Washington Student Achievement Council

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Title	Funding		
Challenge area:	☐ Student Readiness ☐ Affordability ☐ Institutional Capacity & Student Success ☐ Capturing the Potential of Technology ☒ Stable and Accountable Funding	**Staff lead:**	Marc Webster
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Synopsis:	This report delineates how K-12 and higher education funding differ, recent trends in how the state and other entities fund education, and the changes wrought by the recession. In addition, it examines budget options including public/private partnerships and incentive or performance funding.		
Guiding questions:	What is the ideal balance between funding students and funding institutions? To what degree should funding be based on measurable results? Which results? How should we react to changing demographics? What are we buying with higher education funding?		
Possible council action:	☒ Information Only ☐ Approve/Adopt ☐ Other: _____		
Documents and attachments:	☒ Brief/Report ☐ PowerPoint ☐ Third-party materials		

Washington Student Achievement Council

Ten-Year Roadmap Issue Briefing

Challenge Area
Accountable Funding

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Executive Summary

Education makes up the majority of the state's two-year budget, with funding for K-12 at $15 billion and higher education (including financial aid) at $3 billion. The State Supreme Court's McCleary vs. Washington State decision found that the state is failing in its duty to provide a "basic education" for students as required by the constitution, and the Legislature and Governor are still debating how to implement new funding that the decision requires.

Most K-12 funding flows to school districts according to a detailed formula. There are other programs that act as enhancements to that formula for students with additional needs—special education and transitional bilingual education are examples. As the state partners with local school districts to fund the full complement of school activities, the state also funds "levy equalization" to ameliorate the differences in school property tax yields between districts with low property values and those with higher values.

Higher education funding is not mandatory, so it has traditionally been more volatile than other functional areas. During the recession, the state reduced appropriations to institutions, particularly in the public research university sector, and increased tuition.

With tuition increasing, the state also provided increases for the State Need Grant, the largest state financial aid program. As a result, the share of higher education funding going towards aid is now at an all-time high. State funding for institutions of higher education is essentially a package of block grants, and appropriations are not automatically adjusted for enrollment or degree production.

In addition to debates about appropriation levels, policy makers are also discussing funding strategies to incent institutional change or leverage private funding. Performance funding was attempted in Washington in the late 1990s, but new approaches—including the Community and Technical Colleges 'Student Achievement Initiative'—have refocused attention on tying funding to outcomes.

Contents

Context of the Ten-Year Roadmap

Increasing educational attainment is vital to the well-being of Washington residents and to the health of our state's economy. To this end, the Washington Student Achievement Council is working to propose goals and strategies for increasing educational attainment through a Ten-Year Roadmap and a two-year Strategic Action Plan.

The Council's Strategic Action Plan, adopted in November 2012, identifies five critical challenges to be addressed in the Roadmap. The five challenge areas are:

1. **Student Readiness** (with four planning activities: Early Learning; Outreach and Support; Alignment; Remedial Postsecondary Education)
2. **Affordability**
3. **Institutional Capacity and Student Success** (with two planning activities: Meeting Increased Demand; and Assessment of Student Skills and Knowledge)
4. **Capturing the Potential of Technology**
5. **Stable and Accountable Funding**

To inform the Council's work of creating the first Roadmap, workgroups comprising lead Washington Student Achievement Council Members, Council staff, and external workgroup members were formed to research, discuss, and develop issue briefings and policy recommendations for each of these five critical challenge areas.

The Challenge Areas are complex and interrelated. While the Roadmap will recommend actions for each of the Challenge Areas, these recommendations will be integrated into a cohesive plan.

Introduction

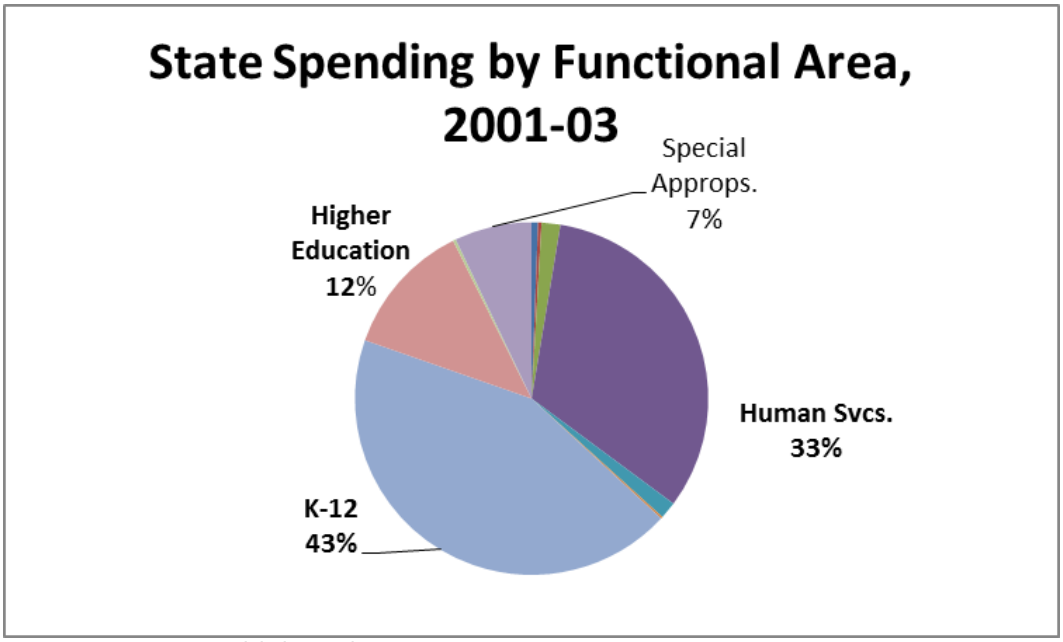
This report provides background information concerning how the State of Washington funds K-12 and postsecondary education and training. Additionally, the report summarizes education funding trends and identifies funding strategies which the Council can consider when adopting the Action Recommendations of the Ten-Year Roadmap.

