

Technical Incentive Funding Model Task Force

Draft Meeting Notes – August 20, 2013

The Technical Incentive Funding Model Task Force met Tuesday, August 20, 2013 at the University of Washington, Gerberding Hall in Seattle. Meeting attendees included:

Paul Jenny, University of Washington
Fran Hermanson, Washington State University
Colin Ormsby, Eastern Washington University
Marc Webster, Washington Student Achievement Council
Gene Sharratt, Washington Student Achievement Council
Melissa Beard, Education Research & Data Center, Office of Financial Management
Paul Francis, Council of Presidents
Ann Anderson, Central Washington University
Steve Vanderstaay, Western Washington University
Julie Garver, Evergreen State College
Paula Moore, Budget Division, Office of Financial Management
Cherie Berthon, Budget Division, Office of Financial Management

Welcome & Introductions & Task Force Operations

OFM staff welcomed everyone to the first meeting of the Technical Incentive Funding Model Task Force. Paula Moore reviewed the Legislative charge and explained that while OFM Budget was tasked with convening and facilitating, the work produced by the task force would be directed by the institutions around the table. Cherie Berthon reviewed the draft work plan and future meeting schedule of the task force. No changes were made.

Setting the Framework: Presentation by Paul Francis, Council of Presidents

Presentation Summary:

Paul Francis provided an overview of Washington's Baccalaureate institutions. Four-, five- and six-year graduation rates at the institutions are in the top five in the nation. Washington is second in the nation in Bachelor's degrees produced per 100 FTE students. In contrast, Washington ranks 49th in the nation in per-student funding and participation in public graduate education.

As a foundation for further discussion, Paul posited that the role for Public Baccalaureates in Washington is to: expand access to high quality baccalaureate and graduate education; advance knowledge in the public interest through research across a variety of academic disciplines; serve the public and enrich the communities in which they reside; address critical regional, state, and local workforce needs; promote interdisciplinary learning and critical thinking skills to affect global change; and to be excellent stewards of public resources.

Discussion Summary:

Task Force members discussed the challenges and risks for students who are under-represented in college. There was a request for data about participation levels in all higher education institutions. Members discussed the change in total state funding, as well as differences in levels of funding per FTE among the various higher education institutions. There was consensus that Washington does not

resemble other states statistically and that institutions should compete against their own past performance.

Demographic Issues in Higher Education: Presentation by Melissa Beard, ERDC

Presentation Summary:

Melissa Beard utilized U.S. Census and Washington Report Card data to illustrate some of the key demographic challenges facing higher education in Washington. Although Washington has a relatively low percentage of the population participating in higher education compared with other states, when combined with in-migration of well-educated people, the result is a population with higher than average educational attainment. Washington consistently ranks high in the percent of adults with a bachelor's or higher degree. Approximately 38 percent of the in-migrants had a bachelor's or higher degree compared with 28 percent of the non-migrants. For Washington adults not enrolled in postsecondary education, over 30 percent have some college education. Data on the ethnic and racial characteristics of the current K-12 population provides a preview of the future college-age population which will be increasingly diverse and multi-ethnic.

Discussion Summary:

Task Force members discussed the importance of having incentives to "reach back" to help those adults with some college to return to school and attain a degree. They also discussed the increasing numbers of students identifying as multi-ethnic and how institutions are working to support the changing population of new students. Members agreed they should focus on measures that are tethered to the future. They also discussed the shift from a "pipeline" of students right out of high school to a "flooding" of students age 18-29 entering higher education and the need to adjust educational services accordingly.

Budget Context: Presentation by Cherie Berthon, OFM Budget

Presentation Summary:

Cherie Berthon reviewed higher education funding trends since 2000. There were recent dramatic increases in tuition revenue and funding for State Need Grant, while state appropriations to institution dropped significantly. While total state appropriations and tuition revenue combined grew by 19 percent from 2000 to 2013, enrollment grew by 23 percent during the same period.

Discussion of Challenges Facing Higher Education

Each of the participants offered their perspective on the challenges facing institutions. All of the institutions agreed that they had been challenged to do more with fewer resources during the extended recession. Several spoke to the challenge of broadening student access after budget cuts reduced resources for student advising and other student support services. Institutions, while showing some improvement in outcomes, are "still not whole."

