

March Council Committee Agenda

Committee for Funding and Affordability (CFA)

The Committee for Funding and Affordability will address issues related to state funding policy, tuition policy, student financial aid, and college savings. This includes the three Roadmap actions below.

Action Items:

- **Make college affordable.**
- **Ensure cost is not a barrier for low income students.**
- Help students and families save for postsecondary education.

Upcoming Scheduled Meeting Times

Mon, January 27 – 2:30 to 4 p.m.

Mon, March 24 -9 to 10:30 a.m.

Mon, May 19 - 9 to 10:30 a.m.

STAKEHOLDER MEMBERS

Vi Boyer (ICW) Violet@icwashington.org
 Devon Crouch Devon@ICWashington.org
 JoLynn Berge (OSPI) jolynn.berge@k12.wa.us
 T.J. Kelly (OSPI) Thomas.Kelly@k12.wa.us
 Eleni Papadakis (WTB) EPapadakis@wtb.wa.gov
 Nova Gattman (WTB) nova.gattman@wtb.wa.gov
 Justin Montermini (WTB) Justin.montermini@wtb.wa.gov
 Cody Eccles (COP) ceccles@cop.wsu.edu
 Paul Francis (COP) PFrancis@cop.wsu.edu
 Denise Graham (SBCTC) dgraham@sbctc.edu
 Jayme Shoun (student voice) aswsuv.dla@vancouver.wsu.edu
 Brian McQuay (student voice) briandmcquayjr@yahoo.com

Wed, July 9 - 9 to 10:30 a.m.

Wed, September 17 - 9 to 10:30 a.m.

Wed, October 29 - 9 to 10:30 a.m.

LOCATION OF MEETINGS:

WSAC Offices

WSAC MEMBERS

Paul, Marty, Karen

Staff: Marc Webster, Rachele, Christy

March 24 Meeting Agenda:

- Review 2014 Session/Budget
- Review Who Makes Allocations in Other States
- Review History of Higher Education Budgeting in Washington
- Why the Focus on Affordability?
 - Tuition Survey
 - Working to Pay for College
- Recent Changes in Other States
 - Base-budget Reinvestment (MN, MD, WA)
 - “Rainy Day” Funds (ME, MD)
 - Performance Funding (MS, TN, PA)
 - Free Community College (TN, OR, MS)
 - “Pay it Forward”/Income-based Repayment (18 States with Bills)
 - Low-cost degree options (TX, FL)
 - Tuition freezes/Caps on Growth (CA, MN, MD, WI, WA)
 - Shared Responsibility Model
- Legislation and Legislative Priorities
- HB 2796, HB 2720, SB 5881, SB 5883, SB 6043
- Does One Policy Fit All Sectors/Schools?
- State Need Grant Study Preview

Governing/Coordinating Board Structures in the States

(States in italics have made substantial changes to state governance in the past 10 years)

State	Four-Year Universities	Comm./Tech. College System
Alabama	Statewide Coordinating Board	Governing Board for K-12/CTCs
Alaska	One Governing Board for all institutions, 2- and 4-year	
Arkansas	1 statewide coordinating board, 3 system governing boards encompassing both 2- and 4-year schools	
<i>California</i>	Governing Boards for CSU/UC	Governing Board for CTCs
Colorado	Statewide coordinating board	Governing Board for CTCs
Connecticut	Statewide coordinating board	Governing Board for CTCs
Dist. Of Columbia	One institutional board	
Delaware	Two institutional system boards	One College Board for CTCs
<i>Florida</i>	One governing board	Governing Board for K-12/CTCs
Georgia	UGA system board (2- and 4-yr campuses); Governing Board for Tech. Colleges	
Hawaii	One Governing Board for all institutions, 2- and 4-year	
Idaho	One Governing Board for all institutions, 2- and 4-year	
Illinois	One Coordinating Board	Coordinating Board for CTCs
Indiana	Statewide Coordinating Board	Governing Board for CTCs
Iowa	One Governing Board	Governing Board for K-12/CTCs
Kansas	One Governing Board for all institutions, 2- and 4-year	
Kentucky	Statewide Coordinating Board	Governing Board for CTCs
Louisiana	Statewide Coordinating Board	Governing Board for CTCs
Maine	Governing Boards for U-Maine, Maine Maritime Acad.; Governing Board for CTCs	
Maryland	Statewide Coordinating Board for 4- and 2-year institutions. University of Maryland is a Governing Board for 4 campuses; Local CTC Boards	

State	Four-Year Universities	Comm./Tech. College System
Massachusetts	Statewide Board Governs State Univ. system and CTCs, UMASS Board of Trustees governs 5-campus system	
Michigan	Institutional Governing Boards only	
Minnesota	Statewide Coordinating Board, 1 multi-campus State University Governing Board, and one Governing Board for CTCs	
Mississippi	Statewide Governing Board	Coordinating Board for CTCs
Missouri	Statewide Coordinating Board for 2- and 4-years; Univ. of Mo. Governing Board	
Montana	One Governing Board for all institutions, 2- and 4-year	
Nebraska	Statewide Coordinating Board, UN Governing Board, Coordinating Board for CTCs, Local Boards for CTCs	
Nevada	One Governing Board for all institutions, 2- and 4-year	
New Hampshire	Governing Boards for UNH System	Governing Board for CTCs
New Jersey	Cabinet-Level Secretary of Higher Education, non-state Council for CTCs	
New Mexico	No statewide board; inst. Brds of regents	non-state Council for CTCs (UNM has four CTC branch campuses, governed by the UNM Board of Regents)
New York	2 Governing boards - SUNY (64 campuses, 2- and 4-year) and CUNY (23 campuses, 2- and 4-year) and 1 statewide coordinating board within NY Education Dept.	
North Carolina	UNC System (Governing Board)	Governing Board for CTCs
North Dakota	One Governing Board for all institutions, 2- and 4-year	
Ohio	Statewide Advisory Board to the Chancellor of Higher Ed (including budget allocation responsibilities for 2-/4-yrs); Institutional Governing Boards	
Oklahoma	Statewide Coordinating Board for 2-/4-year schools, with budget allocation responsibilities; Institutional Governing Boards	
Oregon	P-20 Coordinating Board, one Higher ed Coordinating/Governing Board, Local Boards for CTCs	
Pennsylvania	Two Four-Year, Multi-Campus Governing Boards: Penn. State System of Higher Ed, and Penn State Univ. Board of Trustees; non-state Commission for CTCs. State Dept. of Education	

State	Four-Year Universities	Comm./Tech. College System
Rhode Island	One Governing Board for all institutions, 2- and 4-year	
South Carolina	Statewide Coordinating Board	Governing Board for CTCs
South Dakota	One Governing Board for all institutions, 2- and 4-year	
Tennessee	Coordinating/Governing Board for State Universities and CTCs with allocation duties; separate Board for Univ. of Tennessee system	
Texas	6 Governing Boards for multi-campus 4-yr systems, one statewide coordinating board, one governing board for technical colleges	
Utah	One Governing Board for all institutions, 2- and 4-year	
Vermont	One institutional board (UVT), One Governing Board for other 2-/4-year schools	
Virginia	Statewide Coordinating Board	Governing Board for CTCs
Washington	Statewide Coordinating Board	Governing Board for CTCs
West Virginia	Coordinating Board for 4-yrs	Coordinating Board for CTCs
Wisconsin	Governing Board for 4-yrs/2-yrs	Governing Board for Tech. Colleges
Wyoming	One institutional Board (UW) Boards	Coordinating Board for CTCs, Local Boards

Washington, Connecticut, Hawaii, Indiana, Louisiana, Massachusetts, Maine, Minnesota, New Hampshire, Rhode Island, Tennessee, Utah, Vermont and West Virginia do not have local/county funding streams for community colleges.

Virginia, Kentucky and Florida have minimal (less than 0.5%) local funding for CTCs.

I. Introduction

States' determinations of funding levels for higher education vary from state to state, and in some cases within states in several major ways:

Formula versus Non-Formula Funding Methods: According to SRI's research, seventeen states currently use a formula to calculate funding levels for higher education institutions. Nineteen states use non-formula-based funding methods, while an additional fourteen states have hybrid models (typically using formulas to fund two-year institutions and non-formula methods for four-year institutions or using a "base plus" approach where the plus is calculated by a formula). Generally, as we show below, both formula- and non-formula funding tends to be driven by student enrollment – formally in the case of formulas and informally in non-formula funding. Recently, higher education funding formulas have not been fully funded in many states, and so state appropriations are only a fraction of what the funding formula recommends. States that do not use formula-based methods tend to fund based on legislative priorities/policies or based on a "base plus" method.