Overview of State and Education Budget

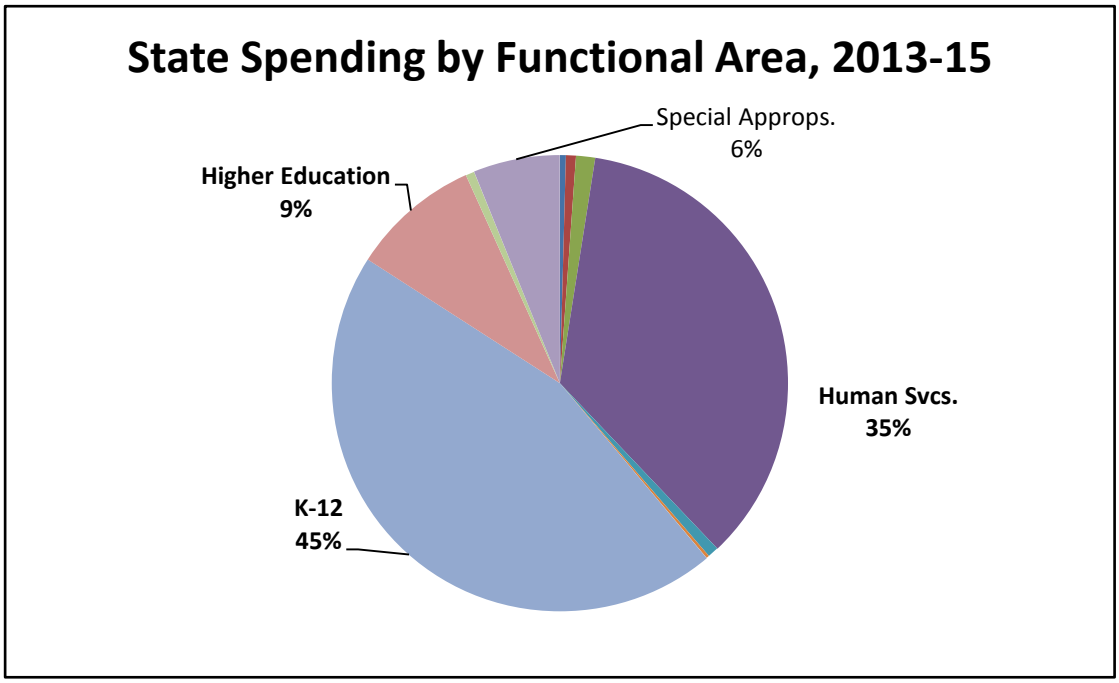
The state's biennial (two-year) operating budget is funded largely through sales, property and business and occupation taxes, and totals about $33 billion. As shown in the illustrations below, of this total, education comprises the majority, with K-12 education accounting for about 15 billion and Higher Education (including funding for the institutions and state financial aid) nearly $3 billion.

As shown below, K-12's share of the state budget has remained fairly stable, while higher education's share has declined. This difference represents, in large part, the consequences of discretionary versus non-discretionary spending. Specifically, K-12 is identified in the state constitution as the "paramount duty" of the state. After K-12, there are other budget areas defined as mandatory programs which rely on the State General Fund: debt service on state bonds and caseload-driven human services like Medicaid are examples. Higher Education also relies on the State General Fund but it is not budgeted on a defined level of service; it is the largest purely discretionary functional area in the budget.

Since higher education funding is not constitutionally protected, its funding is greatly affected by downturns in the state's economy and tax revenue. The recent recession was a dramatic example of this volatility.



Source: 2001-03 Legislative Budget Notes



Source: 2013-15 Legislative Budget Summary

Education Budget Background

K-12 Education and the Constitution

"The education of all children residing in its borders," is, according to article IX of the state constitution, the state's "paramount duty." The state has a constitutional requirement to provide a "basic education" to all children, and this duty comes before any other requirement the state must meet. As a result, much of the ongoing funding for K-12 is established automatically according to a formula called "general apportionment." Simply put, if a child enrolls in a school, that school receives an increase to serve that child.

Last year, in *McCleary v Washington*, the Washington State Supreme Court found that the state had failed to meet this constitutional requirement to fund a "basic education" for the state's 1,050,000 public school students. To their credit, the Legislature had recently engaged in and adopted updated policies regarding "basic education" funding.

In 2009, the Legislature passed two bills dealing with basic education—the first, HB 2261, added new programs under the "basic education" umbrella (most notably moving kindergarten from a half-day to a full-day program), and the second, HB 2776, produced a new funding formula as well as a phased spending plan for enhancements to basic education over a six-year period.

With a total cost of more than $4 billion per biennium over the 2011-13 biennium appropriations, the Supreme Court pointed to this bill in its ruling as an initial remedy to the funding issues found in *McCleary*. Finally, the Supreme Court has argued that it will monitor the Legislature's progress in funding this spending plan.

General Apportionment and the K-12 Funding Model

General apportionment is based on what's known as the "prototypical school model." This uses actual spending data as of 2010 for schools of various sizes, types, assumed class size, and actual mix of teacher education and experience. The model is quite detailed, as each 'prototypical school' includes funding for a share of non-instructional staff (counselors, social workers, custodians, nurses) and administrators, and a share of district-wide support staff like information technology and warehouse workers. General apportionment is currently slightly over $5,000 per student.

Local Levies and Levy Authority

Thanks to local maintenance and operations levies, funding K-12 education is a partnership between the state and local communities. The Supreme Court ruled in 1978 that local tax levies must fund enrichment and non-basic education programs. This would keep the state's responsibility to provide a basic education clear, and prevent the state from shifting a portion of its obligation to districts and local taxpayers. At that time, local levies made up about one-third of total school district revenues.

After the basic education decision clarified the role of levies, they dropped to around 10 percent of district revenues on average, but the state has gradually increased the ability of districts to raise funds. In 2010, the state raised the "levy lid" from 24 percent of revenue to 28 percent. However, 90 school districts had higher levies at the time of the 1978 decision, and these districts have had their levy lid "grandfathered"—that is, they are not subject to the 28 percent cap, and can vary from a fraction over 28 percent in Spokane and Olympia to nearly 38 percent in Mercer Island, Palisades, Carbonado and others.

