tied to student success and completion outcomes
- ❖ In FY19, Indiana reallocated 4.16% of base funds and then added 2.5% in new dollars equating to 6.5% of total operating dollars
- ❖ Current model includes 6 metrics:
 - ❖ Overall Degree Completion
 - ❖ On-Time Graduation Rate
 - ❖ At-Risk Degree Completion
 - ❖ High-Impact Degree Completion
 - ❖ Student Persistence
 - ❖ Remediation Success

Ohio

- ❖ Initially allocated a small percentage of its total higher education funding for performance, but now exceeds 30%
- ❖ Among four-year universities, course and degree completion drive 80% of performance funds
- ❖ Reward the achievements of “at risk” students defined by economic, demographic and college-preparedness data collected by the state
- ❖ Ohio makes use of 3 separate formulas to account for the different missions of each sector





Tennessee

- ❖ Tennessee has the most aggressive Performance Based Funding Model
- ❖ 85% of total state higher education funding is allocated on the basis of performance
- ❖ Performance is measured on student retention, degree attainment, and completion of remedial courses
- ❖ Similar to Illinois, there is a 40% premium for adults and students receiving Pell Grants
- ❖ Various factors are weighed (retention, research, job placement)

“EVALUATING THE IMPACT OF PERFORMANCE FUNDING IN OHIO AND TENNESSEE”

- ❖ 2017 study conducted on behalf of the American Educational Research Journal by:
 - ❖ Nicholas W. Hillman – Associate Professor of Educational Leadership and Policy Analysis
 - ❖ University of Wisconsin-Madison
 - ❖ Alisa Hicklin Fryar – Associate Professor of Political Science
 - ❖ University of Oklahoma
 - ❖ Valerie Crespín-Trujillo – Doctoral Student in the Department of Educational Leadership and Policy Analysis
 - ❖ University of Wisconsin-Madison

WHY OHIO AND TENNESSEE?

- ❖ Statewide college completion goals
- ❖ Performance funding policies are the centerpiece of their respective higher education policy agendas.
- ❖ Larger weights on degree completions than on any other performance outcome
- ❖ Build performance funding into each college's base budgets, differentiated by sector, rather than having funds be add-on or bonuses
- ❖ Implemented PBF long enough to observe changes in degree production

OHIO & TENNESSEE DATA SELECTION

- ❖ Ohio and Tennessee were compared to 3 groups:
 - ❖ Geographically close schools without PBF
 - ❖ Other schools without PBF chosen at random
 - ❖ Schools with PBF chosen at random with no geographic restrictions
- ❖ The data used includes two-year and four-year universities that award undergraduate degrees and receive state appropriations
- ❖ All data is CPI-adjusted to 2014 dollars
- ❖ The performance outcomes used in the analysis include degree and certificate completion