Performance-Based Funding Methods: SRI research indicates that thirteen states currently use performance-based funding methods (and more than five states have definite plans to implement performance funding, while at least fourteen others are considering doing so). Use of performance criteria tends to be most common in formula-based states, although a couple of non-formula states also apply performance criteria. The most typical performance metrics incentivize completion by measuring degrees or certificates awarded, but many other metrics can potentially be used to measure outcomes, progress, and other policy and economic development goals. Performance-based funding mechanisms have been used by states at least three decades, with mixed results, and a number of states have cut their programs due to lack of alignment with state politics, complexity, lack of available data, or lack of funding. Some key determinants of success for performance-based funding are the size of the performance pool (i.e., are performance-based funds a large enough share of institutional funding to incentivize behavior?) and also whether performance funding is allocated as "bonus" funding or whether it is tied to baseline institutional support.

Use of Student-Derived Revenues: The most common model is for student-derived revenues (i.e., tuition and fees) to be controlled and retained by individual higher education institutions, and just over 40 states follow this model. In twelve states, however, student-derived revenues must be appropriated by the state legislature (and in three of these states, student-derived revenues are used to offset general fund appropriations). The dominant model of institutions retaining and controlling their student-derived revenues may be attributed to the fact that tuition and fees have historically represented a very small percentage of higher education budgets; however, this trend is changing (tuition revenues are going up, while state appropriations are going down). Many states are reviewing their policies as student-derived revenues move toward becoming the majority of public institutions' revenue streams. Additionally, some states are now requiring performance-based measures to be met for schools to gain increased autonomy over student-derived revenues.

Detailed analysis and data about states' approaches for each of these funding methodologies are presented throughout the rest of *Part 2* (and additional state-specific details are provided in *Appendices A, B, and C*).

II. States That Use a Formula for Higher Education Funding

A. List of states that use higher education funding formulas

As shown in *Table 2.1*, seventeen states determine currently or very recently funding through a formula, while an additional fourteen states use a hybrid model, in which a formula is applied only for certain types of institutions or parts of the allocation (such as the “plus” in “base plus”). In the states with a hybrid model, the formula is typically applied for two-year institutions, but not for four-year institutions. Five states – Arizona, Nevada, Florida, Massachusetts, and New York – have used funding formulas in the past, but have not employed the formulas for some or all institutions during fiscal downturns.

Table 2.1. States that use or have used formulas to fund their higher education systems.

States currently using formulas		States that use a hybrid system – <i>formula is used only for the specified type of institutions</i>
Alabama	Ohio	California (for CSU, CCC only)
Arkansas	Oregon	Florida (for 2-year institutions only)
Connecticut	Pennsylvania	Hawai'i (for 2-year institutions only)
Georgia	South Carolina	Illinois (for 2-year institutions only)
Louisiana	Tennessee	Kansas (for 2-year institutions only)
Minnesota	Texas	Maryland (for Regional Higher Education Centers ²⁸ only)
Mississippi	Virginia	Montana (for 2-year institutions only)
		New Jersey (for 2-year institutions only)
		New Mexico (for new funding only)
		New York (for 2-year institutions only)
		South Dakota (for federally-funded technical schools only)
State that have recently used formulas, but are not currently employed.		
Arizona		
Florida (formula dropped for 4-year institutions only)		
Massachusetts		
Nevada		
New York (formula dropped for 4-year institutions only)		
States that use a hybrid approach of “base plus” where the plus is calculated by a formula		
Idaho		
Indiana		
North Carolina		

²⁸ Regional higher education centers were established by law in 2000 to provide another option for high school graduates seeking further education. These centers provide access to affordable higher education in areas of the State which have few institutions of higher learning. They also provide courses and programs needed by business and industry in the area served.

B. Typical components of state higher education funding formulas

The complexity of funding formulas varies widely from state to state. Virginia, for example, has a very complex set of formulas for each different type of institution, while Arizona used a simple formula based solely on full-time equivalent (FTE) students. Every state that uses a formula also utilizes non-formula appropriations to fund everything from operations and maintenance to special programs to entire schools.

State funding formulas typically consist of a subset of the following list of ten budgetary functional areas:

1. Instruction
2. Remedial Instruction
3. O&M/Physical Plant
4. Academic Support
5. Library Support
6. Student Services
7. Institutional Support
8. Public Service
9. Research
10. Scholarships

There are slight variations in how each state specifically defines each function, but this list reflects the most commonly used general definitions. Most state formulas only contain a fraction of the list, as shown in *Tables 2.2-2.12*. Almost every state with a formula has an instruction component and most have a plant and maintenance category. The following sections provide additional details about the typical methods used by states for calculating funding levels within each of the ten functional areas. Note that a detailed explanation and narrative for most of the individual states that use funding formulas is provided in *Appendix A* and narratives for states that have hybrid funding models are provided in *Appendix C*.

1. Instruction

The formula for instructional support aims to fund activities associated with an institution's instructional program. Every state but New York with a formula funds instructional activities through the formula, and the instructional support formula accounts for the vast majority of the calculated funding levels. No two states use the same formula, and some states use multiple formulas based on different institutional missions. However, two main types of instructional formulas are typically used, as illustrated in *Table 2.2*. Each type of formula is explained in greater detail below.

- **Method 1:** The first type of instructional formula is based on a conversion from FTE enrollment to FTE faculty multiplied by a salary rate.
- **Method 2:** The second type of instructional formula is based on student credit hours that are then multiplied by a cost and program level weight and a rate or an inclusive cost matrix. This type of formula is also used as a performance-based funding mechanism where, instead of *enrolled* student credit hours, *completed* student credit hours are used.

Table 2.2. States that include an instructional support component in their funding formula.

State	Type of Institution	Formula currently employed, or will definitely be implemented	Formula Driver
Alabama	Senior Institutions	Yes	credit hours
	Community colleges	Yes	FTE enrollment
	Technical colleges	Yes	FTE enrollment
Arizona	Senior institutions	No	credit hours
Arkansas	Universities	Yes	credit hours
	Community Colleges	Yes	credit hours
California	CalState	Yes	credit hours
Florida	Community colleges	Yes	enrollment
Georgia	4-year Institutions	Yes	credit hours
Idaho	2- and 4-year Institutions	Yes	enrollment
Illinois	Community colleges	Yes	credit hours
Indiana	2- and 4-year Institutions	Yes	enrollment and successfully completed credit hours
Kansas	Community colleges	Yes	enrollment
Louisiana	2- and 4-year Institutions	Yes	completed credit hours
Maryland	Regional Higher Education Centers	Yes	enrollment
Massachusetts	2- and 4-year institutions	No	enrollment
Minnesota	2- and 4-year institutions	Yes	enrollment
Mississippi	Senior institutions	Yes	credit hours
Montana	Community colleges	Yes	enrollment
New Jersey	Community colleges	Yes	credit hours
New Mexico	2- and 4-year institutions	Yes	credit hours, degrees produced
North Carolina	Senior institutions	Yes	credit hours
	Community colleges	Yes	enrollment
Ohio	University main campuses	Yes	completed courses
	University regional campuses	Yes	completed courses
	Community and technical colleges	Yes	enrollment
Oregon	Senior institutions	Yes	enrollment
Pennsylvania	Senior institutions	Yes	enrollment
South Carolina	Senior institutions	Yes	Student credit hours
South Dakota	Federally-funded technical schools	Yes	enrollment
Tennessee	2 and 4-year Institutions	Yes	output metrics
Texas	General academic institutions	Yes	credit hours
	Health-related institutions	Yes	credit hours
	Community colleges	Yes	contact hours
	Vocational & technical schools	Yes	contact hours
Virginia	2- and 4-year institutions	Yes	enrollment

Instructional Formula Method 1: Enrolled credit hours → FTE students → Faculty positions

Nevada under its most current formula and Virginia are examples of states that transform student enrollment hours into full-time equivalent (FTE) faculty positions through the use of “FTE student enrollments to faculty” ratios.

- In Arizona, an FTE student is defined as 15 credit hours for lower division classes, 12 credit hours for upper division classes, and 10 credit hours for graduate classes.
- In Virginia, the formula defines an FTE as all of the students in full-time standing (taking 12 or more credit hours) plus one-third of the part-time students.²⁹
- In 1999, the Nevada Legislature Committee to Study the Funding of Higher Education recommended a change from the previous definition of a FTE (which was defined at 30 student credit hours per year for undergraduate students and 16 credit hours per year for graduate students). The recommendation was to differentiate the graduate student hours into a doctoral level student FTE equaling 18 student credit hours and a master’s level student FTE equaling 24 student credit hours. The Nevada colleges were directed to use 30 student credit hours as the definition of an FTE for both lower and upper division credit hours.

