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PROFILES OF STATE PERFORMANCE-BASED FUNDING POLICIES: MISSOURI, NEW YORK, AND TENNESSEE

Robert Kelchen, Justin Ortagus, Kelly Rosinger, Lynneah Brown, and Nicholas Voorhees

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Over the past decade, states have increasingly turned to performance-based funding (PBF), tying a portion of state funds for public colleges and universities to student outcomes, such as retention and graduation, in an effort to align institutional priorities and state workforce development goals. More than two-thirds of all states across the political spectrum have funded PBF at some point in recent years, and several others are currently in the process of implementing PBF policies.

Although PBF has grown in popularity in recent years, there have been few efforts to capture the details of these policies across states and over time. Researchers and policymakers have frequently disagreed about which states had PBF in a given year due to the difficulty in compiling this information. Our research team has spent the last two years compiling state budget details, higher education commission documents, and talking with stakeholders to develop the first comprehensive dataset on how PBF policies have evolved over time. Once the dataset is complete in 2020, we will post it on our InformEd States website (informedstates.org). As a part of our InformEd States project, we will be releasing a series of policy briefs, datasets, and working papers over the next two years on the details, equity, and effectiveness of PBF policies. We are grateful for support from the William T. Grant Foundation, Arnold Ventures, and the Joyce Foundation.

In this policy brief, we highlight three states' performance funding policies (Missouri, New York, and Tennessee) over the last few decades. We chose these states as examples of how PBF policies vary considerably across the country and how determining whether a state even had PBF in a given year can be difficult. In this brief, ***we consider a state to have a performance funding system if there is a clear formula that ties state funding in a fiscal year to a college's prior performance on student outcome measures.*** An additional complication is that some states, as shown below, have PBF policies on the books (state statute or governing board policy) in a given year but do not provide funding. Additionally, a number of states have adopted and discontinued PBF policies over time. These details are crucial to document in order to understand how colleges may choose to respond to PBF.

In the first of a series of policy briefs, we present profiles of some particularly prominent and interesting states in advance of our upcoming data release.

Missouri

Missouri has a long, complicated, and fascinating history with performance-based funding (PBF) policies that calls some of the traditional PBF classifications into question. Missouri's Coordinating Board for Higher Education called for a PBF system to be designed in 1989. The resulting Funding for Results (FFR) system was first funded in Fiscal Year 1994 for four-year colleges and in Fiscal Year 1995 for two-year colleges.[1]

Missouri's 1990s-era PBF system looked like the type of system considered to be the gold standard today by researchers and equity advocates. Although many PBF systems in the 1990s linked state funds to retention and graduation rates, Missouri was one of the first PBF systems to tie state funding to equity metrics. Four-year colleges were paid $600-$1,000 for each low-income and underrepresented minority student who graduated, while two-year colleges received $300-$500 per graduate. Notably, there were efforts to assess student learning outcomes, with colleges receiving between $10 and $400 for each student who took a general education assessment. Students who performed above the 50th percentile on assessments in their field of study or passed a licensure exam earned their college between $35 and $1,000. Colleges also received money for graduation rates, high GRE scores among graduate students, and capacity building funds during this period.[2]

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[1] Missouri Department of Higher Education (1998). *Show-me higher education: Results of the blueprint*. Jefferson City, MO: Author.

[2] Missouri Coordinating Board for Higher Education (1998). *Blueprint for Missouri Higher Education*. Jefferson City, MO: Author.

Between Fiscal Years 1994 and 2001, Missouri allocated more than $66 million to colleges via the FFR program. This represented about one percent of appropriations in each year, and these funds became part of the college's base budget in following years.[3] Unfortunately, in spite of contacting the state higher education agency and archives along with an exhaustive Internet search, institution-level PBF amounts were not available for most institutions or years.[4]

While the Coordinating Board for Higher Education approved PBF for Fiscal Year 2002, the money was never allocated. Interviews by Kevin Dougherty and colleagues suggested that Missouri ended its PBF system due to a combination of state budget cuts and a lack of interest from colleges and legislators.[5] However, Missouri passed a law in 2003 requiring its government agencies to be funded based on performance and the coordinating board continued to express its preference for funding colleges based on student outcomes in the following years.[6] Since there was no formal PBF model in place for higher education and the legislature never considered allocating funds based on student outcomes, we do not consider Missouri to have had a PBF policy between 2003 and 2011.

