



# Do States Get What They Pay For? The Search for Quality in U.S. Higher Education

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# Introduction

- How important is the quality indicator issue?
  - ◆ SHEEO surveys its members about the most important higher education issues of the day: Effectiveness and accountability – including performance-based funding was #3 of the top 27 listed.
  - ◆ The National Association of Budget Officers has called performance-based budgeting the most significant trend in state budgeting.

# Introduction

- ◆ Many 1999 state legislative sessions were highlighted by proposals to increase the use of performance measures and other accountability requirements.
- ◆ Affordability, workforce preparation, accountability, performance-based funding, and reform of teacher preparation programs were the top issues facing higher education on state legislative agendas in 2000.

# Topics of Discussion

- History and evolution of performance measures in U.S.
- Overview of performance funding and performance budgeting
- Survey of the states
- The Colorado Quality Indicator System
- What's next?

# History and Evolution of Performance Indicators

- Performance indicators have a long history
  - ◆ Franklin Roosevelt introduced performance budgeting to try to reduce cynicism about government
  - ◆ Evaluating activities in higher education can be traced back to reputational studies as early as 1910 in the US
  - ◆ As higher ed enrollments grew, more and more state resources were required

# History and Evolution of Performance Indicators

- Public pressure in the early 90s to reinvent government and re-engineer business provided momentum for the indicators movement
- Academia responded with cynicism based on earlier versions such as outcomes assessment and performance reporting

# History and Evolution of Performance Indicators

- Outcomes Assessment
  - ◆ Resulted from “A Nation at Risk” movement to reform public schools
  - ◆ By 1989, two-thirds of the states had adopted or were developing assessment policies

# History and Evolution of Performance Indicators

- Features of Outcomes Assessment Programs
  - ◆ Focus on undergraduate programs
  - ◆ Identification of knowledge and skills that graduates should possess
  - ◆ Development of measures to evaluate student achievement
  - ◆ Intent was to use results to improve programs



# History and Evolution of Performance Indicators

- Problems with Outcomes Assessment
  - ◆ Colleges were allowed to develop their own plans
  - ◆ Colleges rarely incorporated it deeply into the institutional culture
  - ◆ Mostly viewed as a “necessary evil”

# History and Evolution of Performance Indicators

- Performance Reporting
  - ◆ Early 1990s brought mandates for performance reporting
  - ◆ Resulted from lack of campus responsiveness to assessment of student learning
  - ◆ States dictated the indicators and required comparability across institutions
  - ◆ Three-fourths of the states had some form by 1997

# History and Evolution of Performance Indicators

- Features of Performance Reporting
  - ◆ Focus on undergraduate education
  - ◆ Included assessment of student learning and outcomes
  - ◆ Added measures of efficiency related to teaching loads, costs, and graduation rates
  - ◆ Included goals related to meeting state needs in work force training

# History and Evolution of Performance Indicators

- Problems with Performance Reporting
  - ◆ No link to funding
  - ◆ Reporting campus results didn't lead to change in institutional behaviors
  - ◆ No perceptible increase in performance

# History and Evolution of Performance Indicators

- Performance Indicators
  - ◆ Logical progression for legislatures to link funding to performance
  - ◆ Performance was added to more traditional funding methods such as enrollment and inflationary increases

# Linking Performance and Funding

- Two types of linkages:
  - ◆ Performance Budgeting
  - ◆ Performance Funding



# Linking Performance and Funding

- Performance Budgeting
  - ◆ Fairly loose and subjective
  - ◆ Considers the performance on various indicators as one factor in determining appropriations
  - ◆ 28 states use performance budgeting, an increase of 75% in the number of states in three years
  - ◆ Used mostly for budget preparation and not for allocation
  - ◆ Limited effect on institutional funding according to State Higher Ed. Finance Officers

# Linking Performance and Funding

- Performance Funding
  - ◆ Ties specific state funding directly to performance on indicators
  - ◆ Is more rigid, using a formula to determine how much to give a college meeting a prescribed goal
  - ◆ 17 states use performance funding
  - ◆ Less stable than performance budgeting
  - ◆ Difficult to implement, especially if indicators are mandated by legislation



# Linking Performance and Funding

- 10 states have both performance funding and performance budgeting
- Recent survey by the Nelson A. Rockefeller Institute of Government showed that the distinctions between the two types are blurring:

# Linking Performance and Funding

- ◆ Performance funding is becoming more flexible, collaborative, and diverse
  - ★ Features of newer plans include:
    - fewer mandates
    - more initiation by colleges,
    - fewer indicators,
    - more campus selected measures,
    - different programs for two-year and four-year campuses, and
    - added attention to diverse campus missions and strategic plans

# Linking Performance and Funding

- ◆ Performance budgeting is finding ways to clarify the link between performance and budgeting
  - ★ Four programs earmark money for performance
  - ★ 40% allow coordinating or system boards to consider performance in determining campus allocations
  - ★ Legislative mandates are rare

# Survey of the States

- States with Performance Budgeting:
  - ◆ Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Wisconsin

# Survey of the States

- States with Performance Funding:
  - ◆ California (2-year colleges only), Colorado, Connecticut, Florida, Illinois (2-year colleges only), Kansas, Louisiana, Missouri, New Jersey, New York\*\* (State University System only), Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas

# Survey of the States

- Funding usually amounts to between three and five percent of overall budget
- Indicators often include some combination of:
  - ◆ Retention/graduation rates
  - ◆ Licensure test scores
  - ◆ Student transfers
  - ◆ Job placements
  - ◆ Satisfaction survey results (students, alumni, employers)

# Survey of the States

- Some programs include:
  - ◆ Teaching loads
  - ◆ Administrative costs
  - ◆ Time to degree
  - ◆ Distance learning
- Few programs do a good job of assessing student learning