There was also encouragement for institutions to look for areas of commonality with the Legislative agenda. The recently-passed state budget marked what members hope is the beginning of a period of reinvestment in higher education by the State of Washington.

Enrollments levels which were rising during the recession are beginning to level off and in some cases decline. While funding has not been tied directly to enrollments for several years, it is challenging to move beyond the mentality of dollars tied to FTE students.

The timeframe for budgets and the timeframe for institutional planning are not aligned. Based on HB 1795, which passed the Legislature in 2011, some institutions developed a six-year plan, but those plans have already been interrupted by new Legislative directives. There is a perennial challenge conducting long-range planning when initiatives from Olympia rarely hold beyond a biennia or two.

Institutions that prioritize STEM programs have to hire faculty nationally, often on a cycle of up to two years. The challenge of pitting liberal arts degrees against STEM degrees was discussed, as well as the difficulty in defining 'high need' and STEM degrees.

Performance initiatives should be based on a realistic timeframe. Ideally, incentive funding could bridge Legislative ideas with the reality on campus. It is a problem when dollars are focused on the "sexy" goals, but necessary fundamental expenses are neglected.

Current Goals and Commitments in Higher Education: Presentation by Paul Francis

Presentation Summary:

To remind Task Force members of past performance initiatives, Paul Francis reviewed several former efforts undertaken in Washington. In 2010, the National Governors Association, chaired by Governor Gregoire, launched "Complete to Compete" recommending a set of 10 outcome and progress metrics that all states should collect and publicly report. The goal of the initiative is to increase college completion while improving higher education productivity.

In 2011, the Washington Legislature passed HB 1795 which established Complete to Compete as the performance measurement for Washington's four-year institutions. OFM and the six baccalaureates were directed to display the performance data in a dashboard format. After a close collaboration between OFM Forecasting and the public baccalaureates, the first version of the Higher Education Dashboard became public in late 2011. The Dashboard is a nationally recognized tool for providing standardized, high-quality data on higher education performance.

Another component of HB 1795 required OFM to negotiate Performance Plans with the four-year institutions each biennium. Those plans, posted on OFM's website, profile each institution and their outcomes on common metrics.

Accreditation is an often-forgotten vehicle for measuring institutional performance. It is a voluntary process of recognizing educational institutions for effectiveness, including performance, integrity and quality. A comprehensive, full-scale evaluation of institutions takes place every ten years. Accrediting decisions are not made by the staff of an accrediting association. Accreditation generally affirms that institutional goals and educational program are well devised and that the institution is organized, staffed, and supported to merit confidence from the educational community as well as the public.

Aligning Appropriations and Performance: a presentation by Marc Webster, WSAC

Marc Webster presented on the history and potential value of performance funding in Washington. For the state, incentive funding can "make the case" for higher education appropriations, can help align state and institutional goals, and reward innovation and improvement. Assuming consistent policy goals, it helps the state stay focused on long-term goals in a two-year budget environment.

In the late 1990's Washington passed the "Huff Measures" which withheld 2 percent of general fund-state appropriations until institutions met performance targets in five metrics. It was widely unpopular and abandoned after one biennium.

In 2004 and 2008 the State entered into "performance contracts" with higher education institutions. Funds were not directly linked to performance, but the contracts were a pledge by the state to increase funding in return for increased performance in a variety of metrics. Institutions' funding increases were tied to peer-institution averages. These efforts were unsuccessful for political and economic reasons.

The lessons learned from past mistakes include:

- Get buy-in from institutions, the state, and legislators – Metrics should be meaningful to both faculty and the business office at institutions. Institutional differences should be valued, not punished. Metrics and system should be maintained over the long-term, not changed every two years.
- The incentive funding needs to be large enough to matter to institutions. Ideally, funding comes from new dollars, not a cut-and-return from the base.
- The system and system should be simple, focused on a few broad goals.
- Washington should consider the allocation system. Many states with successful incentive funding systems had existing allocations systems separate from the legislative budget.

Discussion Summary:

Task Force members discussed their perspectives on the overarching goals that should guide a performance funding system. Attainment of more degrees was noted as a commonly cited goal, as was access for larger numbers of low-income and traditionally underrepresented students.

Degrees and graduation rates were discussed extensively. The difference between measuring graduate rates and the number of degrees came up repeatedly because the two metrics incentivize different behaviors. Some expressed an interest in the capturing the competitiveness and quality of education in Washington, but others challenged the notion that quality could be measured by an incentive system.