In 2012, Missouri created a task force to develop a new PBF system, which was funded for the first time in Fiscal Year 2014 and covered all public colleges and universities.[7] Unlike the previous system, there were no equity metrics—even as other states moved toward adding bonuses for low-income and/or minority student completions. Four-year colleges chose one of two metrics in four categories (student success, degree attainment, student learning, and financial efficiency) and could choose a fifth metric. Two-year colleges had similar metrics but could not choose within the four categories. A number of these metrics were based on institutional peer group comparisons, with the state auditor raising concerns about how those peers were chosen.[8]

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[3] Missouri Department of Higher Education (2001). *Building one system: 2000 annual report*. Jefferson City, MO: Author.

[4] We would like to thank Jeremy Kintzel of the Missouri Department of Higher Education and Workforce Development as well as the reference staff at the Missouri State Archives for their assistance in trying to find data. For more on our data collection process, see Kelchen, R., Rosinger, K. O., & Ortagus, J. C. (2019). How to create and use state-level policy data sets in education research. *AERA Open, 5*(3), 1-14.

[5] Dougherty, K. J., Natow, R. S., & Vega, B. E. (2012). Popular but unstable: Explaining why state performance funding systems in the United States often do not persist. *Teachers College Record, 114*(1), 1-41.

[6] Missouri Coordinating Board for Higher Education (2003, October 9). *Agenda of meeting*. Jefferson City, MO: Author. Missouri Coordinating Board for Higher Education (2004, October 14). *Agenda of meeting*. Jefferson City, MO: Author. Missouri Coordinating Board for Higher Education (2007, October 11). *Agenda of meeting*. Jefferson City, MO: Author.

[7] Missouri Department of Higher Education (2019, March 22). *Performance funding in Missouri*. Retrieved from https://dhe.mo.gov/PerformanceFunding.php.

[8] Office of Missouri State Auditor Nicole Galloway (2017). *Department of higher education performance funding*. Jefferson City, MO: Author.

Between Fiscal Years 2014 and 2016, two-year and four-year colleges received $76 million of the $80.4 million that was budgeted for the system—or between 1.2% and 4.8% of state appropriations in those years. Funding information is available at the individual college level for most four-year colleges and in some years for two-year colleges. Another $37 million was allocated to PBF in Fiscal Year 2017 in the legislature's approved budget, but the governor withheld the funds due to budget concerns.[9]

Missouri still has a statute on the books requiring at least 90% of new state funds to be awarded based on student outcomes, with the caveat that the legislature can choose to allocate funds as they see fit. The coordinating board's Fiscal Year 2020 request that 3% of base funding be tied to performance metrics was not funded, leaving Missouri as a state with a PBF policy on the books that is unfunded for the fourth consecutive year.[10]

New York

New York has two systems of public higher education: the State University of New York (SUNY) and City University of New York (CUNY). Both systems have a history of attempts to tie funding to different measures of outcomes, but there have been debates about whether—and when—these policies should be considered PBF. Below, we summarize the history of performance funding in these two systems.

The SUNY system relied on a funding formula based on instructional costs since the 1970s. By the mid-1990s, state funding of the SUNY system fell short of levels prescribed by the formula. Deliberations by leaders about revisions to the legacy funding formula coincided with the 1995 publication of a new master plan for the system that called for a renewed focus on mission and quality.[11] Meanwhile, a team commissioned by New York City mayor Rudolph Giuliani released a 1999 report identifying state funding as a source of CUNY's troubles and proposing a new system-wide vision.[12]

SUNY implemented a new Budget Allocation Process (BAP) in Fiscal Year 1999 for its four-year institutions, following three years of discussions.[13] While BAP aspired to link funding to mission and performance, it

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[9] Personal communication with Jeremy Kintzel of the Missouri Department of Higher Education and Workforce Development.