# Colorado's Quality Indicator System

- Colorado's performance funding system in place since 1996, but indicators changed every year, so still no base year of data
- Current system includes both funding and non-funding indicators
- Good cooperation between the coordinating board and institutions this year



# Colorado's Quality Indicator System

- Funding Indicators include:
  - ◆ Baccalaureate 4,5, and 6 year graduation rates
  - ◆ Faculty teaching workload
  - ◆ Freshmen retention in same institution
  - ◆ Achievement scores on licensure examinations
  - ◆ Institutional support expenditures per FTES (administrative costs)

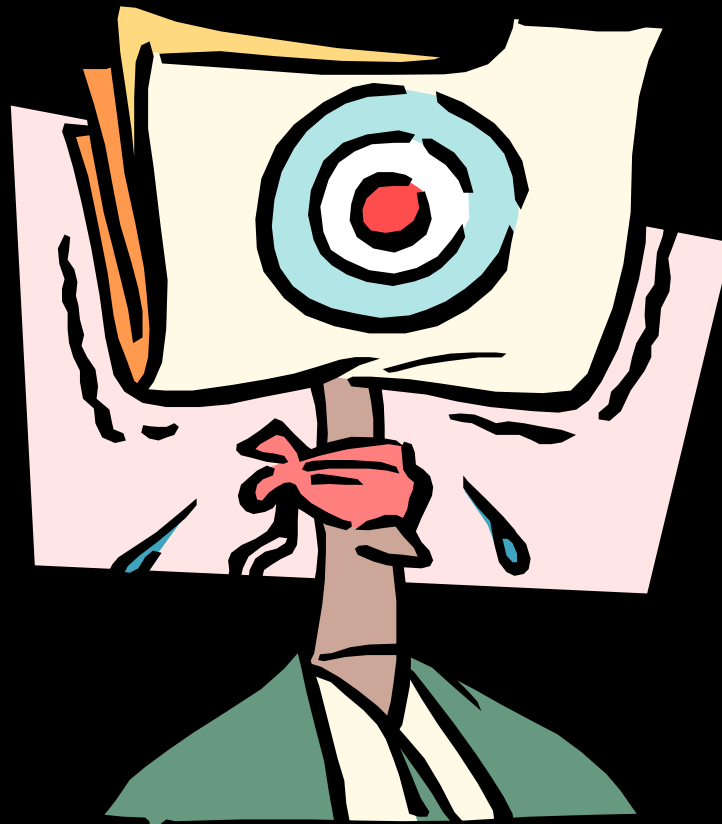
# Colorado's Quality Indicator System

- ◆ Availability of general education lower division core courses required for freshmen
- ◆ Retention and graduation of minority students
- ◆ Number of degree programs with 120 or less hours to graduate
- ◆ Two indicators and state or national benchmarks chosen by the institution

# Colorado's Quality Indicator System

- Scoring:
  - ◆ Each indicator is worth 180 points
  - ◆ Performance exceeding the benchmark can attain bonus points (no more than 5% of total)
  - ◆ Each institution's performance is compared to the benchmark to assign points

# Benchmarking



# Colorado's Quality Indicator System

- Benchmarking process:
  - ◆ Colorado Association of Planners and Institutional Researchers (CAPIR) Executive Committee developed benchmarks for majority of indicators
  - ◆ Chief Financial Officers developed benchmarks for the institutional support indicator

# Colorado's Quality Indicator System

- Benchmarking Example:
  - ◆ Retention rates – CAPIR Execs developed regression model to predict individual institutional graduation and retention rates based on national dataset
  - ◆ Institutional actual rates are compared to predicted rates for point calculation

# Colorado's Quality Indicator System

- Sample:
  - ◆ 4 year grad rate points = 60
  - ◆ Institutional predicted rate is 10.6%
  - ◆ Institutional performance is 15.4%
  - ◆ Institution vs benchmark is 145%
  - ◆ Points = 87 (60 X 145%)

# What Difference Does All This Make?

- Colorado Experience:
  - ◆ Small percentage of overall budget, but enough to get the attention of the institutions (possibly between 12 and 16 million dollars this year)
  - ◆ Publicity as important as the budget amount
  - ◆ Beginning to filter down to Deans



# What Difference Does All This Make?

- Tennessee's Experience - the program has resulted in:
  - ◆ Improvements in students scores on national exit examinations of general education outcomes as well as major field test scores;
  - ◆ Exceptionally high job placement rates for two-year institutions
  - ◆ Assessment based improvements
  - ◆ Careful review of academic programs for effectiveness; and
  - ◆ Feedback on student and recent alumni satisfaction

# Tennessee's Experience

- Incentive Funding program
- Institutions can earn up to 5.45% over their operating budget
- Since 1979, over one-quarter of a billion dollars have been earned by institutions through achievement of measurable outcomes

# Limitations of Indicators

- They are often what's available and easy to compute
- They are too historical
- They can reward the wrong behavior
- Usually not tied to a specific goal
- Focus is on inputs and not outcomes
- They give inadequate attention to difficult-to-quantify resources, such as intellectual capital

# What Does the Future Hold?



- The Rockefeller Institute says:
  - ◆ “The final test will involve the ability of both programs to improve the performance of public colleges and universities. Institutional improvement is unlikely to occur until campuses consider performance in internal allocations to their departments and divisions, which are largely responsible for producing the results.”

# What Does the Future Hold?



- An IR colleague says:
  - ◆ Consider involving important constituents
  - ◆ May need more than one set of measures for various constituent groups
  - ◆ Close the loop – performance measures are only worthwhile if they help your unit or institution attain its goals and objectives

**Thank you!**

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