Presentation to

South Dakota Interim Committee on Postsecondary Education

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Outline of Presentation

I. Current condition of postsecondary education in South Dakota

II. Principles for designing a performance funding model

III. Examples of performance funding in MHEC states

Current condition of postsecondary education in South Dakota

Need to increase degree production

- 41 percent of adults aged 25-34 currently have an associate's degree or higher
- Demand could reach 60 percent, but projected estimate is only 53 percent.
- Nationally one of nine jobs will be in a medically related area.

College enrollment is strong

- Postsecondary enrollment has expanded:
  - Proportion of residents 18-24 enrolled increased from 33% in 1990 to 40% in 2009.
- 4th in nation in high school graduates directly enrolling in college (72%)

2-year college retention/ graduation rates are fairly high

- Retention rate at public 2-year institutions is higher than national average (70 percent of students are retained into the second year)

- Graduation rate at four-year institutions is also relatively low: 44 percent graduate within 6 years

Need to increase 4-year college retention/graduation rates

- Retention rate is lower than the national average at public 4 year institutions (70 percent vs. 77 percent)
- Graduation rate at public 2-year institutions is also relatively high: 61 percent graduate within three years

Need to improve academic preparation

- Academic preparation for college needs serious attention. Academic preparation is the most important indicator of success at the college level.

- National Assessment of Education Progress (NAEP) results for South Dakota:
  - Over 45 percent of students fail to attain proficiency in math, reading, or science (Only 28 percent from low-income families)

- ACT results: 71 Percent of students do not meet the college readiness benchmark in at least one subject area (English, Math, Reading, Science).

Affordability is low

- South Dakota ranks 50th in funds for state need-based student aid programs
- College attendance for low-income students requires between 46 and 50 percent of family income after subtracting financial aid
- 73 percent of graduates of public 4-year institutions in South Dakota have some student loan debt, compared to national average of 56 percent

Strong performance on most efficiency & effectiveness indicators

- South Dakota's performance on the efficiency indicator is higher than the national average
  - 2.4 degrees per $100,000 of state, local and tuition revenue

- The rate of student success through the educational pipeline in South Dakota has increased considerably from 23 percent in 1998 to 30 percent in 2008.

- Effective degree production in computer science, mathematics and engineering is above average, but is lower than national average in the sciences.

Substantial benefits associated with postsecondary attainment

- Higher earnings, lower unemployment and higher state revenue.
  - e.g., Bachelor's degree means $12,318 more in annual earnings than high school degree

Postsecondary learning

- Are students graduating with the knowledge and skills necessary for gainful employment and effective citizenship?

- Employers seek graduates with “communication skills, analytical reasoning, quantitative literacy, broad knowledge of science and society, field-specific knowledge and skills, intercultural skills, creativity, teamwork skills, ethical reasoning” etc. (Schneider, 2010)

- We lack data for such outcomes. SD institutions do not participate in the Voluntary System of Accountability.

Summary

Postsecondary Enrollment	+
Retention and Graduation: 2-year public	+
Retention and Graduation: 4-year public	–
Academic Preparation	–
Affordability	–
Efficiency and Effectiveness	+
Benefits	+
Postsecondary Learning Outcomes	??

Principles for designing a performance funding model

Tenfold Path to Designing Performance Funding Models

1. Identify key stakeholders
2. Establish broad consensus on a public agenda
3. Assess viability of performance funding
4. Identify appropriate measures
5. Define adequate institutional progress
6. Allocate sufficient funds
7. Link with state appropriations
8. Foster favorable conditions for compliance
9. Prevent gaming the system
10. Evaluate and adjust