[10] Missouri Coordinating Board for Higher Education (2018, September 21). *Meeting agenda*. Jefferson City, MO: Author.

[11] State University of New York. (1995). *Rethinking SUNY*. Albany, NY: Author.

[12] Schmidt, B. C. (1999). *The City University of New York: An institution adrift. Mayor's advisory task force on the City University of New York*. New York, NY: Author.

[13] State University of New York. (2000). *The State University of New York: 2000-2004 Master plan*. Albany, NY: Author.

primarily remained a funding system based on instructional costs. One of BAP's five components sought to link measures of institutional excellence and student learning to as much as 6% of state higher education funding.[14] Yet no funds were ever tied to performance during this period. The system piloted performance indicators in Fiscal Year 2001, though expansion was planned for future years.[15] However, no performance indicators were mentioned in the mid-2000s overhaul of BAP, and it was abandoned in Fiscal Year 2009.[16] Meanwhile, CUNY implemented a Performance Management Process (PMP) in Fiscal Year 2001.[17] PMP tied bonuses of CUNY leadership to meeting performance metrics but did not affect institutional appropriations and thus is not considered PBF.[18]

New York's first successful attempt to implement PBF came in Fiscal Year 2014 with the adoption of the Next Generation Job Linkage program. This program encourages SUNY and CUNY community colleges to develop vocational programs in coordination with employers in high-demand sectors of regional economies.[19] Since Fiscal Year 2014, each year's budget has included $3 million for SUNY institutions and $2 million for CUNY institutions for the program. Colleges compete for funds within this pool, with colleges earning points for student employment, increases in wages, meeting credit thresholds, credential completion or transfer, and participating in career development opportunities. The Next Generation Job Linkage program also has equity provisions, with bonuses given for Pell recipients, veterans, students with disabilities, and minority and/or female graduates in STEM fields. However, little information about the program and its details appears on either system's website or in state budget documents.[20]

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[14] SUNY Faculty Senate. (2004). *Budget handbook spring 2004. State University of New York*. Albany, NY: Author

[15] State University of New York. (2000). *The State University of New York: 2000-2004 master plan*. Albany, NY: Author.

[16] Hutzley, B. G. (2012, October 26). *Resource allocation update*. State University of New York. Retrieved from https://system.suny.edu/media/suny/content-assets/documents/faculty-senate/plenary/162OswegoBrianHutzleyResourceAllocationTool_10-26-12_BGH.pdf. State University of New York (2011, April 8). *Resource allocation committee*. Retrieved from https://system.suny.edu/media/suny/content-assets/documents/powerofsuny/the-process-of-the-power-of-suny/BTFResourceAllocationTeam_20110408.pdf.

[17] City University of New York. (1999, September 27). *Minutes of the meeting of the board of trustees*. New York, NY: Author. City University of New York. (2008, April 28). *Minutes of the meeting of the board of trustees*. New York, NY: Author.

[18] City University of New York. (2002, November 18). Minutes of the meeting of the board of trustees. New York, NY: Author.

[19] Office of the Governor. (2013). 2013-2014 *New York State Executive Budget*. Albany, NY: Author. Assembly Bill 3000 of 2013.

[20] We are extremely grateful to Richard Romano of Broome Community College for sharing details on the program.

