



## Adopting Performance-Based Funding

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The Ohio legislature is poised to drastically change the way in which the state funds its public colleges and universities.

The [new funding formula](#) is part of the state's forthcoming [operating budget](#), which is being debated this week by the legislature. Instead of funding institutions based on the number of students they enroll, the new formula would appropriate dollars based on colleges' ability to retain and graduate students. While most administrators applaud the move to performance-based funding and the way in which it rewards institutions for their success, some question its fairness and wonder whether it actually shortchanges some of the state's open-access institutions.

Although the University System of Ohio has offered performance-based funding on a limited basis since the 1980s, in the form of special grants to supplement the money colleges already receive, it has been preparing for entirely performance-based funding since last summer. At that time, the Inter-University Council -- which represents the state's 14 public universities -- presented [recommendations](#) to the system's Board of Regents, endorsing the change.

Among the hallmarks of the new formula, most state funding would be based on the number of individual courses that students successfully complete and the average cost of a program, instead of the current practice of utilizing enrollment data from the 14th day of the academic year. Undergraduate student course completion would be weighted against an institution's number of "at risk" students -- defined as those eligible for the [Ohio College Opportunity Grant](#), one of the state's main need-based financial assistance programs. In other words, colleges that enroll more "at risk" students would receive more latitude on their completion rates. Graduate student completion rates would not be weighted in any way.

The formula would also take into account degree completion. Additional weights would be employed for "at-risk" undergraduates based on their actual versus predicted graduation rates. As with course completion, graduation rates for graduate students would not be weighted.

The formula would also consider an institution's "success in attracting and retaining at-risk students" and ability to increase "the number of students taking science and technology-based courses."

The majority of these changes would apply to the state's 14 universities. The 24 university branch campuses and 23 community colleges in the state would have slightly different formulas. The community colleges, for example, would still be funded primarily based on the number of full-time equivalent students, but with new emphasis on their ability to increase the number of students in the fields of science, technology, engineering and mathematics. There is no completion component for the new community college formula.

### Touting Financial Necessity of Plan

Richard L. Petrick, vice chancellor for finance at the Ohio Board of Regents, said system administrators believe that the new formula will encourage improved performance and efficiency at all institutions. Although some critics have argued that it could lead to grade inflation and more-selective admissions processes, he said he does not believe those problems will arise.

"We were aware of the fact that without a careful formula, you will turn all the money over to the most selective institutions, and those institutions who take on the hardest cases will get left out," Petrick said. "I'm not worried. If we've done our homework in correctly identifying at-risk students and adjusting the formula, there shouldn't be those issues."

The Ohio Education Association -- a labor union associated with the National Education Association and representing faculty at more than 15 public institutions throughout the state -- has endorsed the move to performance-based funding. Russ Harris, an association government services consultant, said there has been no significant opposition to the move among faculty.

"Faculty don't feel threatened," Harris said. "The tradition of academic freedom is so strong in these institutions and particularly strong in Ohio. I think you're going to see adjustment to the new formula. There will be better advising, better decisions and more time will be spent laying out study and career paths."

The context of these changes, Harris added, is particularly important. He noted that numerous other state agencies are being asked to cut their budgets by anywhere between 10 and 20 percent to make way for this new funding formula and for a more than 6 percent increase in state dollars for higher education in Ohio. Considering this and the current financial crisis, he said there was more support among faculty than there probably would have been had the matter been proposed in more prosperous times.

"Ten or so years ago, there would have been a lot of business about the pressure to graduate students, the pressure to inflate grades and there would have been a lack of guidance," Harris said. "In this context today, people need to use these resources in the best way to get the greatest gain."

### **Concerns about Implementation**

[Projections of future state appropriations](#) under the new funding formula, however, show relative winners and losers in terms of increased or decreased funds. All of the state's community colleges and nearly two-thirds of the branch university campuses would see increases in funding next fiscal year.

Among the 14 main university campuses, only three institutions would see decreases in funding next fiscal year -- Shawnee State, Youngstown State and Central State Universities. All three are open-enrollment institutions that often cater to traditionally underserved and first-generation students. Central State is also a historically black university. Though the projected decreases in state funding for these institutions as compared to this fiscal year is one percent or less, officials there are approaching the new formula with caution.

Elizabeth Blevins, a Shawnee State spokeswoman, said her institution is finding new ways to cut costs in order to deal with the decrease in funding. Though she said the university has no plans to abandon its mission of access, she did note that the administration was open to moving away from open-enrollment status if funding ever becomes an issue in the future.

Officials at Youngstown State said they had no plans to introduce more stringent enrollment standards in response to the new funding formula. Tom Maraffa, special assistant to Youngstown's president, said the institution would not begin admitting fewer students to improve its appropriation, considering that about two-thirds of the university's budget comes from tuition dollars. Such a move, he said, would only have a "marginal impact" on the university's state funding under the new formula.

Still, he did note that administrators are not pleased that the institution will be seeing a decrease in state dollars. Normally, he said the university would raise tuition to make up the difference but, as the state has put a freeze on all increases, Youngstown officials will have to look elsewhere for funds.