The Western Landscape Outcome Based Funding

STATE	DRIVER(S)	STATUS	COVERAGE
Alaska	-------	-------	-------
Arizona	Governing Board, Governor, Legis.	Proposed	Four Year Only
California	-------	-------	-------
Colorado	Legislature, Coordinating Board	Enacted, not Implemented	Two and Four Year
Hawaii	Governing Board	Implemented Not implemented	Two Year Four Year
Idaho	-------	-------	-------
Montana	-------	-------	-------
Nevada	Governing Board, Legislature, Gov.	Proposed	Two and Four Year
New Mexico	Legislature, Gov. State Department	Implemented (in part)	Two and Four Year
North Dakota	-------	-------	-------
Oregon	Governing Board Gov/Legislature	Implemented Enacted	Four Year Two and Four Year
South Dakota	Governing Board, Legislature	Implemented	Four Year Only
Utah	--------	-------	-------
Washington	Two-year Coordinating Bd.	Implemented	Two Year Only
Wyoming	-------	-------	-------

Identify key stakeholders

- Performance funding models may encounter stiff opposition without the involvement of key constituencies
  - Postsecondary institutions to be subjected to performance funding
    - Especially important for institutional leaders to be involved in design of performance funding model
  - Equity-oriented non-profit organizations
    - Address concern that performance funding results in more selective admissions

(Dougherty, Natow, & Vega, 2012)

Identify key stakeholders

- Best In The West
  - Arizona: Imbedded in Lumina "Making Opportunity Affordable (MOA)" efforts; significant Governor involvement
  - New Mexico: Created a broad based group to develop and accept concept – higher ed, state gov, business, community; significant Governor involvement
  - Nevada: very significant buy in at all stages by education leadership; significant Governor involvement

Establish broad consensus on a public agenda

- A public agenda should drive postsecondary reform efforts
  - Goals are the horse; process is the cart
  - Put the horse in front of the cart
  - Goals must drive outcomes funding
- Performance funding model may fail without bipartisan acceptance

(Jones, 2012)

Establish broad consensus on a public agenda

- Best in the West
  - All pretty good
  - New Mexico – neat and clean
    - Graduates for Economy of the Future
      - More
      - More strategic – economic development
    - Greater equity in student outcomes
    - Research for Economy of the Future
  - Colorado
    - Completion agenda
    - Reduce equity gaps
- Not so good
  - Oregon – cart before the horse

Assess viability of performance funding

- Take note that performance-based funding has not yet been empirically validated as an effective means of improving student outcomes (Fryar, 2011; Sanford & Hunter, 2011; Shin, 2010; Shin & Milton, 2004; Volkwein & Tandberg, 2008)
  - But this research focused mainly on aspects of Performance Funding 1.0, not 2.0
  - Also doesn't recognize the most effective performance funding – enrollment based funding and status quo funding

Assess viability of performance funding

- Determine whether your state's ultimate goals for postsecondary reform can be addressed through performance funding

- Ensure you are adopting performance funding because it will be effective, not because it will be easier than other reforms (e.g., improving pk-12 education, increasing college affordability)

Assess viability of performance funding

- If your happy, and you know it …..
  - Don't abandon what is working

- Best In The West
  - New Mexico
    - Strategic Assessment of:
      - Where they were/Where they wanted to be
      - And, why more of the same wouldn't get them there
  - North Dakota and Wyoming
    - Why mess with a good thing

Identify appropriate measures

- Promote institutional focus on state priorities by identifying only 4-5 outcomes aligned with the public agenda (Jones, 2012)

- Consider both intermediate and ultimate outcomes (e.g., course completions, first-year retention, degree completions) (Jones, 2012)

- Account for differences in student characteristics
  - Graduation and retention: need to consider differences in student intent, transfer, and student background characteristics (e.g., academic preparedness, socioeconomic status, ethnicity)

Identify appropriate measures

- Preserve differentiation of institutional missions
  - Different measures for different types of institutions (Jones, 2012)
    - e.g., Community colleges: completion of 12/30 credits; completion of developmental education coursework; transfer-ready or work-ready status (Ewell, 2011)
  - Use different resource pools for different types of institutions (Jones, 2012)
    - e.g., Ohio: main campuses, regional campuses, community colleges