Members discussed the importance of providing graduates needed by the labor market and incentivizing partnerships with workforce initiatives. Post-graduation success for students was also mentioned. Over time, members began to coalesce around two primary goals: access and attainment.

Dashboard Metrics In Comparison to Other Performance System Metrics

Presentation Summary:

Cherie Berthon and Melissa Beard reviewed a chart that compared metrics currently included in the OFM Dashboard with metrics from Pennsylvania, Indiana, Tennessee and the Student Achievement Initiative.

Discussion Summary:

Several members affirmed that any future effort should be built upon the foundation of the Dashboard metrics and PCHEES data. There was consensus that members had a good sense of the potential metrics available, but needed time to discuss them with the leadership at their institutions. Everyone agreed that each institution should select no more than five metrics which would best measure their contribution to the overarching goals of the state.

Jane Sherman Vice Provost at WSU, while not able to attend the meeting, shared some guiding principles for the designing a performance funding system. The principles included:

1. Start with clear, aligned, overall state goal(s).
2. Identify a limited number (e.g., 4 – 5) of easy to understand metrics (e.g., numbers, not rates).
3. Use valid metrics and reliable data (ERDC in WA).
4. Include institutions throughout the design process.
5. Differentiate metrics to support different missions.
6. Focus on top priorities; include completion gaps.
7. Allocate adequate funding, with phase-in provision.
8. Reward improvement, not reaching targets.
9. Align metrics and incentives with this state’s priorities, by institution.

Members also asked that Institutions review best practices as reflected in the background reading for the meeting. Those include:

- **Actively involve key stakeholders in the funding model’s design.** Much of the success of Ohio’s, Pennsylvania’s, and Washington’s newer programs can be attributed to the widespread support those states received from institutional leaders and the important contributions they made to ensuring the metrics were a fair representation of performance.
- **Ensure that enough money is apportioned for performance to create strong incentives.** Enough of an institution’s funding should be determined by performance to compel actions that would significantly change institutional behavior. Models that allocate performance money from the base budget, as opposed to creating supplemental funding, are more likely to result in stronger incentives.
- **Recognize institutional differences with separate funding formulas or differently weighed metrics.** Community colleges and universities are each unique in their student population, mission, and goals. They therefore require separate funding formulas or should be evaluated against metrics that are weighed differently, depending on their specific characteristics.
- **Integrate all metrics and provisions into the state formula.** Incorporating performance funding into the state’s higher education funding formula, rather than as a set of add-on provisions, makes the overall system more durable when states are faced with budget cuts.
- **Use indicators that emphasize progress.** Early performance-based funding models placed too much emphasis on completion rather than progress, creating unfair and inflexible targets for colleges that serve large at-risk student populations. Newer models stress the importance of progress indicators such as course completion, momentum, and credit attainment, which allow institutions to exhibit performance through incremental measures of individual student progress. Indicators of completion such as degrees conferred and program completion should also be used in a progress context by allowing institutions to demonstrate their improvement over time.
- **Incorporate stop-loss provisions that prevent institutions from losing more than a certain level of funding each year.** A stop-loss provision can help to assuage a major concern by colleges that the new system will create dramatic fluctuations in funding. It also provides institutions with greater leeway to adjust to the new policy.
- **Gradually phase in new measures.** During the implementation phase, states must take care to reduce fiscal uncertainty for colleges. Many models incorporate a learning year before the policy goes into effect, and states such as Ohio also worked closely with colleges to help them understand the impacts of the new funding model. As colleges begin to adjust to new measures of performance, states can also gradually increase the percentage of total funding allocated based on performance.

- **Subject the system to frequent evaluation.** After the new policy goes into effect, colleges may encounter unexpected difficulties with achieving certain performance targets. Institutions producing results that already meet or exceed national standards may also find it difficult to achieve continued progress over extended periods of time. As a result, performance-based metrics and the overall higher education funding model should be subject to frequent review and adjustments should be made where necessary. Doing so provides institutions with more reasonable challenges and greater flexibility over time.

Source: [Performance-Based Funding of Higher Education, the Center for American Progress](#)

Next Meeting

The Task Force will meet again on September 12, at Central Washington University. The meeting is scheduled from 9 am to 4 pm.