"Conceptually, we all endorse the concept of accountability," Maraffa said. "I don't think anyone disagrees with the approach of looking at funding based on course completions and graduation rates. Still, we are all

underfunded and we all have budget issues. We'd like to get more money than we got last year. Having a tuition freeze and lower state money doesn't make a lot of sense to us."

There is further criticism of the way the formula would be implemented at Central State -- the only main university campus facing projected decreases in state appropriations for the next two fiscal years. Colette Burnette, chief financial officer at Central State, said the formula's narrow definition of "at risk" puts her institution at a financial disadvantage.

"We embrace outcome-based funding, but it's difficult for the state to use one formula and assume one size fits all," Burnette said. "It should not use [those who qualify for the Ohio College Opportunity Grant] as the sole indicator of an 'at-risk student.' The problem being that, when you try to fit that into a formula, it puts us at a disadvantage. We're not going to have high course completion rates. We embrace educationally disadvantaged students, and we won't get credit."

Burnette noted that Central State officials will soon consult with the Regents regarding the new formula, and that she will lobby for a different definition of "at-risk student." As the formula offers strictly defined alterations in course completion and graduation rates, she said Central State could see further decreases in state funds because many of the "at-risk students" it serves do not necessarily hail from disadvantaged socioeconomic backgrounds.

"The formula falls short," Burnette said. "If it were molded more properly it wouldn't be falling short. It's ironic that, as one of the few institutions in the state that are open access, we're facing a decline in state funding."

The House of Representatives was scheduled to vote on the state budget -- which includes the new funding formula -- Wednesday. After approval, the budget will go to the Senate for further review.

— **David Moltz**

## Competing Completion Initiatives

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WASHINGTON -- Educators who gathered on Capitol Hill Monday lauded President Obama's plan to fund state-based initiatives to improve college completion rates, and urged Congress to incorporate it in the [forthcoming federal budget](#).

Among the new programs [the administration has proposed](#) in its 2009-10 budget is the "College Access and Completion Fund." This program would spend \$2.5 billion, over the course of five years, on supporting state efforts to boost the college completion rates of low-income students. A to-be-determined evaluative component would assess these many efforts in order to pinpoint the most successful ones.

The proposed federal grant program and some of the innovative college completion projects it could help support were among the key topics discussed at a panel discussion of educators held by the College Board Monday.

Michael S. McPherson, president of the Spencer Foundation, said he was encouraged by the inclusion of the "College Access and Completion Fund" in the president's proposed budget. He argued that only through "self-conscious efforts to experiment" would colleges learn how to stem the tide of dropouts. This program, he said, showed federal restraint and "respect for local knowledge," noting that what might work in one area of the country might not always work in another.

"You have to get excited about your failures," McPherson said of many college completion initiatives. "That's how you get better."

A number of the panelists expressed their support for performance-based funding -- a model that would appropriate state dollars for higher education based on course completion and graduation rates instead of enrollment figures. Shifting to this method of appropriation, they argued, would incentivize institutions to improve completion rates.

Stanley G. Jones, commissioner of the Indiana Commission for Higher Education, touted [his state's effort](#) to adopt performance-based funding incentives slowly, over the course of several years and budget cycles. Currently, only a small percentage of the state's appropriations are based on student outcomes. In addition to base funds determined by enrollments, Indiana's funding formula provides additional dollars to institutions depending on how many more degrees they award from year to year. Jones noted that in the coming fiscal year, the state is planning also to consider course completion rates when allotting incentive funds.

This gradual transition, Jones said, is integral to changing institutional focus from enrollments to outcomes and avoiding pitting institutions against one another. By contrast, [Ohio legislators are currently debating](#) whether to shift completely to this style of funding next fiscal year, without any transition.

"Only by shifting funding cycles can you make people pay attention," said Jones, adding that public institutions in his state will have to find a way to lobby for additional funds in the context of their graduation rates.

Although this funding model is geared toward four-year institutions, there was some talk on the panel of encouraging a slightly altered formula to improve community college completion rates.

Richard M. Rhodes, president of El Paso Community College, said there has been discussion of introducing such a model in Texas. Instead of basing funding strictly on course completion and graduation rates -- as this would bankrupt many two-year institutions, considering their poor figures -- such an altered formula would award funds to community colleges based on their ability to improve these rates from year to year, and to attract low-income students.

Rhodes has also encouraged another legislative reform in Texas, this one aimed at improving completion rates at his community college. Currently, the state finances remedial education programs as normal, 16-week courses. El Paso, however, has had more success with students who enter short, two- or three-week remedial courses to prepare for college placement tests. As a result, Rhodes is lobbying the state to endorse non-course based funding for all developmental education programs so that his institution can direct money to a system it has found to encourage retention.

Representatives from the Bill & Melinda Gates Foundation and MDRC, a social policy research organization, were also on hand to discuss [their ongoing efforts](#) to improve college completion. Following up on a [study it did in pre-Katrina Louisiana](#), MDRC is working on a nationwide study to examine the longterm effects of performance-based scholarship programs among groups of low-income students. Initial findings from this study should be available by the end of the year.

Debate about the federal budget continues on Capitol Hill, following last week's non-binding blueprints passed by the House of Representatives and the Senate.

— **David Moltz**