New York implemented two other initiatives in the 2010s that contain elements of performance, but do not meet our definition of performance funding. SUNY received $18 million in state funding in Fiscal Year 2016 to start a Performance and Investment Fund as a part of its 2015-2020 SUNY Excels initiative.[21] CUNY received two direct appropriations of $12 million of state funds in Fiscal Years 2016 and 2017 to develop an Investment and Performance Fund. Both the SUNY and CUNY funds allocated money to colleges based on their plans to improve student outcomes in the future, and SUNY community colleges had to get their plan approved to be eligible for Next Generation Job Linkage program. However, neither of these funds constitute performance funding and the state has not allocated new money to either program in recent years. Although the Next Generation Job Linkage program represented New York's sole PBF system, the program stopped allocating funds based on past performance in Fiscal Year 2019.[22]

Tennessee

Tennessee is well-known for being the first state to adopt a performance funding system for higher education in 1979,[23] and advocates of PBF policies frequently point to Tennessee's system as an advanced PBF model for other states.[24] Tennessee is a particularly interesting case study because its PBF approach has continued to evolve over time into a current model that features two distinct PBF systems.

The Tennessee Higher Education Commission (THEC) enacted Quality Assurance Funding (QAF, originally referred to as Performance Funding) in the late 1970s, and it has been in place for nearly four decades.[25] In its earliest years, public universities and community colleges earned points based on five quality evaluation standards: program accreditation, general education outcomes, program performance outcomes, service

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[21] State University of New York. (2016, January 11). *SUNY announces $18 million in Investment & Performance Fund awards for campuses*. Retrieved from https://www.suny.edu/suny-news/press-releases/01-2016/1-11-16-investment-awards/. State University of New York. (2019). SUNY Excels. Retrieved from https://www.suny.edu/excels. City University of New York. (2015, November 23). *Minutes of the meeting of the board of trustees*. New York, NY: Author. AB 3003 of 2015, AB 9003 of 2016.

[22] Personal communication with Christian Salisbury, Deputy Director of Budget & Community College Financials at the State University of New York.

[23] Li, A. Y. (2014). Performance funding in the states: An increasingly ubiquitous public policy for higher education. *Higher Education in Review, 11*(Online), 1-29.

[24] Snyder, M., & Boelscher, S. (2018). *Driving better outcomes: Fiscal year 2018 state status and typology update*. Washington, DC: HCM Strategists, Retrieved from http://hcmstrategists.com/wp-content/uploads/2018/03/HCM_DBO_Document_v3.pdf.

[25] Tennessee Higher Education Commission and Student Assistance Corporation. (n.d.). Quality assurance funding. Retrieved from https://www.tn.gov/thec/bureaus/academic-affairs-and-student-success/academic-programs/quality-assurance-funding.html.

satisfaction, and evaluation/plans for improvement.[26] THEC designed the incentive system to first enable institutions to build capacity to assess these quality metrics and later to award institutions for improving quality from previous years' performance.[27] Under the QAF program, public universities and community colleges can receive additional state funds for higher education on the basis of institutional quality improvement.[28] Initially, institutions could earn a bonus of up to 2% of their operating budget from state funds; this figure eventually increased to up to 5.45% of state funds, where it remains today.[29] The QAF program is evaluated every five years for alignment with state higher education priorities and has gone through various revisions since its pilot cycle in 1979-1982.

The ultimate goal of QAF is to improve institutional performance by assessing outcomes linked to academic programs, institutional satisfaction, adult learner student success, job market graduate placement, and student access and success.[30] However, early academic research suggested that QAF failed to increase retention rates and six-year graduation rates of public institutions, leading critics to suggest that the low percentage of funds tied to performance was insufficient to incentivize changes in institutional outcomes.[31] In response, the state of Tennessee passed the 2010 Complete College Tennessee Act (CCTA), which created a new PBF system called the Outcomes-Based Funding (OBF) model. OBF replaced the state's prior enrollment-based funding formula with one based on performance metrics.[32]

OBF, which operates alongside QAF, was not funded until Fiscal Year 2012. ***With the implementation of CCTA, Tennessee began to operate two concurrent PBF systems—one that ties base funding to performance (OBF) and another that provides bonus funds for institutional performance***

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[26] Tennessee Higher Education Commission and Student Assistance Corporation. (n.d.). *Performance funding 1978-1982 standards (pilot cycles)*. Retrieved from https://www.tn.gov/thec/bureaus/academic-affairs-and-student-success/academic-programs/quality-assurance-funding/.

