

AGENDA ITEM SUMMARY

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Performance Funding Update
Coordinating Board for Higher Education
September 14, 2017

DESCRIPTION

Allocating some state funds to higher education institutions based on performance has a long history in Missouri. Most recently, Missouri's performance funding model has been used to allocate the majority of funding increases to higher education institutions based on specific performance measures. The intent of this board item is to provide background information about Missouri's performance funding model, to update the board regarding recent work to update the model, and to recommend CBHE approval of revisions to the model.

Background

The Coordinating Board for Higher Education adopted the basic structure of the current funding model in 2012, based on recommendations from a task force of representatives from public higher education institutions, legislative staff, the governor's office, and the Missouri Department of Higher Education. The initial year that funds were allocated using the model was FY 2014.

Performance funding models must be dynamic if they are to remain relevant and effective in promoting achievement of state goals. Since the initial implementation of performance funding, the Missouri model has undergone several revisions.

During the 2014 legislative session, performance funding was incorporated into state statute. The legislation also called for the establishment of an additional performance item "to measure student job placement in a field or position associated with the student's degree level and pursuit of a graduate degree." In order to implement the statutory requirements and to make necessary adjustments to the existing model, a second performance funding task force, with similar membership as the original, was impaneled during 2014. That task force recommended revisions that were adopted by the Coordinating Board. In 2015, in response to major changes in the delivery of developmental education by Missouri community colleges, new measures of student success were adopted for that sector.

Current Status

The current version of the Missouri model is based on broad goals that are common to all higher education institutions. The goals include student success and progress, increased degree attainment, quality of student learning, and financial responsibility and efficiency. Each institution is assessed based on five measures designed to reflect progress in achieving the broad goals. Specific measures include graduation rates, student retention rates, and licensure/certification rates of graduates. Four measures are prescribed by the model, and one is selected by each institution to reflect its mission and scope. Data were collected for the "job placement" measure for the first time for the FY 2018 budget cycle, although some decisions remain regarding success criteria and sustained excellence, and institutions have been encouraged to look for ways to increase the percentage of graduates accounted for in the next collection.

Each institution earns one-fifth of its available performance funding by meeting each of its measures, pending additional data and discussion for the job placement measure. Colleges and universities received new funding through the performance funding formula for fiscal years 2014 through 2017. Although performance items were reported and compiled for FY 2018, no new funds were appropriated to institutions' operating budgets for that year.

National Context

The [National Conference of State Legislatures](#) maintains extensive information about performance funding initiatives and currently estimates that at least 37 states are implementing or have implemented some type of performance or outcomes-based funding for public higher education institutions. While this represents a broad trend in general, each model is somewhat different, reflecting the unique situation and

background of each state. Some states include only their two- or four-year sectors in the model. Additionally, the amount of funding allocated through the model ranges from a high of 100 percent in Ohio to a low of one percent in Illinois.

[HCM Strategists](#), a Lumina-funded organization working with states on performance issues including funding, recently published a relatively detailed review of 25 state performance funding models. Information from that study indicates that 19 of those states allocate some portion of institutional base funding through a performance or outcomes-based funding mechanism while only five, including Missouri, only allocate new funds. However, of those states that include base funding, only four allocate more than 80 percent and only seven allocate more than 10 percent of total funding through a performance funding process. The majority of the states that allocate higher amounts have a performance funding process that is a component of a more comprehensive funding formula that also incorporates such items as enrollment sensitivity and mission differentiation as part of funding decisions.

2017 Review Process

As directed by Coordinating Board policy, the Missouri Department of Higher Education reviews the performance funding model every three years. While this regular review was already scheduled for 2017, additional issues raised by legislators and other policy makers prompted a more in-depth review of the model. In May, Commissioner of Higher Education Zora Mulligan appointed a task force of interested parties to undertake this effort. The Commissioner's charge to the task force and a roster of its members are attached to this agenda item. The task force has met throughout the summer to work through issues with the current model and to update the structure in response to questions and concerns from constituents and to maintain currency with existing best practices for performance funding models.

While not comprehensive, the following narrative highlights several of the most crucial issues addressed by the task force.