Identify appropriate measures

- Maintain institutional focus on the success of underserved students
  - Sole specification of broad outcome measures (e.g., "graduation rate") can inadvertently incentivize selective admissions policies
  - Ohio model: assigns greater weight to at-risk student completions
  - Tennessee model: 40 percent bonus for low-income student completions
  - Challenge: properly defining "at-risk"

(Dougherty & Reddy, 2011)

Identify appropriate measures

- Measures should reflect quantity AND quality: A sole focus on quantity of graduates can incentivize grade inflation and low academic standards (e.g., eliminating course requirements) (see Kiley, 2011)
  - NGA recommendation: "require public colleges and universities to provide evidence that improvements in completion and attainment are not occurring at the expense of learning" (Reindl & Reyna, 2011)
  - Incorporate value-added learning outcomes into performance funding or performance accountability reporting (see VSA, 2012)
  - Specified learning outcomes should reflect preparation for vocation *and* citizenship ***(if that's what you value)***

Identify appropriate measures

- Best in the West
  - South Dakota – Keep It Simple
    - Credit Hours, Completions (Number, not Rate), Sponsored Research
    - Weighted by level and cost
    - Similar to Nevada, Tennessee, and Arizona
  - New Mexico
    - Tiered: Research, Baccalaureate, and Associate
    - Valid and Reliable measure of educational attainment and workforce development

Identify appropriate measures

- Best in the West
  - Washington
    - Momentum points for Community Colleges
  - Oregon, New Mexico, Nevada
    - Completed Courses as an interim measure
- Not so good:
  - South Carolina, Nevada (1.0)
    - Measuring everything = Measuring nothing

Define adequate institutional progress

- Ideal performance levels should balance aspiration and viability
- Funding based on yearly progress maintains focus on continuous improvement (Jones, 2012)
  - Should allow currently high-performing institutions to compete for performance funding (ceiling effect)

Define adequate institutional progress

- Best in the West
  - Virtually all
    - Focus on “improvement” rather than “achieving the aspirational target”
  - South Dakota 2.0
    - Focus on Increase in Numbers of Graduates, not just Number of Graduates (Do the numbers)

- Not so good
  - Oregon: Aspirational target – 40/40/20– is unachievable

Allocate sufficient funds

- 5 percent or less of state funding appears to be ineffective in increasing graduation rates (Sanford & Hunter, 2011)

- But excessive performance funding could yield strong opposition and unintended consequences (Dougherty & Reddy, 2011)

Allocate sufficient funds

- Best in the West
  - New Mexico
    - Base funding; but Base redefined
    - Modest start, but building to much more
  - South Dakota
    - Shared sacrifice
      - Institutions in base reallocation
      - State in increased appropriation
  - Tennessee – 100% (phased in)
  - Indiana --- But that's Larry's story

Allocate sufficient funds

- Not So Great
  - Colorado
    - 25% sounds great
    - But delayed implementation,
    - And only on increased appropriations
  - Arizona
    - Only on new money

Link with state appropriations

- The Conundrum
  - Performance funding is susceptible to budgetary cuts during fiscal shortfalls if it is not embedded in regular state appropriations
    - Institutional support is highest when performance funding is treated as a new pot of money beyond regular base funding
- You have broken this juggernaut

(Dougherty, Natow, & Vega, 2012)

Link with state appropriations

- Best in the West
  - Some think so – Nevada

- No one really thinking ***ATFA***
  - Integrating Appropriations, Tuition, and Financial Aid
  - Almost always tied only to appropriations; ignoring the others
  - Maybe Washington fits in here with nexus to financial aid

Foster favorable conditions for compliance

- Ensure adequate institutional resources (A governance responsibility)
  - Institutional research staff
  - Retention and graduation programs, student affairs staff
  - Technical assistance for identifying and adopting best practices
  - Remove state regulations that may thwart institutional autonomy needed to adapt (A legislative/gubernatorial responsibility)

