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STATES CHALLENGE PUBLIC UNIVERSITIES TO PROVE THEY ARE WORTH THEIR FUNDING

States increasingly link funding of higher education to student outcomes – a model experts predict will lead to winners and losers

By Melissa Korn
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Taking a page from cash-strapped parents, states are increasingly telling their public universities to prove they're worth the investment.

Kentucky lawmakers next week are expected to approve a new formula that ties a significant portion of the state's roughly \$1 billion in public higher-education funding to student outcomes like earning certificates and degrees.

Arkansas Gov. Asa Hutchinson last month signed into law a funding model that, over a few years, will increase the pot of money and begin judging schools against their own baseline figures for keeping students on track toward on-time graduation.

And Wisconsin Gov. Scott Walker has recommended expanding its model, now in use at the state's technical colleges, to four-year public universities.

At least 33 states now use performance-based funding, according to the National Conference of State Legislatures, meaning they divvy up appropriations in part by looking at outcomes that might include graduation rates, debt loads or graduates in high-demand fields like engineering. Funds tied to such outcomes range from a few percent in Washington state to nearly the entire pool in Tennessee.

Historically, states have doled out funds based on enrollment figures, or reissued dollars just by looking at the prior year's allotment – which some call the inertia model. Now, the focus is on getting students to graduate and land jobs, not just getting them into school.

"While there's comfort in" the old model, "there's no logic," said Kentucky state Sen. David Givens. He sponsored the bill now working its way through Kentucky's legislature, which has backing from the governor.

The Kentucky formula considers how quickly students advance and which subjects they study, in addition to how many graduate. For the first year, 5% of the state's funding pool would be allotted through that model; the next year all money will flow through the formula, with about 70% tied to student outcomes. The formula initially limits how much money could be cut from schools that might struggle in the transition because of large populations of riskier low-income, part-time or first-generation students.

Critics say cutting funds from schools where outcomes aren't already on the upswing perpetuates a downward spiral in performance, because it may pull funds from schools that need them for more academic advising and other support services.

"There are winners and losers, no doubt, in our model," said Russ Deaton, deputy executive director of the Tennessee Higher Education Commission. A small share of dollars in that state were allocated based on school performance beginning in 1979; the formula became entirely outcomes-based in 2011.

He said all but one of Tennessee's community colleges now get more money than they did before the 2011 shift, while total funding to four-year universities is up about 20% in that period. Cumulative gains range from about 2% at Tennessee State University to 42% at Austin Peay State University.

The likely payout can be limited for schools with stellar student outcomes. In Massachusetts, Worcester State University got about \$1.6 million in bonuses over the past three years as a result of high marks on performance-based funding measures, including boosting its six-year graduation rate last year to 55.8% from 48.8% while maintaining a diverse student body.

The school's annual budget is about \$106 million, with roughly \$26 million coming from the state.

While President Barry Maloney said he is grateful for the extra funds, which have covered IT upgrades and new training for academic advisers, it does little to address deeper problems like remedial education, retaining top-notch faculty or helping meet significant student financial need.

Despite the models' growing popularity, student outcomes don't improve dramatically when funding is tied to graduation rates or similar measures, according to research by Nicholas Hillman, an associate professor of educational leadership and policy analysis at the University of Wisconsin, in Madison. That campus would be affected by Mr. Walker's proposal to divvy up funds based on factors like the share of degrees in high-demand fields, how long it takes students to graduate and how efficiently a school's administration operates.

"I don't want to be the skunk at the garden party, but you want to have evidence-based policies and this is what the evidence says," Mr. Hillman said. Still, he said, there can be value in pushing institutions to reflect more on how they can best serve students.

Higher-education policy experts say one concern is that schools could game the funding system by lowering academic standards, or by shying away from low-income students with less academic preparation.

A 2016 study by researchers at Seton Hall University, in South Orange, N.J., found schools subject to performance-based funding formulas received fewer Pell Grant dollars, meaning they weren't enrolling as many low-income students as their counterparts in states where public funds weren't tied to student outcomes.

State officials in Ohio, Tennessee and elsewhere say they try to protect against such moves by giving extra credit to schools that succeed with those riskier students.

Florida Atlantic University in Boca Raton came in 10th out of 11 schools in 2014, the first-time Florida ran the newest iteration of its performance-based funding model. The university had \$7 million of its roughly \$256 million in state funding withheld until it outlined an improvement plan. The school relies on state funds for about one-third of its total operating budget.

President John Kelly said the university's poor showing led it to rethink how it handles academic coaching and to revise its admission standards. He said the school, by becoming more selective, isn't stopping anyone from going to college, but rather is "redirecting students to a place where they could be more successful," such as a community college, before they transfer to Florida Atlantic.

The school tied for the top spot in the 2016 performance-based funding formula, yielding it an additional \$25 million that went to new faculty hires and academic advising.