Today, school districts receive, on average, about 20 percent of their total revenue from local levies. Compared to most states, Washington's school districts received a higher proportion of state funds, which has led to a lower level of inter-district inequality.[1]

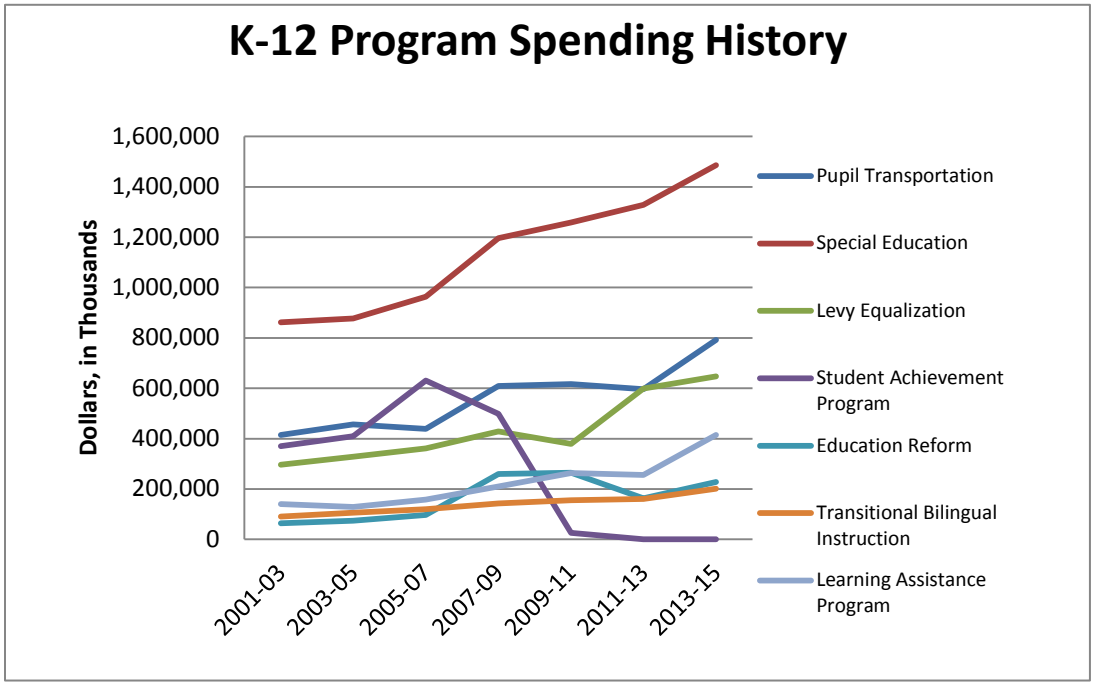
Other K-12 Programs

There are other programs aimed at supplementing general apportionment or target high-need students and districts. The second-largest program, at about $1.3 billion per biennium, is special education, for all students receiving special education services.[2] This funding is an enhancement to general apportionment, and flows to districts when qualified students enroll (this year, about 12 percent of K-12 students qualified for special education).[3] Special education students receive about $5,000 each, on top of their general apportionment funding.

The third largest program is Levy Equalization, which has doubled since 2001-03. This program attempts to address the inequities in local levy capacity by providing state matching funds to school districts with low property values for half of their levy capacity. This narrows, but does not eliminate, the gap between a district with a very high assessed property value, which can raise 28 percent of its funding with a low tax rate, and districts with low assessed value, which would need exorbitant tax rates to raise 28 percent. Levy equalization is by far the largest program that is not defined as part of "basic education."

Pupil transportation is the fourth-largest program, and will be one of the first areas addressed in the state's McCleary decision response. As a result, the program will grow by 40 percent or more in the next biennium. The transitional bilingual program is also distributed by formula, and assumes about 5 hours of bilingual instruction per week for eligible children, or about $900 per student. As Washington's demographics have changed, funding for bilingual education has grown. The program was funded at $91 million in 2001-03 and will grow to over $180 million in the 2013-15 biennium.

The table below shows how spending on these non-general apportionment programs has changed:



Source: LEAP

Postsecondary Education

State funding for higher education was about $1.4 billion in the current fiscal year, or 2.6 billion for the 2011-13 biennium. The recently-passed 2013-15 biennial budget includes increases to that base level, bringing the total to almost $3.1 billion. State funding for institutions of higher education—the state's six public baccalaureate institutions and the State Board for Community and Technical Colleges—accounts for most of the total: $2.4 billion of the $3.1 billion total. Nearly all of the remaining balance, over $650 million, went to financial aid.

Higher Education as a Discretionary Budget Item

Unlike in K-12, there is no constitutional mandate to provide postsecondary education. Thus, the state has no requirement to provide more funding if a student enrolls in a college or university. The state appropriates funds to institutions, and directs or puts conditions on certain parts of the total through budget provisos.

Unlike in K-12, however, these provisos are generally limited to the two years covered by the budget bill, and the proportion of funds subject to proviso is very small. The majority of the appropriation functions like a block grant – there are no specific conditions or requirements governing how the resources are to be spent.

The state does define the level of "budgeted enrollments" at each four-year institution and for the two-year sector as a whole, and in some sense this functions as a "floor"—the institutions receipt of funds is conditioned on them serving at least as many students as their enrollment target indicates. However, there is no established policy or regulation outlining the consequences of failing to meet this minimum level.

Moreover, the targets for most four-year schools were adjusted downward at the beginning of the recession as part of an attempt to maintain institutional quality. But given a surge in student demand (as well as a different financial calculus given higher tuition), actual enrollments increased.

Enrollment as a Budget Driver?

The budgeted enrollment figures have not been materially changed since 2009, and their presence in the budget bill has no real function. "Budgeted enrollment" was developed as a way to describe what state funding was *buying* from the institutions. At one time, the state viewed access as the primary or one of the most important state goals. Policy makers looked at the size of high school graduating classes and population change to create forecasts of how many enrollment slots the state would need to maintain or increase the "participation rate", or the percentage of college-age students actually enrolled in a public institution.

But since the state never controlled admissions, there would always be some variance between the number of slots the state "funded" and the number of students on a campus. At one time, the state budget mandated that institutions stay within a narrow band around the budgeted enrollment number. This would allow the state to have some confidence that the per-student rate of funding was close to the actual rate of state funding per enrolled student on a campus. The policy argument embedded in this framework is that stable funding and institutional quality were more important than access; that a 100 percent funding rate for 1,000 students is preferable to a 95 percent rate for 1,050.

Others argued that a positive variance – when an institution enrolled more students than the state claimed to fund – was a good thing, and should be encouraged. If an institution can add another student to each class, and they make the determination that doing so would not harm instructional quality or effectiveness, so much the better. As a result, policy makers scrapped the enrollment 'bands' that schools had to stay within and let them enroll as many students as they liked.

During the recession that followed the dot-com bubble, the community and technical college sector saw very large over-enrollment as a result of their open-access mission and the growth of newly unemployed people seeking re-training. This put a strain on their budgets, but the state was not inclined to fund this over-enrollment.

Completion versus Access

In more recent years, a number of factors have influenced a move away from access as a primary goal towards completion. From research studies of unemployment by educational attainment[4] to work showing large changes in lifetime earnings if a student attains a credential or certificate[5] have helped quantify the benefits of completion.