Overall Structure. As mentioned earlier, the current model is built around five broad categories (Student Success and Progress, Degree Attainment, Quality of Learning, Financial Responsibility and Efficiency, and Graduate Outcomes). Based on the proposed changes to specific measures and a general reorganization of the model, it is proposed to reduce the number of categories to three (Student Success and Progress, Efficiency and Affordability, and Graduate Outcomes). It is important to point out that Quality of Learning and Degree Attainment remain incorporated into the model in specific measures. For example, the quality measures in the current model remain relatively unchanged but have been reorganized into the Graduate Outcomes section. The task force believes these changes create a more simplified structure that will help in communicating the impact and value of the model.

Efficiency and Affordability. One of the weaknesses identified in the current model has been its approach to the issues of institutional efficiency and affordability. While there were measures relating to these subjects, the measures were sometimes institutionally identified and, in some instances, success on the measure could not be directly linked to improvements in either of these items. The task force has spent considerable time considering possible measures to address these two essential components of the model. In addition, because these issues impact institutions differently based on their sector, discussions of these items were conducted in sector-specific subgroups in order to focus on the unique aspects of each institutional type.

Measure Selection. Because of the diversity of Missouri's public four-year institutions, the current model provides flexibility in measure selection to address these differences. While this flexibility was an important component of the original model, it has come under some recent criticism. In addition, further study of the state of the art in performance funding indicated that Missouri is one of the few states that utilizes this complicated approach. The proposed structure contains no allowance for institutional selection of measures, beyond one item which will be selected based on historical use of the measure and that cannot be revised or changed except in very limited circumstances. Institutional differences will be addressed through the use of the peer institution/benchmarking process.

Weighting. Weighting of various measure inputs is a common approach to provide incentives for certain types of institutional behaviors. For example, the current model provides weighting for graduates in STEM and health-care related fields in order to encourage institutions to enroll and graduate students in these important workforce areas. While it is envisioned these current weights would be maintained, the current model does not address the need to expand the reach of postsecondary education to currently underserved populations. Discussions have focused on incorporating some type of weighting factor for students that are Pell eligible and/or adults (25+).

Current Status

While much progress has been made in the development of the revised model, at the time of the publication of this agenda item, final decisions on several of important measures for all sectors remain. A meeting of the task force is scheduled for September 13, just prior to the Coordinating Board meeting. The intent is to attempt to reach a tentative decision on these remaining items, which would result in the ability of staff to bring forward a complete draft of the performance funding structure at the September 14 CBHE meeting. That draft will provide the context for an open discussion with members of the task force and the Presidential Advisory Committee about the content of the performance funding model and the future direction of performance funding in Missouri.

As it will likely be necessary for the task force to meet at least one additional time after the CBHE meeting to iron out final details, staff is not making a recommendation for action on this item at this time. If the task force is able to sufficiently complete a recommended structure on September 13 and depending on the nature of the discussion at the CBHE meeting on September 14, the Coordinating Board should be prepared for initial action on the model. If that threshold is not reached, discussions will continue and action by the Coordinating Board will follow once all of the details have been finalized.

STATUTORY REFERENCE

Section 163.191, RSMo. – State Aid to Community Colleges
Section 173.1006, RSMo. – Performance Measures to be Utilized
Section 173.1540, RSMo. – Annual Budget Requests
Section 178.638, RSMo. – State Technical College of Missouri

RECOMMENDED ACTION

No action is recommended at this time.

ATTACHMENT(S)

Attachment A: Performance Funding Task Force Charge
Attachment B: Performance Funding Task Force Members
Attachment C: Draft Public Four-year Institution Performance Funding Structure
Attachment D: Draft Public Community College Performance Funding Structure
Attachment E: Draft State Technical College of Missouri Performance Funding Structure



MEMORANDUM

TO: Performance Funding Task Force Members

FROM: Zora Mulligan
Commissioner of Higher Education

RE: Draft Task Force Charge

DATE: May 30, 2017

Thank you for agreeing to serve on the Performance Funding Task Force. I appreciate the time you will dedicate to this important task. Deputy Commissioner Leroy Wade will review the following draft charge during the May 31 task force conference call. Your feedback is welcome. I will present a final charge to the Coordinating Board at their June 8, 2017, meeting.

As you are likely aware, questions have been raised about the credibility of our existing performance funding model. A [report](#) from the state auditor noted that institutions have considerable latitude in selecting and changing the peer institutions to which they are compared. Conversations with legislators suggest skepticism about the model's definitions of successful performance and about reliance on data about the performance of a narrow subset of students – those enrolled for the first time and on a full-time basis – and a belief that graduate outcomes is an essential component of the model. Finally, Governor Greitens has expressed his intention to make individual recommendations about institutions' core operating appropriations and to use data about each institution's performance to make those decisions.