Once FTE students are calculated, these schools then use a ratio to calculate the number of faculty positions. The transformation was simple in Arizona, which funds one faculty position for every 22 FTE students. It is more complicated in Virginia and Nevada, which have different FTE student to faculty position ratios for different disciplines and division levels, creating a two-dimensional matrix. Nevada’s ratios are listed in *Table 2.3*. The Virginia ratio matrix lists out specific disciplines instead of using categories such as “low cost” and “high cost” like Nevada.

Table 2.3. Student faculty ratios in Nevada.³⁰

Student Faculty Ratios for the Universities				
Type of Program	Lower Division	Upper Division	Masters	Doctoral
Clinical	8	8	8	8
High Cost	18	13	10	8
Medium Cost	21	16	13	8
Low Cost	26	22	16	8
Student Faculty Ratios for Nevada State College				
Type of Program	Lower Division	Upper Division	Masters	
Clinical	8	8	8	
High Cost	18	15	12	
Medium Cost	21	18	15	
Low Cost	26	24	18	
Student Faculty Ratios for Remaining Nevada Colleges				
Type of Program	TMCC & CCSN	WNCC	GBC Lower Division	GBC Upper Division
High Cost	14	12	12	12
Medium Cost	21	21	21	16
Low Cost	26	26	23	22

²⁹ State Council of Higher Education For Virginia. *Condition of Higher Education Funding in Virginia*. May 2003. P. 9

³⁰ Nevada Committee to Study the Funding of Higher Education. *Bulletin 01-4*. 1999. P. 41.

Once FTEs are calculated, the faculty positions are funded at a set amount depending on the state and may cover only salaries or the sum of salaries, employee-related expenses, and operations. Virginia's funding rate is based on the average faculty salary. Alabama's rate is based on the regional general studies average salary for doctoral and regional institutions, as estimated by the National Association of State Universities and Land-Grant Colleges.³¹ Nevada funds each faculty position based on an academic salary schedule. In addition, some state formulas add funding for an additional support position with a specific number of faculty positions funded by enrollment increases. For example, Nevada adds the cost of a support position with every five additional faculty members, and Arizona's formula adds funding for 0.75 support positions with each additional faculty member.

Instructional Formula Method 2: Student credit hours X cost matrix

Other state formulas – including those used in Texas and in the NSHE proposed funding formula – determine support levels for instruction through the use of student credit hours multiplied by a cost matrix. Most states that employ this type of instructional formula use *enrolled* student credit hours to make the calculation. However, Tennessee and Ohio use *successfully completed* student credit hours, while Louisiana and the NSHE proposed alternative formula use *all completed* credit hours (including credit hours completed with a grade of F).

The formulation of a cost matrix differs from state to state. Texas's program and level weights are determined according to an aggregation of actual costs, based on institutions' annual financial reports. The 2011 program level and weights are listed in Appendix D. This weighted matrix is multiplied by a single rate, which is set by the legislature and is based on available funding. The result is a cost-informed matrix. In Nevada, the NSHE proposed funding formula also uses a cost-informed weighting matrix that is multiplied by a rate based on current state funding; however, the weights are a synthesis of other state's cost matrices. This matrix is also reprinted in Appendix D. Ohio does not build its funding matrix based on available funding, but rather uses a cost matrix based on the previous year's actual costs as a function of subject codes and course level.

Embedding incentives in instructional formulas

Historically, the goals of public higher education institutions have centered on access, interpreted as enrolling as many students as practicable in higher education. It could be said, therefore, that funding formulas based on enrollment (also known as *enrolled* student credit hours) such as those described above, are the best practice to achieve access and enrollment policy goals. However, if the policy goals include higher graduation rates – and such a goal is now being widely considered by states – then funding mainly based on enrollment-driven formulas is not a best practice. The low completion rates that plague states may be associated with instructional funding formulas based solely on enrollment. Formulas based on course completions have been adopted by a few states, but only recently, so the impact of this practice is not yet discernible. However, we may imagine, in principle, that where completion is defined as only those classes completed with a letter grade of D- or above, then this would be a better practice than mere enrollment levels from the point of view of encouraging higher graduation rates.

However, instructional formulas are also driven by other policy decisions. Faculty-based instructional formulas depend on the salary multiplier used. Some states, such as Alabama, use the average salary at

³¹ Alabama uses faculty productive hours to transform enrolled credit hours to faculty positions.

peer institutions. This is a best practice if the policy goal is to maintain state-to-state peer-equity in the funding of higher education funding, and if the student-to-faculty ratios are comparable with peer states.

Program-level and cost matrices can be a best practice to fund according to the actual cost of courses. However, care must be taken in how courses are classified and how cost figures are calculated. Nevada's current formula uses a relatively simple low/medium/high cost funding matrix. Other states, such as Oregon, use a similar funding level matrix, but the matrix is more granular at a discipline level and also reflects policy goals through targeted program funding. The NSHE proposed alternative formula uses a complex matrix that is cost-informed and gives additional weight to upper and graduate classes for research.

Cost matrices must be used with care. Actual cost matrices are resource-intensive to produce, and are also state- and institution-dependent. For example, Ohio and Texas collect cost information from departments every year and then divide by student credit hours. Though it seems intuitive to fund in this way, costs change frequently and will change more frequently in the future as online delivery of courses becomes mainstream. A cost matrix developed this year may be out of date next year. In addition, a purely cost-based approach does not incentivize alignment with state goals. Also, we note that once funds are allocated or budgeted for an institution, the institutions generally have autonomy over those funds. Therefore, funds allocated toward the "cost" of science classes may not actually be used for funding the science classes.

Best practice instructional funding at institutions of higher education may require a move away from purely cost-based matrices and towards a funding matrix in which weights reflect some mix of cost and policy goals, in order to incentivize the funding of specific disciplines that align with state goals. The important questions to be resolved are the specific character of state policy goals, and how they should be translated into instructional weights. For example, it may be that STEM fields should enjoy a premium when compared to cost benchmarks.

2. Remedial Instruction

Some states' formulas provide for increased funding for remedial instruction. Alabama, for example, weights remedial student credit hours at 115% of standard credit hours when calculating the instructional support funding formula. Other states (as listed in *Table 2.4*) fund remedial education explicitly and separately from instructional support. Illinois has a community college-specific funding formula that determines remedial education funding levels based on student enrollment multiplied by the previous year's cost per instructional unit. Generally, enrollment is the primary driver for remedial instruction for two states that explicitly include this category in their formula (Florida and North Carolina community colleges), while completed credit hours are the driver for the other two states (Illinois and Tennessee). Nevada's current formula does not specifically fund remedial instruction differently, except that the Legislature does not pay for remedial education to be taught at the universities. In the alternative model proposal, remedial student credit hours are grouped with the lower division student credit hours for the colleges.³² However, the CIP code 32 is mapped to the Basic Skills Cluster, which has

³² Redding, Vic. Personal Communication. May 11, 2012.

an increased weight of 1.5 for lower division classes. The two digit CIP code 32 does include basic skills and developmental/remedial education.³³

Table 2.4. States that include remedial instruction explicitly in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Remedial Instruction Formula Driver
Florida	Community colleges	No	enrollment
Illinois	Community colleges	No	credit hours
North Carolina	Community colleges	Yes	enrollment
Tennessee	Community colleges	Yes	successfully completed credit hours

3. Operation and Maintenance of Physical Plant

This category includes all expenditures of current operating funds for the operation and maintenance (O&M) of physical plant. It includes expenditures for physical plant administration, utilities, building maintenance, custodial services, landscape and grounds maintenance, and repairs and renovations. Most formula states only include this category for their senior institutions and technical colleges (see *Table 2.5*), because most community colleges are supported by local revenues. Most formulas are based calculated square feet needed based on enrollment, though some are based either actual square feet. Nevada's current formula is solely dependent on actual square-footage with weighting due to age of the building. Virginia bases its funding levels on a percentage of instructional budgets; therefore its O&M/physical plant funding levels are a function of student enrollment. Texas has a complex space prediction model that is based on full-time-student equivalents with consideration for degree level. In addition, Texas has separate formulas that respectively fund research space, libraries, and office space. Some states include utilities in their O&M/physical plant funding, but recent increases in utility prices have resulted in several states (like Texas) adding additional supplements to the funding levels. The NSHE proposed formula does not include O&M/physical plant as a separate funding category except for research space. The proposed formula includes the cost of operations and maintenance in the instructional cost-informed matrix driven by completed student credit hours. Research facilities at the universities that provide no direct support for student instruction are supported with a separate per square feet formula. UNR's 450,000 square feet of research space is funded at \$7.96 per square foot, and UNLV's 274,499 square feet of research space is funded at \$11.73 per square foot.³⁴