More recently still, the debate about student loan and indebtedness, which is gaining attention as a result of tuition increases over the past four years, has highlighted the problems of students who leave college with debt and no degree. A focus on measurement and output/outcomes for all state government functions spotlighted the large variance between institutions in completion rates.

While enrollment funding was a useful way to describe state effort, attempts to define an actual enrollment cost have varied, and there is no requirement that the state use such a value. Thus, there is no real way to say what an additional enrollment "costs."

In 2007-09, the state used the cost of instruction report to fund new enrollments of various types – this is based on each institution's spending on instruction only, broken out by various degree programs. Each institution's tuition rate was subtracted from the per-student share of instructional spending resulting in an implied state subsidy. This provided a rational way to fund enrollments, but it was deeply unpopular among some institutions, particularly the research universities who, given their larger tuition, saw state subsidies for general enrollments fall below the rate for community and technical colleges.

Tuition Revenue

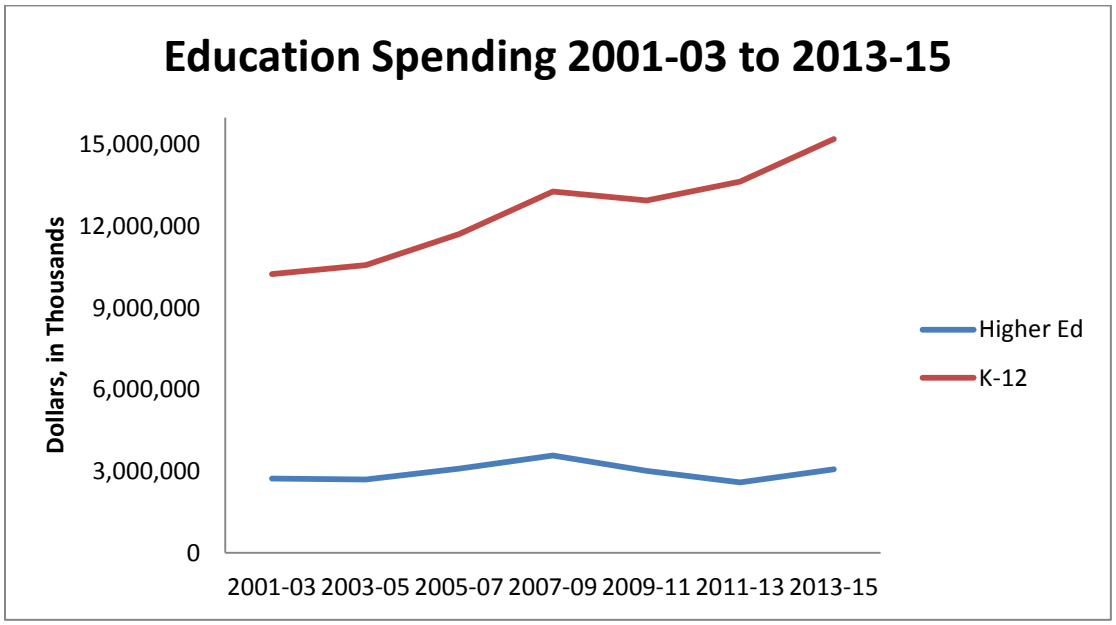
Tuition is the other primary source of revenue for instruction at colleges and universities. Funding from student tuition totaled about $2.5 billion in 2011-13. Tuition now dwarfs state funding at the four-year colleges and universities, but state still funds the majority of instructional costs in the two-year system, however.

Unlike restrictions placed on school districts' ability to raise non-state revenue, there is no "lid" or cap on tuition. Prior to 2011, the Legislature set limits on the amount rates for resident undergraduates could rise each year (the schools had authority over tuition for other students, from non-residents to graduate schools).

In 2011, the Legislature passed HB 1795, which granted the four-year institutions' governing boards the ability to set their own tuition rates, with certain restrictions, through the 2013-15 biennium. For example, if they set a tuition rate above what the state funded for financial aid, the institution would be responsible for increasing the percentage of tuition that is dedicated to institutional aid for needy students.

Differences between K-12 and Higher Education Funding

The differences between the K-12 budget and Higher Education are stark. K-12 is constitutionally protected, and allocated based on enrollment "caseload." Each student's allocation is based on a highly detailed formula. In higher education, budget writers need not use a formula at all, and there is no responsibility to act if enrollment rises or falls. Instead, the state simply provides a block of funding to the institutions, which are generally left to manage their operations using a combination of tuition and state funds.



Source: LEAP

Federal Funding Highlights

Just as with state funding, federal government assistance in education takes very different forms in K-12 than it does in postsecondary education. As K-12 is considered a local issue, the Federal government's assistance to the public school is focused on specific sub-populations. School Districts in Washington received about 10 percent of their total revenue from the federal government in 2012, about half of the 20 percent they received from local levies.[6]

Two large grant programs from the Department of Education, Title I and the Individuals with Disabilities Education act, account for the bulk of federal funding for education. The former goes to districts with high concentrations of poverty and is often supplemented in Washington with state funding for the Learning Assistance program. The latter funds special education services for students with special needs.

The programs target students with specific characteristics, and thus federal funding by district varies widely. The last major source of federal funding for public schools comes in the form of the school lunch and breakfast program from the Department of Agriculture—unlike the Department of Education grants, this goes to each district, Some districts receive less than 5 percent of funds from the Federal government, whereas others approach 50 percent of funding.

Federal funding for higher education takes two major forms: grant and loan programs for needy students, and grants for research at institutions of higher education. The Pell Grant program is by far the largest federal aid program. In 2012, Pell grants were awards to 120,000 students in Washington, at a total cost of $425,000,000.[7] In addition, $1.1 billion in federal student loans (subsidized and unsubsidized) were awarded to 116,000 students in the state.[8]

Funding for research takes the form of competitive grants from several Federal entities including the National Science Foundation and the National Institute of Health. Due to the nature of these grants, the overwhelming majority go to identified research institutions which are typically larger, award doctoral degrees, and which have both research as well as teaching missions.