Together, these factors establish a compelling rationale for the Department of Higher Education to convene this task force. I ask that you consider the following issues and make recommendations regarding each:

1. Reward collaboration.
2. Develop a credible and comprehensive measure or index of institutional efficiency.
3. Make the peer selection process credible, transparent, and robust.
4. Evaluate the existing approach to measuring graduate outcomes and determine whether changes are warranted.
5. Evaluate the existing practice of allowing institutions to choose among measures.
6. Consider alternatives or additions to first-time, full-time data to ensure that all students are counted and all institutions' performance is properly considered.

7. Identify elements in the model for which weighting can be applied to encourage alignment with the state's postsecondary education goals.
8. Review the threshold for "sustained excellence," which is the shorthand in the existing model for a level of performance that is sufficiently high that improvement is not required to "succeed" on the measure.
9. Establish a floor for "successful performance."
10. Develop protocol for ensuring that data can be verified.
11. Other issues identified by the task force.

I ask that you complete your work in time to present recommendations at the September 14, 2017, Coordinating Board meeting, and I thank you again for your service.

Performance Funding Task Force - 2017

Four-year Institutions

Kathy Mangels – Vice President, Finance and Administration, Southeast Missouri State University

Brad Hodson – Executive Vice President, Missouri Southern State University

Clif Smart – President, Missouri State University

Bob Vartabedian – President, Missouri Western State University

Cuba Plain – Assistant Vice President, Budget Planning and Development University of Missouri System

Paul Wagner – Executive Director, Council on Public Higher Education

Community Colleges

Hal Higdon – Chancellor, Ozarks Technical Community College

Jon Bauer – President, East Central College

Lenny Klaver – President, North Central Missouri College

Shelley Kneuvean – Vice Chancellor, Financial and Administrative Services, Metropolitan Community College

Kelli Burns – Director, Institutional Research and Planning, St. Louis Community College

Ann Brand – Missouri Community College Association

State Technical College

Rick Mihalevich – Director of Institutional Research and Planning

Legislative Staff

Trevor Foley – Senate Appropriations Staff

Kate Hangle – House Appropriations Staff

Kevin Gwaltney – Executive Director, Joint Committee on Education

Governor's Office

Drew Erdmann – Chief Operating Officer

Public Four-year Institution Performance Plan

Student Success and Progress

- Completions per student FTE
- Percent of students meeting or exceeding identified threshold on one of the following assessments (permanent selection based on past usage)
 - General Education Assessment
 - Major Field Assessment
 - Professional/Occupational Licensure Exam

Efficiency and Affordability

- Change in operating expenditures per FTE compared to CPI
 - FTE weighted by Pell eligibility
- Core expenditures (Instruction, Research, Public Service) as percent of total expenditures
- An affordability measure
 - The following list contains measures under consideration
 - Average debt load of graduates
 - Average net price (semester, AY, or degree?)
 - Cohort default rate
 - Cost of degree as percent of family income (“share of wallet”)
 - Tuition and fee revenue compared to CPI (or wage growth)

Graduate Outcomes

- Administer the First Destination Survey developed by the National Association of Colleges and Employers (NACE). Students are counted as successful if employed full time, employed part time, participating in a volunteer or service program, serving in the military, or enrolled in continuing education in the six months following graduation.

Public Community College Performance Plan

Student Success and Progress

- Three-year completion rate for first-time, full-time entering students (including successful transfer to four-year institution)
- Percent of attempted credit hours successfully completed (by academic year)
- Percent of career/technical graduates who pass required licensure/certification exam

Efficiency and Affordability

- Instructional and academic support expenditures per completed credit hour
 - Discussion options include total expenditures or instructional expenditures
- Tuition and fee charges as percent of median family income (by service area)

Graduate Outcomes

- Percent of total degree and certificate completers attending a two- or four-year institution, competitively employed, serving in the military, or found in state wage records following graduation.

State Technical College Performance Plan

Student Success and Progress

- Three-year completion rate for FTFT entering students
- Freshman to sophomore retention rate
- Ratio of completions to student FTE

Efficiency and Affordability

- Measure in this area currently under review by institution

Graduate Outcomes

- Percent of students meeting or exceeding identified cut score on major field assessment
- Percent of students reported as employed based on 180 day follow-up

DRAFT