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A New Script for Financing Higher Education

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Problems with Earlier Performance Funding

- Perverse incentives
 - Compromise access
 - Reduce quality
- Invalid measures
 - Especially for community colleges
- Insufficient funding
 - Conventional wisdom: <5%
- Poor design
 - Arbitrary targets
 - Add on/bonus (after funding “to operate”)

Performance Funding Today

- Better measures
- Provisions to protect access
- More funding devoted to performance
- Better design (in a few cases)
- Phase-in (learning)

Persistent Concerns that Are Easier to Address

- Now is not the time (underfunding)
- Institutions are “on it” – don’t need incentives
- Colleges need stability to plan

Persistent Concerns – Even with Performance Funding 2.0

- Impact on quality/standards
- All degrees/certificates are not equal
- Disincentive for innovation
- Disparate capacity for institutional change
- Competition discourages sharing practices

Defining Performance

Audiences – levels and purposes

- Who are you defining it for?
- How will metrics be used?

“Performance” defined for funding purposes

- Align with state goals
- Ultimate completions
- What to do about certificates?
- Progression measures?
- Other: high need, research

Design Features

- How much?
 - What portion of budget?
- Source of performance funds
 - New or reallocated?
- Mechanism for allocating
 - Built into regular funding model/formula
 - Add-on/categorical

Source of Funds

Funding Mechanism

	New	Reallocated
Base	<ul style="list-style-type: none"> • Increase state allocation • Modify funding formula to incorporate performance terms 	<ul style="list-style-type: none"> • No increase in state funding • Modify funding formula to incorporate performance terms
Add-on (bonus)	<ul style="list-style-type: none"> • Increase state funding for new performance categorical line item 	<ul style="list-style-type: none"> • Shift some base funding to create new performance categorical fund

How Does Performance Funding Fit Into Larger Finance Strategies?

- Aligns incentives with state goals
- Creates new institution-level dynamics - identify barriers to success and address
- Does *not* fund specific student success initiatives
- Most effective if institutions have better information on expenditure patterns