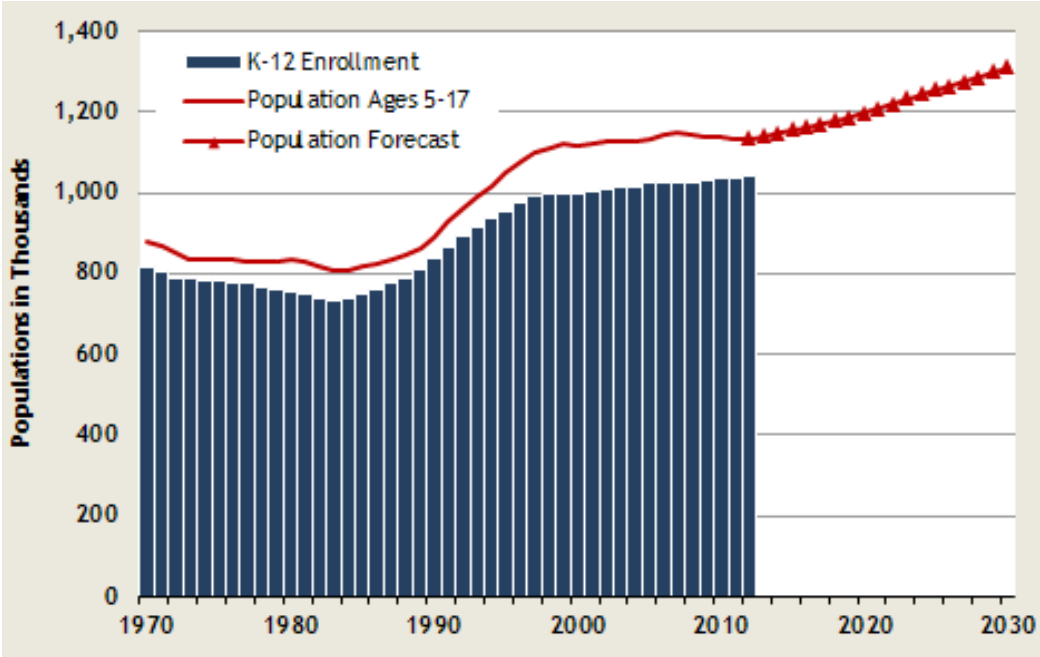
The University of Washington is one of the largest recipients of federal grants in the country, with just over $1 billion in federal grants awarded in FY 2012, or roughly four times more than it received for instruction from the State.[9] As Pell is awarded directly to students and research grants are competitive, federal aid for postsecondary education and research is not limited to public institutions.

Demography

Because of its formulaic nature, demography is an important input when calculating K-12 spending and service levels. After the "baby boom echo" moved through public education in the 1980s and 1990s, K-12 enrollment flattened out for most of the past ten years, but looks likely to rise again in the coming years.

Higher education absorbed the larger graduating classes from K-12, and then saw demand spike during the recession. However, enrollment is falling from its 2010 peak, and demographic pressure is low, with the 17-22 year old population forecast to remain roughly flat through 2030. The composition of that population category is changing rapidly: Hispanic students make up 14 percent of high school graduates this year, but this will rise to 21 percent of the graduating class of 2025.

These trends are illustrated in the charts below, from the Office of Financial Management's Forecasting Division:


1,400
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Populations in Thousands
K-12 Enrollment
Population Ages 5-17
Population Forecast
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2020
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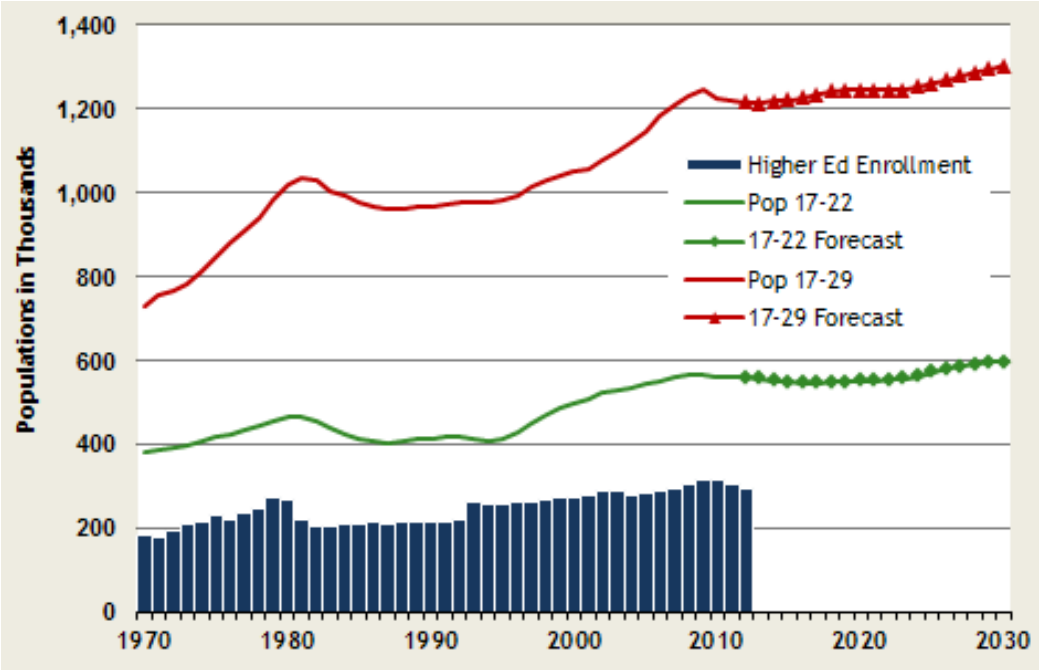
1,400
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Populations in Thousands
Higher Ed Enrollment
Pop 17-22
17-22 Forecast
Pop 17-29
17-29 Forecast
1970
1980
1990
2000
2010
2020
2030

The Great Recession and the Great Funding Shift

Tuition Rises as State Funding Drops

The "Great Recession" of 2008 led to a decrease in general state revenue, and a consequent upheaval in state budgeting. No area of government saw more change than higher education. State funding fell from $1.8 billion in 2008 and 2009, to just under $1.4 billion in 2012. The four-year colleges and universities saw the largest state-fund reductions, with the University of Washington's state fund budget falling from $400 million in 2009 to $222 million in the current year.

To make up for these reductions while minimizing impacts to these institutions' capacity and enrollment, tuition increased dramatically. As an example, the University of Washington's tuition was $6,800 in 2008-09, and rose to nearly $12,400 in 2012-13. This swap in the source of funding for institutions—from the state and to the student—moved slower in the two-year sector, with state fund reductions and tuition increasing at lower rates than in the baccalaureate sector.

