Performance-based Funding
House Appropriations Subcommittee on Higher Education
Ferris State University
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Performance-based funding (PBF) is not a new topic or idea. A range of such approaches was implemented in 26 states between 1979 and 2007. Subsequently, 14 of these states abandoned performance-based funding. An excellent introduction to PBF with detail about state efforts is published by the American Association of State Colleges and Universities. This brief, “Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing,” was written by Thomas L. Harnisch, Policy Analyst at AASCU and is accessible at http://www.congressweb.com/aascu/docfiles/Performance_Funding_AASCU_June2011.pdf. The following excerpts are used with permission –

Key advantages of PBF may include:
- Greater awareness of campus performance
- Improved delineation of state and institutional priorities
- Enhanced transparency and accountability
- Increased productivity

Key disadvantages may include:
- A limited portrait of university performance
- Mission distortion/student access
- Quality reduction
- Lack of program support
- Increased inequality and instability

Effective practices to implement when developing a PBF system include:
- Establishing state postsecondary education goals
- Bipartisan political commitment
- Support from institutions
- Stakeholder collaboration throughout the program design process
- Stable program funding

Funding system architecture should consider the following best practices:
- Allow institutional autonomy
- Keep it simple
- Account for institutional differences
- Allow time for implementation
- Anticipate challenges
- Evaluate outcomes, ensure recognition
Performance-based Funding in Michigan

At Ferris State University we are very pleased that the Executive Budget proposes a 3% increase to begin to restore the state funding support higher education has lost over the last decade. It is worth noting that the proposed increase for higher education, $36 million, is quite small in the context of public university funding and the 15% reduction of last year. In November 2011, Michigan public universities working together through the Presidents Council of the State Universities of Michigan, proposed guiding principles for performance funding. The proposed metrics reflect portions of four of those guidelines:

- Performance funding should be implemented with additional funds, not redistributed funds...
- A performance funding formula should be straightforward and easy to understand. It should have a small number of statewide goals for which all institutions are held accountable...
- Clarity and the availability of sound data are important in measuring the progression and success of each outcome.
- Performance funding should not be punitive to any university...

The proposed approach in the Executive Budget uses four metrics. Each metric carries funding of $9 million and data for each metric are used to determine the dollar amount per unit of measure and the allocation to institutions.

**Metric One – Growth in undergraduate degree completions, three-year average change in undergraduate degrees.** As proposed for next year this would provide $17,191 per average degree completion. The strengths of this measure include:

- The number of degrees awarded are included in the state HEIDI database, and already measured and quantified.
- This places an emphasis on outcomes and degree completion. An emphasis on degree completion is an outcome for all colleges and universities.
- It provides support for two different approaches to growth on this measure, either through increased enrollments or through higher graduation rates.
- A three-year average protects against annual fluctuations in these numbers.
- It treats each university equally providing the same support for each degree.

A weakness of this measure is that it focuses only on undergraduate education and provides no support for graduate education.

**Metric Two – Three-year average number of undergraduate degree completions in critical skill areas.** As proposed, for next year this would provide $685 for each average completion. The strengths of this measure include:

- It provides an incentive for universities to offer programs in, and graduate students from, fields needed to help grow the Michigan economy, or in which there are strong employment prospects.
- It recognizes the significant increased cost in producing graduates in STEM fields. For example, on average in Michigan it costs over $500 per student credit hour to provide coursework in engineering. In the social sciences it costs $185 per student credit hour.

A weakness of this measure is that it places primarily liberal arts institutions at a disadvantage.
Metric Three – Three-year average number of all undergraduate students receiving Pell grants. As proposed, for next year this would provide $151 per student. For the following year the metric would be based on the number of Pell students who graduate. The strengths of this measure include:
  - It encourages public universities to seek and support students from limited financial backgrounds.
  - In the future it places a premium on the success of these students.
The weaknesses of this measure include –
  - Given budget challenges on the federal level and the rapidly growing cost of Pell Grants, there may be a reduction in the number of Pell Grants awarded or the size of the awards.
  - The change in this measure for FY 14 is not yet clearly defined.

Metric Four – Tuition restraint based on a percentage increase in resident undergraduate tuition. For next year this metric will look at the difference between each university’s rate of increase and 4.1%. The strengths of this measure include –
  - Establishes financial incentives for universities that keep tuition increases low.
  - Does not infringe on autonomy or prevent institutions that may need to increase tuition more from doing so.
Weaknesses of this measure include –
  - Does not contain a commitment to use 4.1% as a number beyond 2013.
  - Allocation based on distance from 4.1% does not allow institutions to know what funds they may receive when tuition is set.

Given that state support represents only 14.8% of our total budget, it would be our preference that performance metrics not be introduced. However, if increased funding will be dependent upon the introduction of performance metrics, Ferris State University believes the State Budget Office has done excellent work in developing these proposed metrics and supports them strongly for the following reasons –

1. It is a limited number of simple, easily understood measures.
2. These measures use clearly quantifiable data that is already collected by the state.
3. Finally the state will reward universities for enrollment growth and producing more graduates. Despite rhetoric that touts the importance of more students going to college, for the past decade Michigan has punished growth at its universities.
4. It recognizes the additional costs of educating students in needed high tech, high touch STEM fields.
5. It encourages universities to enroll and graduate students from poor economic backgrounds.
6. It rewards universities that work to keep tuition increases low.
The most serious flaw of these proposed metrics is that the funding awarded through them is one-time. This significantly limits their effectiveness. It is not a sustainable financial approach to use this funding model for base, continuing costs, as there is no certainty state funds will be continued in subsequent year budgets. For example, say Ferris State University received $3 million under this plan for recurring costs. If those funds were not received the following year it would then be necessary to reduce the budget by $3 million. This is a level of risk and uncertainty that does not need to be introduced into the challenging finances of leading a modern university.

Additionally, establishing these performance metrics as one-time funds also eliminates their effectiveness in restraining cost for our students. If they were base dollars it would be possible to use them to further limit tuition increases. These would help us immensely at Ferris State University as we work together as an institution to limit the rapid rise of student debt.