Funding O&M/ physical plant on the basis of simple square feet measures favors institutions with many buildings with no regards to building usage, while formulas based on enrollment (such as Virginia and Texas) result in O&M/physical plant funding being tied to the number of students served. Though it seems unlikely that an institution would regard constructing a new building as an easy method to increase its state allocation, funding based on simple square feet does reward institutions with more buildings regardless of the number of students they serve. On the other hand, if the upkeep of buildings with no educational use is not paid for by the state, this may incentivize wise management, in which

³³ The Integrated Postsecondary Education Data System. Detail for CIP Code 32: **Title: BASIC SKILLS AND DEVELOPMENTAL/REMEDIAL EDUCATION. CIP 2010.**

<http://nces.ed.gov/ipeds/cipcode/cipdetail.aspx?y=55&cid=88951>

³⁴ Eardley, Larry. Personal Communication. August 3, 2012.

institutions sell or rent out their extra space. In addition, it may also incentivize institutions to be more efficient in their use of space by offering weekend or evening classes. The best practice to incentivize efficient use of space is to fund O&M/physical plant based on educational usage by tying O&M funding calculations to enrollment levels. Building and maintaining structures is not, in itself, a higher education policy goal.

Table 2.5. States that include a component for operations & maintenance (O&M) of the physical plant in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Formula Driver
Alabama	Senior institutions	Yes	square footage; cost
Arkansas	Universities	Yes	space prediction (credit hours, etc.)
Arkansas	Community Colleges	Yes	space prediction (credit hours, etc.)
Florida	Community colleges	Yes	square footage; cost; enrollment
Georgia	2- and 4-year institutions	Yes	square footage of instructional space
Illinois	Community colleges	Yes	square footage
Louisiana	2- and 4-year institutions	Yes	square footage based on instruction space
Massachusetts	2- and 4-year institutions	No	square footage; cost; enrollment
Minnesota	2- and 4-year institutions	Yes	square footage
Mississippi	Senior institutions	Yes	square footage and enrollment
North Carolina	Senior institutions	Yes	credit hours
Pennsylvania	Senior institutions	Yes	square footage; replacement value; predicted space (credit hour)
South Carolina	Senior institutions	Yes	costs; instructional square feet
Texas	General academic institutions	Yes	space prediction (credit hours, etc.)
	Health-related institutions	Yes	space prediction (credit hours, etc.)
	Vocational & technical schools	Yes	space prediction (credit hours, etc.)
Virginia	2- and 4-year institutions	Yes	space prediction (credit hours, etc.)

4. Academic Support

Some states' funding formulas include a funding category for the support of the institution's primary academic mission such as include computer labs, academic administration, and curriculum development and support. Many states include library costs under this category, but some fund library costs separately. States that employ an academic support category in their formula generally determine the academic support funding level as a specific percentage of the instructional support funding level, and this percentage varies from state to state. Therefore, enrollment is the primary driver for academic support formula components in all of the states that include this category (as shown in *Table 2.6*), with the exception of Louisiana, whose instructional formula is driven by course completion (though since failing grades are funded, it is still basically an enrollment-based formula).

Nevada's current formula for academic support is based partly on the number of FTE faculty members and staff members, number of library volumes, and the instructional budget. In particular, the current formula funds community colleges at 22% of the instructional budgets except for Great Basin College, which is funded at 30% of the first \$7.5 million of the calculated instructional budget, and 25% of any calculated instructional budget over \$7.5 million.

Table 2.6. States that include a component for academic support in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Academic Support Formula Driver
Alabama	Senior institutions	Yes	credit hours
Arkansas	Community Colleges	Yes	credit hours
Florida	Community colleges	Yes	enrollment
Georgia	2- and 4-year institutions	Yes	credit hours
Louisiana	2- and 4-year institutions	Yes	completed credit hours
Massachusetts	2- and 4-year institutions	No	enrollment
Minnesota	2- and 4-year institutions	Yes	enrollment
North Carolina	Senior institutions	Yes	credit hours
Pennsylvania	Senior institutions	Yes	enrollment
South Carolina	Senior Institutions	Yes	credit hours
Virginia	2- and 4-year institutions	Yes	enrollment

5. Library Support

As mentioned above, many states fund library support through the academic support funding formula. A few states determine funding separately for library services, as listed in *Table 2.7*. These formulas are typically based either on total enrollment (headcount instead of FTE) or as a percentage of the instructional support budget (like for academic support). Nevada's current formula funds library support within its academic support formula rather than as a separate funding category. Basically, Nevada's current formula calculates a specific number of library volumes per student, and then funds a specific number of library staff positions based on the number of volumes. Therefore, enrollment is the primary driver for the library support funding formula component for all states that include this category separately.

Table 2.7. States that include a separate library support component in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Library Support Formula Driver
Alabama	Senior institutions	Yes	credit hours
Arkansas	Universities	Yes	credit hours
Florida	Community colleges	Yes	enrollment
Georgia	2 and 4-year institutions	Yes	credit hours
Minnesota	2 and 4-year institutions	Yes	enrollment
North Carolina	Senior institutions	Yes	credit hours
	Community colleges	Yes	enrollment

6. Student Services

This category includes funds expended for offices of admissions and registrars, as well as those activities whose primary purpose is to contribute to students' emotional and physical well-being and to intellectual, cultural, and social development outside the context of the formal instruction program. The category includes expenditures for student activities, cultural events, student newspaper, intramural athletics, student organizations, intercollegiate athletics, student organizations, intercollegiate athletics, counseling and career guidance, and student aid administration.³⁵ As with academic support, states that employ this category in their funding formulas typically calculate funding levels either as a percentage of instructional costs (e.g., Georgia) or based on headcount (full time + part time students) (e.g., Alabama and South Carolina) as listed in *Table 2.8*. Nevada's current formula for student services support is based on a combination of headcount and FTE enrollment; however, it does provide more money per FTE enrollment for the smaller institutions due to economies of scale for the larger institutions. NSHE's proposed formula also includes a small institution factor to cover fixed administration costs. The alternative model includes an adjustment for small community colleges' administrative costs that assumes a base amount of \$1.5 million that diminishes as an institution reaches 100,000 weight student credit hours. Generally, enrollment is the primary driver for student services for most states that include this category in their funding formula. It is a best practice to fund student services based on total enrollment instead of weighted student credit hours, since student needs are not dependent on their program, discipline level, or hours completed.

³⁵ As defined by the National Association of College and University Business Officers.

Table 2.8. States that include a component for student services in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Student Services Formula Driver
Alabama	Senior institutions	Yes	Headcount
Arkansas	Community Colleges	Yes	FTE enrollment and headcount
Florida	Community colleges	Yes	enrollment
Georgia	2- and 4-year institutions	Yes	credit hours
Massachusetts	2- and 4-year institutions	No	enrollment
Minnesota	2 and 4-year Institutions	Yes	base + enrollment
North Carolina	Senior institutions	Yes	credit hours
Pennsylvania	Senior institutions	Yes	enrollment
South Carolina	Senior Institutions	Yes	headcount
Virginia	2- and 4-year institutions	Yes	enrollment

7. Institutional Support

This funding category supports central, executive level activities related to management and long-range planning for the entire institution, such as the president’s office, fiscal operations, logistical activities (including procurement, storeroom, safety, security, printing), support services to faculty & staff, and activities concerned with community and alumni relations (e.g., development and fund raising). Georgia, North Carolina, Pennsylvania, and Virginia include institutional support in all of their institutions’ funding formulas, while Florida includes it only in the community college funding formula, as listed in *Table 2.9*. Like many of the other funding components, this category is typically funded as a specific percentage of instructional support. However, North Carolina funds institutional support at cost. Nevada’s current funding formula funds institutional support at a specific percentage of operating budget, with the percentage level dependent on total operating budgets. The percentages used elsewhere varies from state to state. Again, enrollment is the primary driver for institutional support funding for states that include the category. However, each state controls the total amount of the budget by the percentage with which it weights the component.