The table below illustrated how the response has differed by sector:

Public Higher Education Finance Indicators

Sector Summary

Based on Constant 2000 Dollars

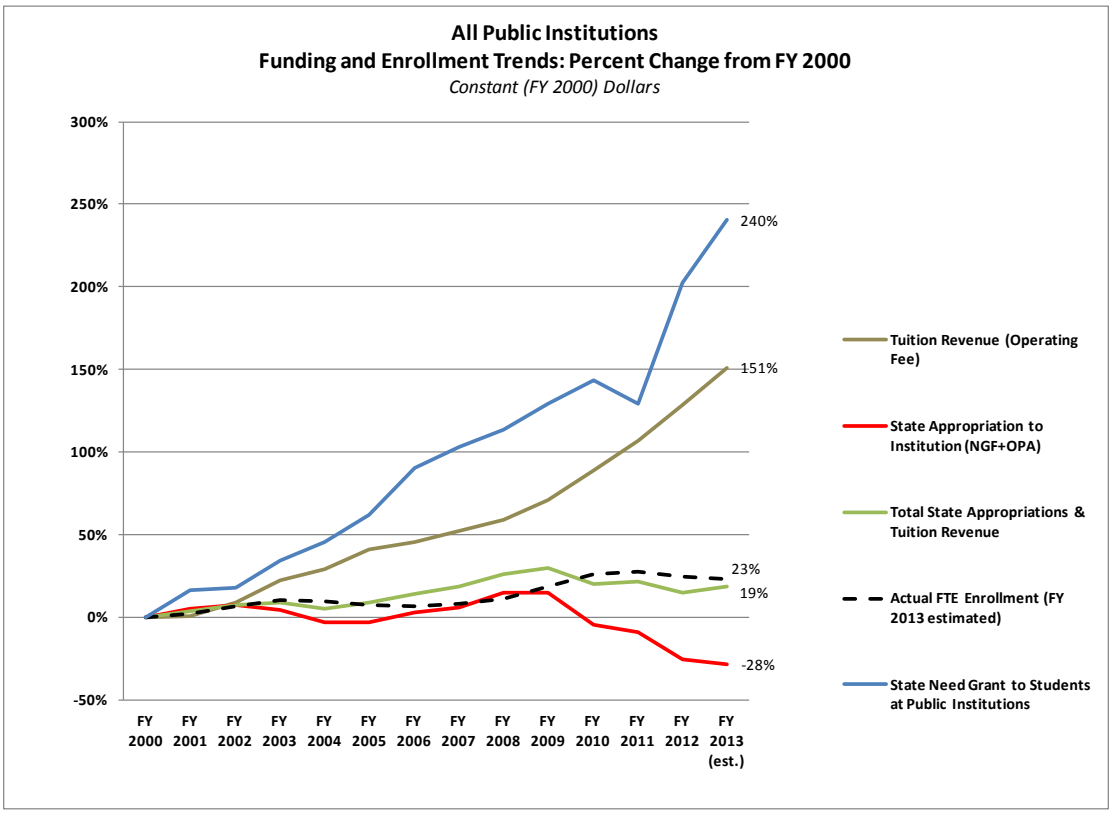
	Research Institutions			Comprehensive Institutions			Community and Technical Colleges		
	FY 2000	FY 2008	FY 2013	FY 2000	FY 2008	FY 2013	FY 2000	FY 2008	FY 2013
Funding and Enrollment: *Percent Change from FY 2000*									
Tuition Revenue [1]	-	*75%*	*199%*	-	*49%*	*139%*	-	*43%*	*92%*
State Appropriation to Institutions	-	*5%*	*-45%*	-	*13%*	*-41%*	-	*26%*	*-5%*
Total State Appropriations[2] & Tuition Revenue	-	*24%*	*21%*	-	*24%*	*18%*	-	*30%*	*17%*
Actual FTE Enrollment (FY 2013 estimated)	-	*13%*	*30%*	-	*16%*	*24%*	-	*9%*	*21%*
State Need Grant to Students	-	*175%*	*390%*	-	*131%*	*223%*	-	*76%*	*172%*

Source: LEAP

Financial Aid: Funding Students Instead of Institutions?

The tuition increases created a large impact on the state's need-based financial aid budget. Grant awards have traditionally moved with tuition increases, and that connection was largely maintained during the budget crisis years of 2009-13. As a result, a greater proportion of higher education funding now goes to students than ever before.

Funding for aid went from about 12 percent of the higher education total in 2008 to 22 percent today, and Washington is now notable for having a generous financial aid system but very low per-pupil funding for institutions of higher education. The financial aid budget, which was roughly 12 percent as large as the University of Washington's state-fund budget in 1990, grew to almost 50 percent larger than the University of Washington's state-fund budget today (though UW's funding should stabilize in the recently signed budget).



Despite the steep increases in tuition, enrollment sharply increased overall from 2008 to 2011. That is, demand for higher education was much less elastic than many predicted; the recession and higher unemployment appear to have played a larger role in driving enrollment than price or demography during the past four years. Whether that can continue remains an open question. When unemployment drops, will fewer students attend now that costs are higher? Or will changes in the economy making postsecondary education and training more valuable lead even more to enroll?