Prevent (or shape) gaming the system

- Gaming the system: attaining performance funding without institutional improvement
  - Setting low institutional goals
  - Deceptive practices
- Clearly articulate “valid” responses to accountability demands
- Monitor institutional responses
- Foster faculty support for performance funding model

(Dougherty & Reddy, 2011)

Prevent (or shape) gaming the system

- Best in the West
  - Nevada and Colorado: Ensuring the sum of the parts equal the desired whole
  - Most
    - Clear goals driving desired behavior
  - Not so much
    - Colorado 1.0 – Institutional Compacts not aligned with state goals -- The snookered the state folks

Evaluate and Adjust

- Are institutions granted performance awards based on improved performance or some other factor (e.g., enrollment)? (Wright, Dallet, & Copa, 2002)

- Evaluation necessitates adequate data collection capacities
  - State Longitudinal Data System
  - value-added assessment tests of learning

- Experimentation could reveal need for alternative incentive structures
  - Increasing size of incentive
  - Linking performance with institutional autonomy rather than funding
  - Linking funding with institutional *practices* rather than student outcomes

Tennessee: The Favorite of Many

- Metrics
  - Progression
    - Remedial Success (2 yr)
    - Credit Accumulation (all institutions)
  - Completion
    - Certificates, Transfers, Degrees
  - Economic Development
    - Job Placement
  - Process Efficiency
    - Workforce Training, Dual Enrollment, Awards/100 FTE

Tennessee: The Favorite of Many

- Design Features
  - 100 Percent of Base Allocation
  - Phase in
    - Began where old formula finished
    - Phased in over 4 years
    - Stop Loss Limit
- Issues
- Complexity – doesn't well fit a legislative component
- Is Process Efficiency, as measured, an outcome goal?

Examples of performance funding in MHEC states

Illinois: Public Agenda

1. Increase Educational Attainment.
2. Ensure college affordability for students, families, and taxpayers.
3. Increase the number of high-quality post-secondary credentials.
4. Better integrate Illinois' education, research, and innovation assets to meet economic needs of the state.

(reproduced from Phillips, 2012)

Illinois: Parameters for Performance Measures

- Reward performance of institutions in advancing the success of students who are:
  - Academically or financially at risk.
  - First generation students.
  - Low-income students.
  - Students traditionally underrepresented in higher education.
- Recognize and account for the differentiated missions of institutions of higher education.
- Focus on the fundamental goal of increasing completion.
- Recognize the unique and broad mission of public community colleges.
- Maintain the quality of degrees, certificates, courses, and programs.

(reproduced from Phillips, 2012)

Illinois

In effect	Percent allocated	Funding type	Metrics
2013	.5%	Base	**4-yr institutions 3-yr averages:** -Bachelors Degrees -Masters Degrees -Doctoral and Professional Degrees -Undergraduate Degrees per 100 FTE -Education and General Spending per Completion -Research and Public Service Expenditures -Weights for institutional mission, low-income, adult, Hispanic, Black, and STEM <u>Possible Future Measures</u> -Retention (By Cohort) -Time to Completion (within 100% or 150%) -Students Accumulation of Credit Hours (24/48/72) -Student Transfers -Remediation -Diversity of Staff and Faculty -Quality (reproduced from Phillips, 2012)

Illinois

Metrics (continued)

2-yr institutions:

-Degree and Certificate Completion.
-Degree and Certificate Completion of “At Risk” students.
-Transfer to a four year institution.
-Remedial and Adult Education Advancement.
-Momentum Points.
-Transfer to a community college

(reproduced from Phillips, 2012)

Indiana: Performance Goals

1. College Completion: Increase on-time college graduation rates for Hoosier students to at least 50 percent at four-year campuses and 25 percent at two-year campuses by 2018.