Table 2.9. States that include a component for institutional support in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Institutional Support Formula Driver
Alabama	Senior Institutions	Yes	credit hours
Arkansas	Universities	Yes	credit hours
Arkansas	Community Colleges	Yes	FTE enrollment
Florida	Community colleges	Yes	enrollment
Georgia	2- and 4-year institutions	Yes	credit hours
Massachusetts	2- and 4-year institutions	No	enrollment
North Carolina	Senior institutions	Yes	credit hours
	Community colleges	Yes	cost
Pennsylvania	Senior institutions	Yes	enrollment
South Carolina	Senior Institutions	Yes	credit hours
Virginia	2- and 4-year institutions	Yes	enrollment

8. Public Service

A few state funding formulas allocate money for public service, as listed in *Table 2.10*. Public service funds are indicated to foster the continuation and expansion of public service activities. The amount funded is typically a very low percentage of the total budget and is usually based on a percentage of the instructional budget – and is therefore tied to enrollment levels. Neither Nevada’s current funding formula or NSHE’s proposed formula separately calculates funding for public service.

Table 2.10. States that include a component for public service in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Public Service
			Formula Driver
Alabama	Senior institutions	Yes	credit hours
Arkansas	Universities	Yes	credit hours
Georgia	2- and 4-year institutions	Yes	credit hours
Minnesota	2- and 4-year institutions	Yes	enrollment
South Carolina	Senior institutions	Yes	30% of previous FY sponsored public service and non-general fund public service expenditures

9. Research

Some state formulas include a research component, as listed in *Table 2.11*. This category supports research at institutions typically by adding a small percentage of the instructional support budget to the total calculation (and is therefore usually tied to enrollment levels). For example, Alabama calculates its research funding as 2% of the sum of the estimated costs of instruction, operating expenses, and academic support in addition to 5% of the total sponsored research brought into the institution. South Carolina’s research formula component is based on 30% of previous FY sponsored research

expenditures. NSHE's proposed funding allocation model weights upper-division and graduate student credit hours at the universities by 10% more to support research activities at those institutions. Functionally, this would result in completed student credit hours driving the research support.

Table 2.11. States that include a component for research in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Research Formula Driver
Alabama	Senior institutions	Yes	credit hours plus 5% sponsored research amount
Arkansas	4-year institutions	Yes	graduate enrollment
Georgia	2- and 4-year institutions	Yes	credit hours of gradates
Massachusetts	2- and 4-year institutions	No	enrollment
Minnesota	2- and 4-year institutions	Yes	enrollment
South Carolina	Senior institutions	Yes	30% of previous FY sponsored research expenditures
Texas	Health-related institutions	Yes	research expenditures

10. Scholarships

No states currently have a budgetary function in their funding formula for determining the funding levels for scholarships. However, Connecticut higher education funding uses two statutory formulas, both designed to set funding levels for financial aid. The Connecticut Independent College Student Grant Program (CICSG) provides funds for students attending independent schools in the state, and the Connecticut Aid for Public College Student Grant Program (CAPCS), for students attending public colleges. CAPCS is designed to match tuition funds set aside by an institution (at least 15% of all tuition revenue, per the Board of Governors' tuition policy) but is not been fully funded in recent years. Neither Nevada's current funding formula nor NSHE's proposed formula calculates funding for scholarships.

III. States That Do Not Use a Formula for Higher Education Funding

A. List of states that do not use higher education funding formulas

Nineteen states do not employ a formula to determine funding levels for higher education, while an additional ten states have a hybrid system and do not use a formula for some categories of institutions (typically for senior or 4-year institutions). These are listed in *Table 2.12*. Note that a detailed explanation and narrative for most of the individual states that do not use funding formulas is provided in *Appendix B* and narratives for states that use hybrid funding models are provided in *Appendix C*.

Table 2.12. States that do not use a formula for higher education funding.

States currently not using formulas		
Alaska	Michigan	Rhode Island
Colorado	Missouri	Utah
Delaware	Nebraska	Vermont
Iowa	New Hampshire	Washington
Kentucky	North Dakota	West Virginia
Maine	Oklahoma	Wisconsin
		Wyoming
States that use a hybrid system – NO formula is used for the specified type of institutions		
California (for UC only)	Maryland (non-Regional Education Centers only)	
Florida (for 4-year institutions only)	Montana (for 4-year institutions only)	
Hawai'i (for 4-year institutions only)	New Jersey (for 4-year institutions only)	
Illinois (for 4-year institutions only)	New York (for 4-year institutions only)	
Kansas (for 4-year institutions only)	South Dakota (for all institutions other than federally-funded technical schools)	

B. Typical funding approaches in states that do not use formulas

Non-formula funding determination methods vary widely from state to state, from “base plus” methods to purely political ways of determining allocations, as illustrated in *Table 2.13* below and in the detailed state narratives in *Appendix B* and *C*. The two most common methodologies are the following:

“Base Plus” Method: This is the most popular non-formula funding method. The higher education appropriation or funding request is based on the previous year’s appropriation (the base), plus some enhancement or cut – which may be formally or informally based on enrollment (or other performance factors) in some states. States that use enrollments formally in formulas are reviewed in the previous section.

Funding Based on Legislative Priorities: Some states fund simply based on legislative priorities or policies, which could be based on the amount of funding available or on peer equity with other states for higher education funding.

Table 2.13. Summary of states' non-formula funding approaches for higher education.

Base plus/minus	Funding Based on Legislative Priorities
Alaska	New Hampshire
Colorado	North Dakota
Delaware	Oklahoma
Iowa	Rhode Island
Kentucky	Vermont
Maine	West Virginia
Michigan	
Missouri	
Nebraska	
Utah	
Washington	
Wisconsin	
Wyoming	

As shown above, about one-third of the states use formulas and a bit more than a third do not use formulas. The remaining states use a hybrid system. This has not always been the case. Historically, when there were few state institutions of higher education, states funded with no formula; however, as higher education systems became larger and more complex, policy-makers started to look for a more “objective” way to distribute resources as competition for resources grew. Formula funding started in large systems (Texas, California) and then spread, with many states borrowing from Texas’ methods. Formulas are not only based on enrollment (though primary so), they also take in account other factors such as utility costs and differential costs of instruction.³⁶ States that currently use funding formula tend to be southern, and many tie the cost component of their formula to the Southern Regional Board Average Salary.

States that do not use a formula have (until recently) generally appropriated more money to pay for increasing student enrollment. Sometimes that increase was only informally tied to enrollment – i.e., “we have more students, we need more money”. At other times the increase was based on general increases in the state budget or on legislative priorities. However, in recent economic times, higher education appropriations have declined despite increasing enrollments. Some have tied the lack of a formula to declining state support.³⁷ However, states with funding formulas have also seen declining state support as legislatures rarely fully fund the needs estimated by funding formulas.

³⁶ MGT of America. *Evaluation of the NSHE Funding Formula*. May 2011. Please see report for more in-depth discussion of the history of funding formulas.

³⁷ Lowery, Nick. “Missing formula increases tuition.” *The SDSU Collegian*. March 14, 2012. <http://www.sdsucollegian.com/2012/03/14/missing-formula-increases-tuition-3/>

IV. States' Use of Performance-Related Criteria in Higher Education Funding

A. Background on use of performance-based funding

Higher education policymakers, foundations, and other organizations have recently emphasized the use of performance-based funding in higher education; however, this approach is not new. Since 1979, states have experimented with different types of performance-based funding that went beyond funding systems based simply on enrollments. The results have been mixed, and many programs have been cut due to lack of alignment with state politics, complexity, lack of available data, or lack of funding.

Though many states collect performance-related data, relatively few states actually incorporate performance-related criteria into their funding decisions. In some states, performance metrics are reported to the legislature as part of the system of higher education's annual or biennial budget request, a practice termed "performance budgeting." This approach differs from those states that explicitly tie funding levels to performance-related criteria through a formulaic process ("true" performance funding).³⁸ Furthermore, for performance-based funding methods to be effective, states need to tie performance-related funding to a significant share of an institution's overall income if the criteria are to have an impact on behavior. While there is considerable debate about what constitutes a "significant" share, in the past those states that have implemented performance-based funding have done so at levels too low to truly incentivize behavior.