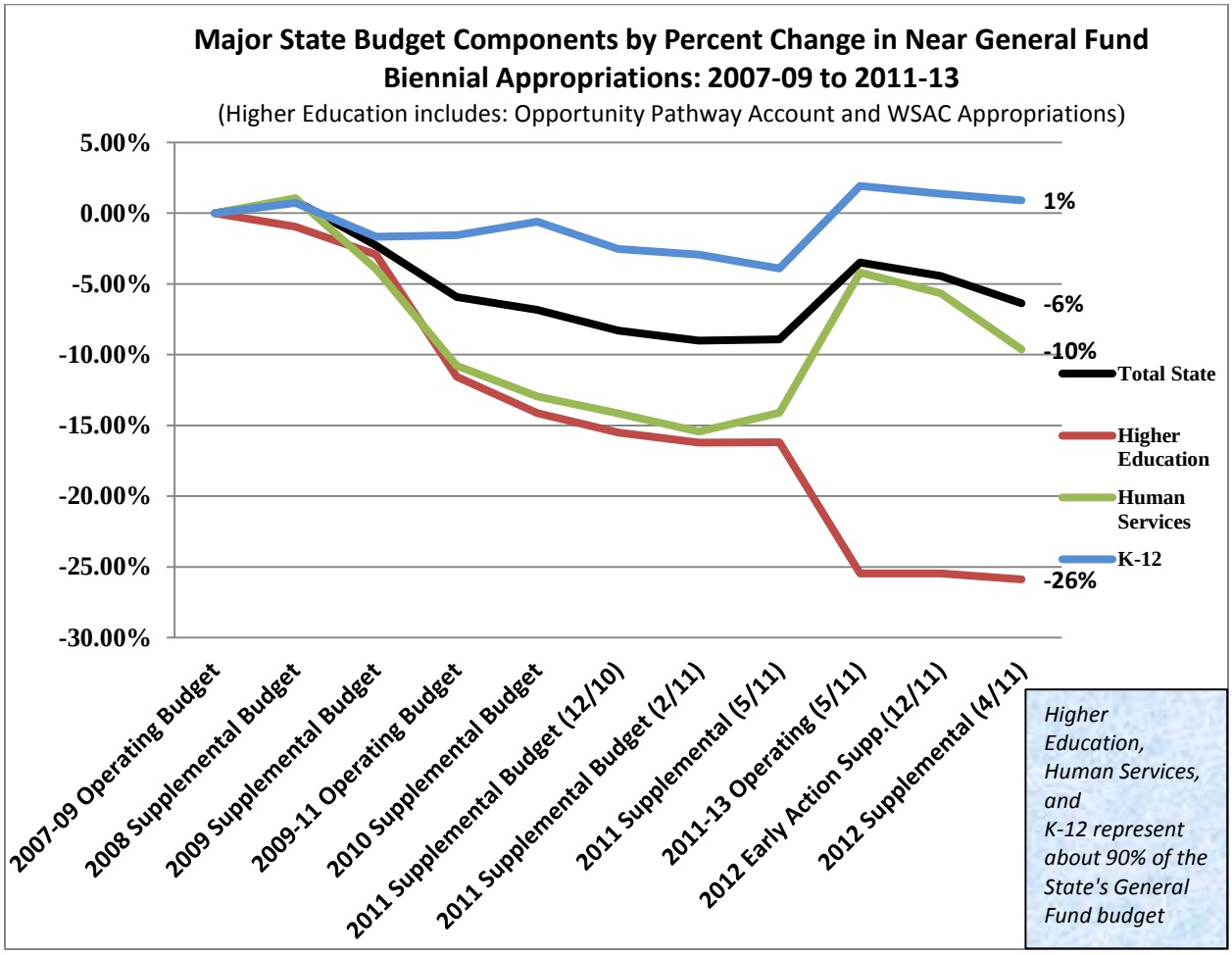
Changes in K-12 Spending

In K-12 education, the state could not reduce basic education, and thus nearly every program that was not defined as basic education was reduced during the 2009-11 and 2011-13 biennia. Levy equalization, by far the largest non-basic education program, was not among them. There were savings in levy equalization since property values fell more sharply in property-rich districts like Seattle and Mercer Island than in Yakima, creating a smaller gap for the state to fill. In addition, the recession had a small increase in caseload for the K-12 system as enrollment in private schools dropped, and student re-entered the public system.

When taken together, the K-12 budget increased slightly from 2007-09 to 2011-13. Higher education institutions made up for state cuts through tuition, while need-based aid funding grew to help students accommodate rising tuition. Overall, state funding moved towards students and away from institutions during the recession. This represents a substantial shift, and policy makers may consider the ongoing implications of this funding policy.

Statewide Budget Changes During the Recession

Overall, the Great Recession altered what the state funds. Higher education lost 26 percent of funding from 2007 to 2013, with four-year universities losing substantially more. Human services funding was volatile, reflecting both increased caseloads and program cuts, while enrollment growth offset programmatic reductions in K-12.



Funding Strategies

General Fund Restoration

The higher education institutions have lobbied the Legislature and the Governor to restore the cuts they absorbed during the recession. The Council of Presidents' proposed to freeze tuition if the state added $225 million in funding for the four-year institutions in 2013-15.

This is an example of a proposal to essentially buy back some of the fund shift. Others, like the Aerospace Pipeline Committee, advocate for highly targeted enhancements for specific training programs, while others want targeted funding for medical education and healthcare degrees.

Ultimately this is a discussion about how the state should invest a portion of overall revenue growth in higher education, and why an investment in higher education will produce a higher return on investment. In today's budget environment, this strategy may work better when institutions and industries identify particular programs or efforts that have well targeted outcomes.

The trending towards these more specific types of investments are leaving more general calls for funding, such as the Council of Presidents', increasingly rare. The recently passed budget offered a mix of both approaches. Base funding levels for all institutions increased, but the Legislature also invested in targeted programs and policies: a Clean Energy Institute at the University of Washington, an expansion of enrollment in engineering at three institutions, and an expansion of medical education and research in Spokane. Many worry this may make higher education overly vocational—that the broad benefits of higher education get pushed to the side in favor of generating degrees currently demanded by specific industries.

Matching Funds/Partnerships

If state funding increasingly goes towards enhancements for targeted programs aimed at meeting industry needs, another strategy would be to formalize the process through public/private partnerships. An industry could fund a portion of a program with the state picking up the difference, or a firm could donate a facility or equipment to assist in training.

Firms helping colleges tailor training programs is not new, but the scale and nature of the collaboration may be changing. The House proposed 2013-15 budget, for example, included funding for a training program housed at Vigor shipyards[10] in South Seattle.

More traditionally, public-private partnerships have focused on grant or financial aid programs, to avoid the appearance that industry is directly funding/altering instruction. The most recent example is the Washington Opportunity Scholarship, a matching grant managed by a private non-profit with grants funded by corporate donations and state matching funds. Several years ago, the state launched another matching grant, the GET Ready for Math and Science Scholarship, in a partnership with the College Success Foundation that was also funded as a match between state appropriations and donations.

Broadening these relationships can be difficult, however. Industries can often start these partnerships working directly with an institution, without dealing with the state budget process. Or, they can endow scholarships at or with a university, with the expectation that their funds work in tandem with institutional financial aid to bring students into the school or to particular departments within it. Some within institutions may resist direct funding of instruction, as this can give the appearance of a conflict of interest.

Performance or Incentive Funding

Performance or Incentive Funding has received a great deal of interest from legislators and policy makers in recent years. As the policy focus in higher education in Washington shifted from access to completion, many argue that funding should incent degrees/certificates awarded.

Several versions of performance funding exist in Washington, the most noteworthy of which is the SBCTC's "Student Achievement Initiative" (SAI), which allocates funding to individual colleges based on an array of metrics including completions/transfers, and "momentum points" that lead to them—like completion of college-level mathematics courses.