FIGURE 1

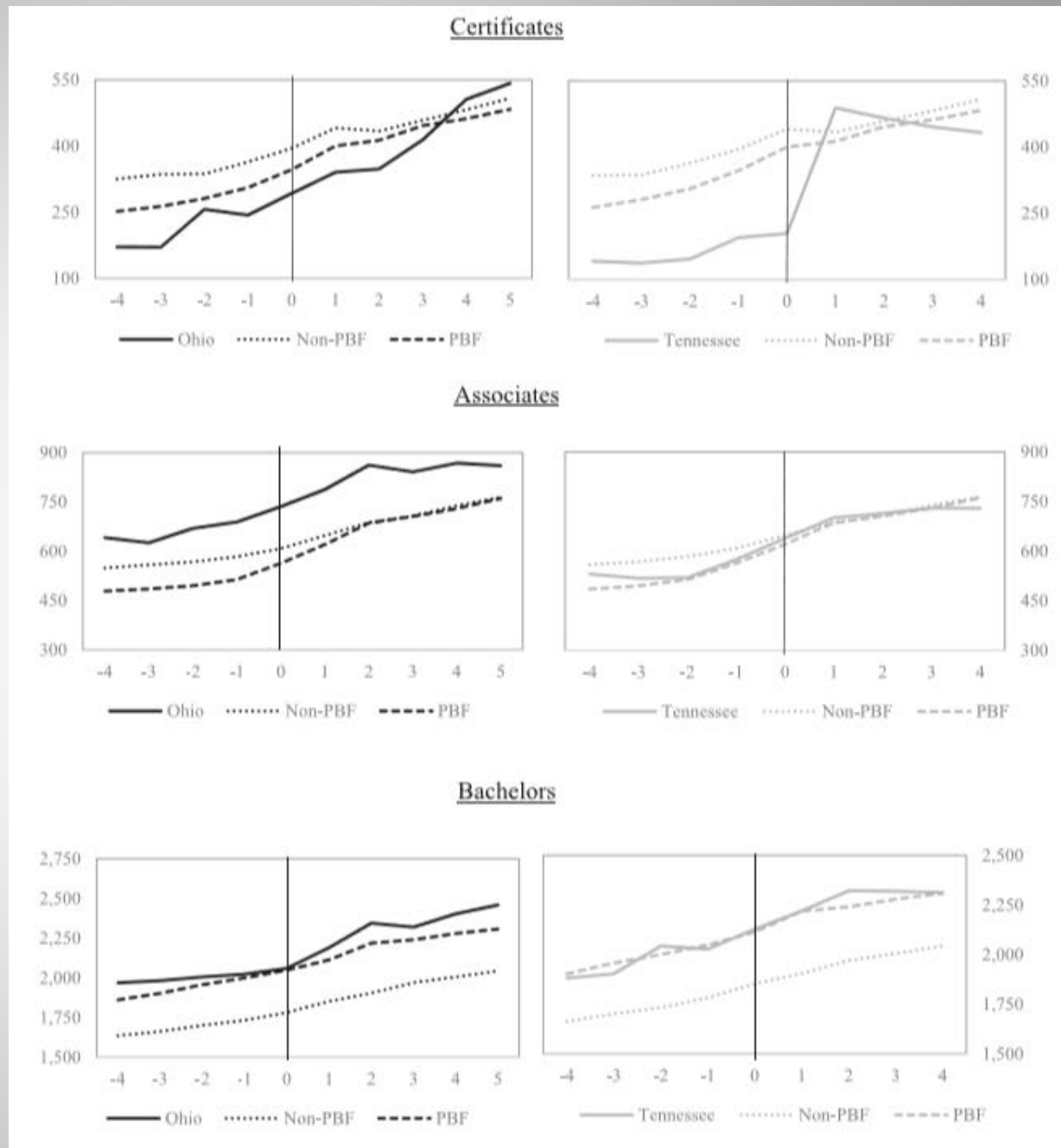


Table 4
**Effects of Performance Funding on Bachelor's Degree
 Production Among Four-Year Colleges**

	Ohio			Tennessee		
	Region	Non-PBF	PBF	Region	Non-PBF	PBF
Treat \times Post	0.036 (0.052)	-0.013 (0.054)	0.001 (0.053)	0.019 (0.029)	-0.014 (0.024)	0.033 (0.028)
Year in operation						
0	-0.024 (0.028)	-0.071* (0.031)	-0.040 (0.023)	0.019 (0.021)	-0.021 (0.016)	0.021 (0.018)
1	-0.048 (0.051)	-0.099** (0.032)	-0.040 (0.033)	-0.001 (0.026)	-0.029 (0.021)	0.002 (0.021)
2	0.001 (0.040)	-0.021 (0.038)	-0.018 (0.040)	0.06 (0.031)	0.022 (0.022)	0.064* (0.030)
3	-0.013 (0.087)	-0.02 (0.100)	-0.016 (0.115)	0.012 (0.050)	-0.013 (0.043)	0.048 (0.050)
4	0.079 (0.069)	0.047 (0.087)	0.063 (0.103)	0.013 (0.047)	-0.027 (0.039)	0.041 (0.044)
5	0.113 (0.079)	0.100 (0.093)	0.106 (0.105)	— —	— —	— —
Observations	630	2,730	800	790	2,630	700
Institutions	63	273	80	79	263	70
Institution fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
State time trend	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes
R^2 (Treat \times Post)	0.33	0.47	0.36	0.55	0.54	0.63

Note. Clustered standard errors in parentheses. PBF = performance-based funding.

* $p < .05$. ** $p < .01$.

TABLE 4

RESULTS

- ❖ Both Tennessee and Ohio increased certificate production as a result of PBF
- ❖ In both states, community colleges produced significantly fewer associate's degrees than community colleges in other PBF states.
- ❖ Neither Ohio nor Tennessee has PBF induced four-year colleges and universities to produce more bachelor's degrees.

QUESTIONS?



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