In other states, a performance pool was formally adopted but never implemented. This is true of the current Nevada funding formula. In 2001, the Governor recommended an allocation of \$3 million for the FY 2002-03 performance pool; however, the 2001 Legislature denied the request because "a comprehensive plan was not provided that specified how the proposed funded would be allocated."³⁹ The pool has not been funded since then. Indeed, the development of clear metrics was not pursued in Nevada because the portion of funding allocated to the performance pool was relatively small. The result of the lack of clear metrics led to the performance pool being returned to the NSHE's general fund appropriation. For performance criteria to change behavior, the metrics must be clear and the dollar amounts significant.

B. Types of metrics used for performance-based funding

Only a handful of states have implemented performance funding after the first wave of performance funding in the 1980s and 1990s. The renewed interest has been spurred by falling budgets and dismal completion rates. Implementation of performance-based funding has been made easier with increased availability and quality of data. Performance indicators fall into three categories: outputs (graduation rates, certificates conferred, etc.), progress (course completion, transfer, credit milestones, etc.), and economic development (high-need degrees, etc.) Most states that use performance-based funding apply output metrics, while very few are using economic development metrics. These metrics are tied to funding – either new funding on top of the base appropriation, some portion of the base appropriation, or the entire formula calculation.

³⁸ As accounted in Carey, K. and C. Alderman. *Ready to Assemble: A Model State Higher Education Accountability System*. Education Sector Report. December 2008.

³⁹ Fiscal Analysis Division, Nevada Legislative Counsel Bureau. Education. *2001 Appropriations Report*. p. 20.

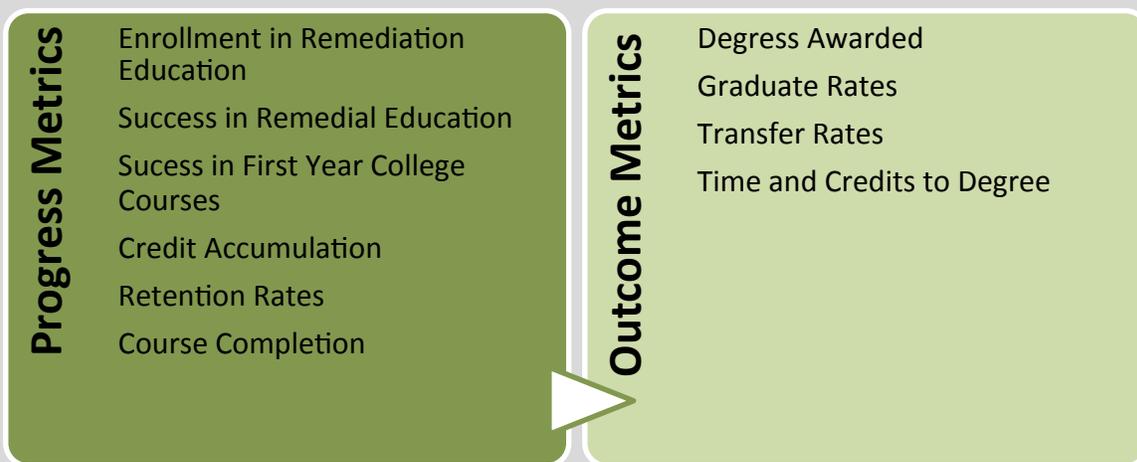
Table 2.14. Types of performance-based funding metrics.

Category	Metrics	Explanation of Metric
Output Metrics	<i>Degrees awarded</i>	Annual number and/or percentage of certificates, associate's degrees, bachelor's degrees, master's degrees, doctorate degrees, and other professional degrees awarded. Exactly which degrees are tracked depends on the state and institution.
	<i>Graduation rates (or "time to degree")</i>	Number and/or percentage of certificate- or degree-seeking students who graduate in a predetermined length of time. On-time rates are defined as two years for associate's degrees and four years for bachelor's degrees. Extended time usually refers to three years for associate's degrees and six years for bachelor's degrees.
	<i>Research incentives</i>	Metrics related to the amount of federal research and development money brought into the university.
Progress Metrics	<i>Transfer rates</i>	Annual number and/or percentage of students who transfer from a two-year to a four-year institution.
	<i>Successful course completion</i>	A course for which a letter grade above a D- or pass has been entered.
	<i>Time and credit to degree</i>	Average length of time in years to earn a degree.
	<i>Student progression (or "credit accumulation")</i>	Students are weighted more for funding purposes after they pass specified credit hours thresholds.
	<i>Advancement through remedial and adult education</i>	Students are weighted more for funding purposes after they pass specified remedial and adult education courses.
	<i>Job placements</i>	Rate of job placements post-graduation.
Economic Development Metrics	<i>Earned research dollars</i>	Amount of outside grants for research brought into the institution.
	<i>Degrees linked to workforce development goals</i>	Annual number and/or percentage of high demand degrees, generally in science, technology, engineering, mathematics and healthcare.

National Governors Association *Complete to Compete* Metrics

The National Governors Association (NGA) *Complete to Compete* initiative has recommended metrics for higher education performance funding.⁴⁰ **Progress metrics** allow policymakers and the public to determine if the state and its public institutions are on track to meet future goals, while **outcome metrics** show how the state and institutions are currently performing against the completion goals. NGA simply recommends that these metrics be collected and published. A later NGA brief recommends that states “include performance measures (e.g., degrees awarded, degrees awarded to low-income and minority students) as part of the regular budgeting process for higher education. State funding for public colleges and universities should be based on measures of student program and success and not on just enrollment or what other colleges spend.”⁴¹

For more information on the NGA *Complete to Compete* metrics and initiative, see:
<http://www.subnet.nga.org/ci/1011/>.



C. States’ use of performance-based funding approaches

1. States that are using or considering using performance-based funding

Eleven states currently use performance funding for higher education with at least one performance-based criterion directly linked to funding (see *Table 2.15* below). Florida and Illinois have used performance funding in the past, but the performance pool is not currently funded. All of these states incentivize completion by awarding funding based on degrees or certificates awarded. The two most common progress metrics in use are credit/course completion and transfer rates between 2-year and 4-year programs. No state utilizes all of the NGA completion metrics, though movement toward higher education budgets based on course and degree completion align with more recent NGA recommendations. Note that most of the states using performance-based funding are doing so within a formula-based funding method, although a couple of states (Oklahoma and Washington) are applying performance criteria for non-formula funding methods.

⁴⁰ Reyna, Ryan. *Complete to Compete: Common College Completion Metrics*. NGA Center for Best Practices. June 2010.

⁴¹ Conklin, Kristin. “Follow the Money: Strategies for Using Finance to Leverage Change in Higher Education.” *Complete to Compete Briefing Paper*.

Table 2.15. States that include performance-related criteria in higher education funding.

States Using Performance Criteria	Formula or Non-Formula State	Performance Criteria Elements/Description
Arizona	Formula*	Growth in degrees awarded, completed student credit hours, and external funding for research and public service.
Florida** (for 2-year institutions only)	Hybrid / Formula for 2-year institutions only	Degree completion; degree completion and employment of at-risk students
Hawai'i (for 2-year institutions only)	Hybrid / Formula for 2-year institutions only	Credit completion; degree/certificate completion; degree/certificate completion for Native Hawaiians; STEM degrees/certificates; number of at-risk students; transfers to 4-year institutions
Illinois** (for 2-year institutions only)	Hybrid / Formula for 2-year institutions only	Degree/certificate completion; degree/certificate completion for at-risk students; transfer to 4-year institutions; remedial & adult education advancement
Indiana	Formula	Successful completion of credit hours; overall degree change; low-income degree student change; on-time degree change; research incentive.
Kansas	Hybrid / Formula for 2-year institutions only	Criteria vary, as each institution creates its own performance agreement: increasing diversity; improving student achievement test scores; aligning the higher education system and the needs of the Kansas economy; increasing institutional quality; providing student services.
Louisiana	Formula	Course completion; STEM degrees; health degrees; research
New Mexico	Hybrid / Formula applied for new funding only plus 5% of base in FY2012	Credit completion; degrees/certificates completion; STEM degrees/certificates; health degrees/certificates; at-risk student degrees/certificates
Ohio	Formula	Credit completion; degree completion; at risk student completion; STEM degrees
Pennsylvania (for 4-year institutions only)	Formula	Course completion; degrees conferred; student persistence; quality metrics; high-risk students; self-developed criteria; diversity metrics.
Tennessee	Formula	<i>4-year & 2-year institutions:</i> student progression; degree/certificate completion; transfers out with 12 credit hours <i>4-year institutions only:</i> research & service; 6-year graduation rate <i>2-year institutions only:</i> dual enrollment; degrees/certificates; job placements; remedial & developmental success; workforce training <i>All – quality measures</i>
Texas	Formula	Degrees awarded with special weights for critical fields and at-risk students
Washington (for 2-year institutions only)	Non-Formula	Gains in basic skills; passing pre-college writing or math; earning 15 credits the first year; earning 30

States Using Performance Criteria	Formula or Non-Formula State	Performance Criteria Elements/Description
		credits; completing college-level math; finishing apprentice training; earning a degree or program certificate
*Though Arizona does have a funding formula, it has dropped its use in recent years. Please see state narrative in Appendix A. **Is not currently funded. An alternate form of this table is shown in Appendix E		

In addition to the states that have already implemented performance criteria in their funding models, a number of other states also have definite plans to switch to performance-based funding (see *Table 2.16*). The shift toward the use of performance-based funding is clear trend, and it is picking up speed. The concerns of taxpayers, parents, and policymakers over the time it takes for students to graduate, and grave concerns about the many students who never graduate, will likely ensure that this development is here to stay.