To balance the differing missions, program offerings and the characteristics of the students each college serves, "points" (and therefore funding) is based on improvement in each college's own baseline. That is, Bellevue College is not competing with Grays Harbor College; both are competing against their own baseline. The funding for SAI awards comes from a small pool of funds appropriated by the Legislature, and a small "carve out" or redirection of base funding towards the SAI pool, which is supplemented with private grants. Thus, the institutions' base budgets are not in jeopardy, but a portion of the additional funding is contingent on performance.

In the 1990s, the Legislature enacted a performance funding program by withholding 2 percent of each institution's non-instructional budget ($17.5 million in total), and directed the Higher Education Coordinating Board to release the funds back to the institutions only after determining that they had met performance in four metrics. [11] The program was deeply unpopular among the institutions, and it lasted only one biennium.

Performance funding strategies have been adopted in other states in recent years, with Pennsylvania and Indiana setting aside 5 - 8 percent of state funding and requiring that institutions compete for it by improving their performance in a wide variety of measures from remediation success to reducing costs.

Pennsylvania's system was created in 2003, and encompasses 14 state universities. It allocates funding for a variety of state goals and divides funding among the universities that achieve success in each area.

Indiana's approach is more recent, but the state has gradually increased the pool of performance funding from 2 percent initially to 5 percent in 2012, with a plan of allocating 7 percent by 2015. Both Indiana and Pennsylvania reported significant improvement in institutional performance based on their funding metrics.

Tennessee, however, has entirely replaced its old budget system and now allocates 100 percent of each institution's state appropriation based on a formula comprised of the institution's performance in a variety of metrics. Significantly, the formula is weighted based on the institutional type or mission. Thus, research universities are measured on research activities, but this metric is given essentially zero weight at a non-research, baccalaureate-focused college. As this model was implemented in 2010, it's too soon to know exactly how it will impact institutional behavior, or if it has incented improvement.

Recent Work in Performance Funding

Last year, Washington experimented with a simplified version of Tennessee's model, in which 100 percent of state funding would flow to institutions based on high-cost/high-demand degrees produced, degrees awarded to low-income or challenging students, facilities maintenance and condition, and an institution-specific measure to be negotiated by OFM and the institution.

Like the student achievement initiative used in the community and technical college system, each institution competed against its own prior performance, and each degree award had a dollar value that would generate a maintenance-level budget for the following year. This plan was never refined into bill form, and was not introduced or presented to the Legislature.

After debating performance funding strategies for much of the session, the Legislature's enacted 2013-15 budget includes $10.5 million for the Student Achievement Initiative at the Community and Technical colleges, and also funded an incentive funding task force to propose a new (voluntary) performance funding system for the four-year institutions. At present, the SAI and any model proposed by the task force do not replace the existing funding structure, but rather work alongside it and alter the distribution of a portion of the total appropriations.

Making It Work

To be effective, a performance or incentive funding system needs to start with a clear, transparent goal; what does the state want to incent, and how will it measure progress or success?

Without clarity between policy makers and institutions over the goal, performance funding may be seen by institutions as a distraction or merely as a way to justify budget cuts. And without clarity and a shared goal, the strategy may be seen by policy makers as window-dressing.

Performance monitoring and measurement need not be entangled in the budgeting process; higher education submits and disseminates reams of data that aren't directly used to drive appropriations. While performance funding concepts are in vogue at the moment, the institutions and state agencies currently engage in various projects focused on performance measures. The Higher Education dashboard, hosted by OFM/Education Research and Data Center, is one example. Performance plans negotiated between OFM and the four-year universities are another.

Conclusion

Funding levels for K-12 education have risen slightly during the great recession, largely thanks to enrollment growth. Demographic pressure in higher education is forecasted to subside, with K-12 graduations growing slightly until 2020-2022. The Supreme Court's McCleary decision will result in substantial new investments in Washington's public school system, though there remains considerable debate about how best to implement the changes.

Both K-12 and Higher Education are only partially funded by the state. Local levies are a considerable (and growing) part of K-12 spending, though they can also be a significant source of inequalities. Students and families fund a significant portion of higher education costs through tuition. The balance between state and student shifted dramatically during the recession, with students now paying the majority of the cost of instruction in the four-year schools.

K-12 funding underwent a significant overhaul in 2010; a new funding formula was implemented along with changes to the statutory definition of basic education and a spending plan to fund it. Funding for K-12 is caseload-driven and constitutionally protected, and the per-FTE formula is very detailed. Funding for higher education is considered discretionary, and while the state has had guidelines and formulas in the past, there is no mandated formula for higher education appropriations. Increasing (or decreasing) enrollment does not automatically create an obligation for the state to alter its funding.

Higher education's share of the general-fund operating budget declined in the past ten years, falling from 12 percent to 8 percent in 2011-13. Human services grew during this time period, with health care, long-term care, and corrections accounting for most of the increase. The recent 2013-15 budget is a clear break from this trend, with higher education's share of the budget increasing, and with the state share of the cost of instruction rising for the first time in many years.

Compared to most states, Washington spends more on financial aid and less on institutions of higher education. The Supreme Court found the state was underfunding basic education, but the state's districts are funded comparatively equitably.

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Sources

[1] See this analysis of school finance inequality prepared by the New America Foundation: http://febp.newamerica.net/k12/rankings/schofiineq

[2] Special Education Services include "assistive technology" for students with disabilities, consulting teachers who can advise parents, support for students with behavioral issues, and other assistance for other students who have been identified as having special needs.

[3] Office of the Superintendent of Public Instruction, http://www.k12.wa.us/specialed

[4] Adapted from US Bureau of Labor Statistics, http://www.bls.gov/emp/ep_chart_001.htm

[5] *Building Pathways to Success for Low Skill Adult Students: Lessons for Community College Policy and Practice from a Longitudinal Student Tracking Study*; Prince, Jenkins, 2005

[6] "Washington State School Districts: Percent and Per Pupil of General Fund Revenues and Other Financing Sources by Enrollment Groups, Fiscal Year 2011–2012," Office of the Superintendent of Public Instruction.

[7] 2011-12 Unit Record Report compiled by the Washington Student Achievement Council.

[8] Ibid.

[9] Federal grant awards were $1.001 billion according to the University of Washington (http://www.washington.edu/discover/academics/) while state funding totaled $223 million according to state accounting data compiled by the LEAP committee (http://fiscal.wa.gov/SpendHist.aspx)

[10] For information on this partnership, see http://www.southseattle.edu/harbor-island-training-center/

[11] Legislative Budget Notes, 1997-99 biennium, http://leap.leg.wa.gov/leap/budget/lbns/1997he.pdf