2. Degree Production: Double the number of college degrees and certificates produced currently by 2025 (requires increasing annual degree production from approximately 60,000 degrees to 120,000 degrees).

3. Education Attainment: Increase higher education attainment of Hoosier adults to 60 percent of Indiana's population by 2025 (45 percent by 2018).

(reproduced from Indiana Commission for Higher Education, 2012)

Indiana

In effect	Percent allocated	Funding type	Metrics
2007	5.1 % in 2013(7% in 2015)	Base	**University research campuses:** *Degree Completion* -Overall: Bachelor's, Master's and Doctorate -At-risk (Pell-eligible): Bachelor's -High-impact (STEM field): Bachelor's, Master's and Doctorate *Productivity* -On-time degree graduation for first-time, full-time students -Institution-defined productivity metric (reproduced from Altstadt, 2012)

Indiana

Metrics (continued)

University non-research campus

Degree Completion
-Overall: Bachelor's, Master's and Doctorate
-At-risk (Pell-eligible): Bachelor's

Progression Points
-Completion of 30 and 60 credit hours

Productivity
-On-time degree graduation for first-time, full-time students
-Institution-defined productivity metric

(reproduced from Altstadt, 2012)

Indiana

Metrics (continued)

Community colleges

Degree Completion
-Overall: One-Year Certificate, Associate's
-At-risk (Pell-eligible): One-year certificate, Associate's

Progression Points
-Completion of 15, 30, and 45 credit hours
-Completion of remedial and gateway courses in math and English

Productivity
-On-time degree graduation for first-time, full-time students
-Institution-defined productivity metric

(reproduced from Altstadt, 2012)

Ohio: Goals guiding performance funding

- To graduate more students
- To ensure that Ohio's institutions are making college completion a priority

(Ohio Board of Regents, 2010)

Ohio

In effect	Percent allocated	Funding type	Metrics
2009	15 % in 2012(20 % in 2015)	Base	*University main campuses:* **Rewarded for successful course completion and degree completion.** • The state will calculate a "course completion" FTE for each campus, rather than an "enrollment" FTE. • Course completion will be more heavily weighted at the beginning of the implementation period, with degree completion gradually increasing as a factor. • Course and degree completions by "at-risk students" will be more heavily weighted in the formula. **Funding is maintained for graduate and medical education.** • The graduate education allocation will be based on a number of success factors, including degree completion and externally funded research expenditures. (reproduced from Ohio Board of Regents, 2010)

Ohio

In effect	Percent allocated	Funding type	Metrics
2009	15 % (20% in 2015)	Base	*University Regional Campuses* **Rewarded for successful course completion.** • Course completion will be calculated in the same way as for university main campuses. • A degree completion component will be added in future biennial budgets to recognize regional campuses' role in low-cost "2+2"programs that enable more Ohioans to get a Bachelor's degree through a combination of community college and regional campus credits. (reproduced from Ohio Board of Regents, 2010)

Ohio

In effect	Percent allocated	Funding type	Metrics
2009	15 % (20% in 2015)	Base	*Community Colleges* Community colleges will receive a portion of their funds based on a new concept called "Success Points" that will measure the significant steps that students take toward higher education achievement: 1. Number of students who progress from remedial courses to college level courses; 2. Number of students earning their first 15 semester credit hours of college level coursework at that institution by a given year; 3. Number of students earning their first 30 semester credit hours of college level coursework at that institution by a given year; 4. Number of students who earn at least one associate degree, from that institution, in a given year; 5. Number of students who complete at least 15 semester credit hours at that institution and subsequently enroll for the first time at a four-year college or university in Ohio. (reproduced from Ohio Board of Regents, 2010)

Final Suggestion

- The litmus test for every policy consideration, operational action or motivation should be how it will improve student access and success. If it doesn't result in improvement then ask the question "Is it worth it?"

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