Table 2.16. States currently using and states considering performance-based funding.

States that currently use, or have a definite plan to switch to, performance-based funding <i>(Note: states in bold currently use it)</i>		States considering performance-based funding	
Arizona	Montana	California	New York
Arkansas	New Mexico	Connecticut	North Dakota
Colorado ¹	Ohio	Georgia	Oregon
Florida ²	Oklahoma	Idaho	South Dakota
Hawai'i ³	Pennsylvania ⁵	Kentucky	North Carolina
Illinois ⁴	South Carolina	Maine	Utah
Indiana	Tennessee	Massachusetts	Virginia
Kansas	Texas	Michigan	West Virginia
Louisiana	Washington ⁶	Mississippi	Wisconsin
Maryland		Nevada	Wyoming
¹ CO will only switch to PBF if the state meets a target funding threshold. ² FL: for 2-year institutions only; 4-year institution plan under development ³ HI: for 2-year institutions only; 4-year institution plan has been developed but not yet implemented due to lack of funding ⁴ IL: for 2-year institutions only; 4-year institution plan under development ⁵ PA: for 4-year institutions only ⁶ WA: for 2-year institutions only			

2. Performance-based funding implementation and scale

Implementation and scale are critical questions for any new performance-based funding model. When state revenues declined in the recent recession, performance-based rewards structured as bonus funding were the first items to be eliminated from higher education allocations. Integration of performance-linked funding with the baseline funding allocation for higher education helps to protect performance-based funding pools while communicating a state's strong commitment to outcomes. In addition, the scale of performance-based funding must be large enough to make a difference – both in hearts and in actions. The funds allocated by performance-based measures should be large enough to incentivize behavior change and also communicate state commitment. For example, Tennessee and Ohio have changed all of their formula funding so that it is based on successfully completed credit hours, while other states use smaller performance pools (as shown in *Table 2.17*). It should be noted, though, that there is still value in *any* use of performance criteria, as it focuses stakeholder attention on the alignment of institutional outcomes with state goals. For example, Virginia and Louisiana both reward institutions meeting their performance-based goals by giving those institutions more autonomy over their student-derived revenues. In Louisiana, institutions meeting benchmarks are allowed to raise tuition.

Table 2.17. Selected states' use and implementation of performance-based criteria.

States Using Performance Criteria	Implementation/Scale of Performance-Based Funding	Performance Criteria Applied to Institutional Base Funding or as Bonus Funding?
Indiana	Performance pool is 5% of total state appropriation for higher education in 2011	Institutional base funding
Kansas	Increases to appropriation	Bonus funding
Louisiana	Performance pool will be 25% of institutional operating budgets when fully implemented	Institutional base funding
New Mexico	Currently being implemented – 5% of FY2012 base funding and applied to all appropriation increases.	Institutional base funding plus any new appropriations
Ohio (<i>university and regional campuses</i>)	100% of higher education formula funding is linked to performance criteria	Institutional base funding
Pennsylvania (<i>for 4-year institutions only</i>)	\$36 million of \$412 million ins 2012-2013	Institutional base funding
Tennessee	Phase-in over 4 years to 100% of higher education formula funding linked to performance criteria	Institutional base funding
Texas	Performance pool was \$80 million in 2009 of ~ \$147.2 million.	Bonus funding
Washington (<i>for 2-year institutions only</i>)	Fixed amount allocated \$1.8 million	Base funding

3. Performance-based funding results

Like any policy, time is required for results to be shown. Many of the current uses of performance-based funding are too new to evaluate; however, a few are old enough to see results.

- **Ohio:** Though recently Ohio has expanded its performance-based funding, the state started incentivizing graduation rates in 1998. Since then, Ohio has reported that the median time-to-degree for bachelor's degrees decreased from 4.7 years in fiscal year 1999 to 4.3 years in fiscal year 2003; the in-state bachelor's degree 4-year graduation rate increased from 34% in 1999 to 43% in 2006; and the number of at-risk students who received bachelor's degrees increased by 13% from 1999 to 2006.⁴²
- **Pennsylvania:** Between 2002 (when the performance pool was initially enacted) and 2008, the Pennsylvania System of Higher Education reported a nearly 10 percentage point increase in overall four-year graduation rates, including increases of 6 and 9 points for African American and Hispanic students and a jump in second-year persistence rates, especially for Hispanic students, who saw a 15-point persistence improvement.⁴²
- **Washington:** Between the 2006-07 baseline year and 2008-09, the first performance year, the colleges served 4% more students but increased student achievement by 19% with gains in all categories, including the largest increases in gaining college ready skills. In 2009-10, points again increased in all categories. Total achievement increased by 12 percent or 40,716 total points compared to student population growth of 1%. In 2010-11, completions increased by 17 percent over one year prior. College math points were the second highest increase (5 percent), a result, the system claims, of more attention being paid to both math and pre-college math.⁴³

These initial results are modest, and if the debate raging in k-12 education over testing is any guide, the question of whether performance funding has clear benefits will remain unsettled for the foreseeable future. But there is general agreement that performance in higher education has plateaued over the last two decades. Graduation rates have stagnated, while costs have risen dramatically. More importantly, citizens are paying less for public institutions through their taxes, and more through fees and tuition. This direct exposure to the costs of higher education has made them much more concerned about performance.

⁴² HCM Strategists. *Performance Funding in Indiana. An Analysis of Lessons from the Research and other State Models*. 2012. http://www.hcmstrategists.com/content/Indiana_PFReport2_8.2.11.pdf.

⁴³ Washington State Board for Community and Technical Colleges, "Student Achievement Initiative." http://www.sbctc.ctc.edu/college/e_studentachievement.aspx

DRAFT

March 2014

2013-14 Tuition and Fee Rates *A National Comparison*

Introduction

This report includes tuition and fee data for flagship institutions, comprehensive institutions and community colleges. This is the forty-third such report prepared in Washington. Previous annual reports published by predecessor agencies to the Washington Student Achievement Council (WSAC) are available online at <http://www.wsac.wa.gov/tuition-and-fee-reports>.

Tuition and fee rates for 2012-13 and 2013-14 were collected by the Connecticut Office of Higher Education, which partnered with the WSAC who analyzed the data and prepared the current report. Connecticut developed an online tool to collect these data, and transmitted the information to the WSAC in early 2014. Importantly, state officials providing data could also amend their submittals for the previous year (in this case, 2012-13) to account for any changes that occurred after submitting last year's report. Several states have done so – usually due to legislative changes adopted after their response, or to mid-year changes. As a result, some of the figures and averages for 2012-13 will not match those reported in last year's report.

As the US economy grows (albeit slowly) following the Great Recession, tuition growth continues to slow. At flagship institutions, the average increase from 2012-13 to 2013-14 was just under 4%. Several states, including Washington, froze tuition this academic year, though the data show small changes due to increases in mandatory fees. In all, 20 states increased total resident undergraduate tuition and fees at their flagship institution by less than \$200.

Tuition and fees grew at the same 4% rate in the comprehensive sector. 16 states held average tuition and fee growth below \$200 in this sector. Whereas five states saw tuition growth of over 10% in this sector from 2011-12 to 2012-13, only two states exceeded that figure this year.

Growth in community college tuition was slightly higher, at 5%, though this is partly the result of a lower base tuition rate. In all, 20 states (including Washington) held tuition and fee growth below \$100 in the two-year college sector, with Missouri significantly reducing tuition.