[27] Folger, J. (1989). *Designing state incentive programs that work in higher education*. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/aa/academic-programs/qaf/John_Folger_1989_1.pdf.

[28] Tennessee Higher Education Commission and Student Assistance Corporation. (n.d.). *Quality assurance funding*. Retrieved from https://www.tn.gov/thec/bureaus/academic-affairs-and-student-success/academic-programs/quality-assurance-funding.html.

[29] Tennessee Higher Education Commission. (2015, August 6). *2015-20 quality assurance funding*. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/aa/academic-programs/qaf/THEC_2015-20_QAF_TENNAIR_Presentation.pdf.

[30] Tennessee Higher Education Commission and Student Assistance Corporation. (n.d.). *Quality assurance funding*. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/aa/academic-programs/qaf/QAF_One_Pager.pdf

[31] Sanford, T., & Hunter, J. M. (2011). Impact of performance-funding on retention and graduation rates. *Education Policy Analysis Archives/Archivos Analíticos de Políticas Educativas, 19,* 1-30.

[32] Tennessee Higher Education Commission. (n.d.) *Outcomes formula presentation*. Retrieved from https://www.tn.gov/thec/bureaus/finance-and-administration/fiscal-policy/redirect-fiscal-policy/outcomes-based-funding-formula-resources/redirect-outcomes-based-funding-formula-resources/2010-15-outcomes-based-funding-formula.html.

(QAF). OBF ties all state funds for public universities and community colleges to performance metrics except fixed costs (which includes funds for maintenance and operations, utilities, and rent and equipment replacement costs).[33] Public colleges and universities continue to be eligible for an additional 5.45% of state funding under QAF.[34]

OBF performance metrics differ for the state's four-year universities and community colleges, as the weight of metrics vary within sectors depending on institutional missions. As an example, master's-level institutions may have a larger weight placed on undergraduate and master's degree outcomes and no weight allocated to the number of doctoral degrees conferred.[35] The OBF formula also includes premiums (or larger weights) for retaining and graduating focus populations of adult students (25 years of age or older) or Pell recipients who reach credit hour milestones and complete courses, certificates, and degrees. The bonus or premium for these focus populations has increased from 40% to 80% for students who fall into one focus population or 100% for students who fall into two focus populations. An additional sub-population—academically underprepared students as defined by the college or the student's ACT score—was added as a bonus-eligible sub-population for the community college sector during the 2015-20 cycle. For community college students who fall into all three focus populations, the premium increases to 120%.[36]

Conclusion

PBF policies vary considerably across states, which could also result in variations in the effects of tying state funding to institutional performance. By providing details about the history and mechanics of three states' PBF systems, we hope to spark conversations among policymakers and researchers about the importance of identifying and understanding the nuances of funding policies across states. This brief adds to our understanding of the share of state funds tied to student outcomes, the individual metrics by which colleges are evaluated, and distinctions between when a PBF policy was authorized and when it was actually funded. Future briefs and working papers will address the national landscape of PBF in 2020 and offer rigorous evidence pertaining to the impact of PBF on student access, success, loan debt, and labor market outcomes.

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[33] Tennessee Higher Education Commission. (n.d.). *Outcomes-based funding formula*. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1-Outcomes_Based_Formula_Narrative_-_for_website.pdf.

[34] Tennessee Higher Education Commission. (n.d.). Outcomes-based funding formula. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1_-_Outcomes_Based_Funding_Formula_Overview_-_One_Page.pdf.

[35] Tennessee Higher Education Commission. (n.d.). *Outcomes-based funding formula*. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1-Outcomes_Based_Formula_Narrative_-_for_website.pdf.

[36] Tennessee Higher Education Commission (n.d.). Outcomes-based funding formula. Retrieved from https://www.tn.gov/content/dam/tn/thec/bureau/fiscal_admin/fiscal_pol/obff/1_-_Outcomes_Based_Funding_Formula_Overview_-_One_Page.pdf.

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