Appendix A of this report includes six bar charts showing resident undergraduate tuition and required fees for each state, and providing comparisons to the national and "Global Challenge State" (GCS) averages. Bar charts showing percentages changes in tuition and required fees between 2012-13 and 2013-14 are also provided.

Appendix B provides the national data tables used to create the bar charts in Appendix A.

Appendix C provides additional notes on the Appendix B data, and Appendix D provides a list of the institutions included in this analysis.

How Washington Compares

After years of very rapid growth, tuition and fee rates in all three sectors slowed considerably in Washington. With the legislature freezing tuition, the only growth was a small increase in mandatory fees at the University of Washington. As a result, Washington's ranking in most tuition categories dropped in each resident undergraduate category from 2012-13, and annual growth was below the national average. However, Washington's total tuition and fee rates remain above the national average in each sector.

Resident Undergraduate Tuition 2013-14			
	Flagship Institution ¹	Comprehensive Institutions ²	Community & Technical Colleges
Washington	\$12,389	\$8,600	\$4,000
1-year Percent Change	2.0%	0.2%	0%
4-year Percent Change	61.2%	50.1%	36.8%
National Average	\$10,009	\$7,833	\$3,739
Washington's Rank	12	15	16
GCS ³ Average	\$11,944	\$8,963	\$3,744

Non-resident Undergraduate Tuition 2012-13			
	Flagship Institution ¹	Comprehensive Institutions ²	Community & Technical Colleges
Washington	\$31,971	\$20,062	\$9,235
1-year Percent Change	7.6%	4.7%	0%
5-year Percent Change	31.2%	27.5%	13.4%
National Average	\$26,151	\$17,531	\$8,593
Washington's Rank	8	14	20
GCS ³ Average	\$31,788	\$19,939	\$9,345

Resident Graduate Tuition 2012-13		
	Flagship Institution	Comprehensive Institutions
Washington	\$15,303	\$10,139
1-year Percent Change	5.8%	4.6%
5-year Percent Change	36.3%	36.2%
National Average	\$11,555	\$8,715
Washington's Rank	10	11
GCS ³ Average	\$14,713	\$11,022

¹For Washington, this number represents the University of Washington.

²For Washington, this number represents the average tuition and required fees at Central Washington University, Eastern Washington University, and Western Washington University.

³Includes California, Colorado, Connecticut, Maryland, Massachusetts, New Jersey, and Virginia.

Limitations

This survey is based on tuition and mandatory fees at each institution. Ideally, this measure replicates the “tuition and mandatory fees” figure that institutions provide prospective students when disclosing their cost of attendance, and represents what most students actually pay. However, each state (and sometimes each institution) may treat fees differently. Some require students to purchase health insurance, and others may call this a non-mandatory fee if students retain coverage through their parents. In addition, many of these fees are levied by student groups themselves, whether for debt service or for other student activities. Tuition policy – and thus state revenues and support of institutions of higher education – drives much of the volatility in these rates, but these student fees may be driven by other factors. Adding the two together is necessary to see the impact on students, but it does mix two distinct categories of fees, each with their own drivers and relationship to the broader economy.

This survey has been conducted by WSAC and its predecessor agency, the Higher Education Coordinating Board, since the early 1970s. New institutions, or institutions with new missions, were not included so that comparisons could be made across time using the same set of institutions in each state. However, this has meant that several institutions are excluded from the analysis. In Washington, the Evergreen State College is not included in the “comprehensive” category, and in California, over 10 institutions in the California State University system are also left out. A related issue concerns research institutions that are not designated as the state’s “flagship.” We are open to suggestions for how to include these institutions in next year’s survey.

Conclusion

The 2008-2012 period marked a sea change in Washington’s tuition policy, and saw states throughout the country shift more of the cost of public higher education to students. With recessionary pressures abating, that shift has slowed considerably. As state revenues have stabilized, many states – including Washington – have shifted focus to issues of student debt, the rising cost of attendance and equal access in the face of tuition increases, financial aid reductions, or both.

Many other functional areas of government saw reductions, and it remains to be seen whether higher education can restore funding lost during the recession. As tuition growth is inextricably tied to state funding, policy makers – and students – will be watching to see how tuition policy shifts throughout the nation.

Author Contact

Marc Webster.
Senior Fiscal Policy Advisor
marcw@wsac.wa.gov
360-753-7862

Acknowledgements

The author wishes to thank staff from the Connecticut Office of Higher Education, who partnered with the Council to conduct the survey. Special thanks go to the survey respondents in the 50 states for their continued participation.

Various Budgetary Frameworks for Higher Education

(States in **bold** used new revenue sources)

Model:	Description	Pro	Con
“Shared Responsibility” (OR, VA)	State outlines cost sharing policy between students/families, state government and federal government. Student share can be expressed as a share of instructional/other costs, or as a flat dollar amount that varies by sector.	Flexibility – model can accommodate institutional/sectoral differences, and states can define costs in various ways. Clarity – student share is clearly defined; may help with saving. Incentive to support institutional budgets – State/federal aid help low-income students, but to make the model workable, states must fund institutions’ base budgets.	Has not survived recessions – OR and VA both abandoned these models during recessionary periods. Who defines costs? – Policy makers may worry there’s no incentive to constrain costs, and there may be uncertainty about what’s included in the defined costs.
Trust fund/Dedicated Revenue (ME, MD)	The state (with possible contributions from the schools?) establish a trust or other dedicated account to support higher education/control tuition during recessionary periods.	Funding is dedicated – Can only be spent on higher education support/tuition moderation. Senate seems interested (SB 5881) in a P-20 fund	How strong are the protections? – can fund be swept in recessions? Battle over revenue source – if it isn’t new, then current beneficiary will fight to maintain current distribution
Low-Cost Degrees (TX, FL)	Certain institutions would offer a path to a bachelor’s degree at a very low price point - \$10,000-\$15,000.	Encourages institutions to package a variety of techniques (on-line, applied BA programs, etc.) to help students. Allows higher ed to specialize, instead of a single delivery model/similar costs for very different institutions	Essentially allows many/most schools to “opt out.” Could become a separate “track” with lower quality, and may exclude STEM and other high-demand programs. No experience of this working at scale.
Tuition Caps/Restricted growth (proposals in MI, MD, CO, WA)	State controls tuition, and sets either a “hard cap” on tuition at a percentage of median income, or ties	Controls volatility in tuition increases Tying tuition to state wage puts ability to pay	Without concomitant pledge of operating support, this could harm institutions in the event state funding

	maximum annual increase to per-capita personal income growth, median wage, etc.	at the center of tuition debate, not state budget.	drops. Removing institutional costs/total fund budget from the tuition equation can have unintended consequences (eg. Enrollment reductions).
Free Community College (TN, OR)	State pledges to make one or two years of Community and Technical college training free to students (either traditional age or all students).	Targets funding at sector with broadest mission. Builds on Washington’s current strength in CTC enrollment	May hurt attainment for top students Costly – cheaper if dedicated to HS graduates, but this weakens attainment outcomes
Pay it Forward	State funds all or portion of tuition and fees for participating students. Student then contracts to repay a portion of their income to the state.	Up-front costs to students are minimized. Repayment is based on income, allowing students to choose careers without factoring in loan debt.	Duplicative of federal IBR loan programs High up-front costs with no benefit to schools. Students planning on high-wage careers (medicine, engineering) have incentive to opt out. Good for middle-income families, but low-income students could lose out and high-income families would opt out.
Blended Model/“Maintenance Plus” (MS)	First allocation based on cost of operations – including facilities maintenance, utilities, student services, etc. Then, additional funding driven out based on performance, enrollment, or credit completion	Flexible – incorporates stable base funding with performance incentive funding at the margin. Addresses institutional costs directly.	Affordability is a side-benefit; it’s not the goal of this model. Could be disincentive to cut costs if previous actuals drive “base” level allocations.

Committee on Funding and Affordability

Meeting Overview

Our task is to develop a series of policy options that would help the state foster an affordable system of higher education.

- There are several questions to answer as we consider this task:
 - Affordable for whom?
 - Should we have a unified policy, or treat different institutions differently?
 - Is the goal to create an affordable degree/credential option for students, or ensure that cost is not a barrier for any degree/credential?
 - To what extent do we care about the institutions' costs - either the cost of instruction, or the cost to operate their enterprise?
 - If the state agrees to a policy based on institutional costs, does it have a hand in determining them?
 - What costs should be included? Instruction, or instruction-plus-student services, primary support/library?
 - Is stability an important goal, or should we tolerate volatility if it produces (on average) lower total costs to students?

