Insights from Performance-Based Funding in Public Higher Education

Critical Questions in Designing Formulas
EAB University Systems Forum

Project Director
Sarah Zauner

Contributing Consultants
David Bevevino
Amy Saul
Jed Diamond
Lindsay Miars
Ed Venit

Matthew Pellish
Senior Director, EAB
MPellish@eab.com

Melanie Ho
Executive Director, EAB
Mho@eab.com

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Insights from Performance-Based Funding in Public Higher Education

Critical Questions in Designing Formulas

Start with best practices research

- Research Forums for presidents, provosts, chief business officers, and key academic and administrative leaders
- At the core of all we do
- Peer-tested best practices research
- Answers to the most pressing issues

Then hardwire those insights into your organization using our technology & services

Enrollment Management
Our Royall & Company division provides data-driven undergraduate and graduate solutions that target qualified prospective students; build relationships throughout the search, application, and yield process; and optimize financial aid resources.

Student Success
Members, including four- and two-year institutions, use the Student Success Collaborative™ combination of analytics, interaction and workflow technology, and consulting to support, retain, and graduate more students.

Growth and Academic Operations
Our Academic Performance Solutions group partners with university academic and business leaders to help make smart resource trade-offs, improve academic efficiency, and grow academic program revenues.

1,100+
College and university members

10,000+
Research interviews per year

250M+
Course records in our student success analytic models

1.2B+
Student interactions
Performance Funding 2.0 – Why It Might Work This Time

Balancing Competing Goods – Challenging Questions in Designing Performance Funding Models

Limited Results – Many Questions Remain

Performance-Based Funding, Take Two

Half the Country (and Counting) Piloting Success and Completion Metrics

Performance Funding Spreading Across Nation (Again)

Before 2010:
- Pennsylvania
- Indiana
- Tennessee
- Ohio

Since 2010:
37 states approved or currently planning success-based funding models

Source: National Conference of State Legislatures; EAB Interviews and Analysis.
Defining Our Terms

Setting on One Definition of PBF Proves Difficult

Type I (Rudimentary)
- State does not have completion/attainment goals
- Bonus funding
- Low level of funding (under 5%)
- Some or all institutions in one sector included
- No differentiation in metrics and weights by sector
- Degree/credential completion not included
- Outcomes for underrepresented students not prioritized

Type II
- State has completion/attainment goals
- Base Funding
- Low level of funding (under 5%)
- All institutions in one sector included, or some institutions in both sectors
- No differentiation in metrics and weights by sector
- Degree/credential completion included
- Outcomes for underrepresented students may be prioritized

Type III
- State has completion/attainment goals
- Base funding
- Moderate level of funding (5-24.9%)
- All institutions in all sectors included
- Differentiation in metrics and weights by sector
- Degree/credential completion included
- Outcomes for underrepresented students prioritized

Type IV (Advanced)
- State has completion/attainment goals
- Base funding
- Substantial level of funding (25% or greater)
- All institutions in all sectors included
- Differentiation in metrics and weights by sector
- Degree/credential completion included
- Outcomes for underrepresented students prioritized

Why Will It Work This Time?

Skepticism of PBF Staying Power Justified Given Past Record

Spotty Implementation in the Last Decades

Duration of Selected State PBF 1.0 Initiatives

<table>
<thead>
<tr>
<th>State</th>
<th>AR</th>
<th>CO</th>
<th>GA</th>
<th>KY</th>
<th>MN</th>
<th>SC</th>
<th>NJ</th>
<th>OK</th>
<th>OR</th>
<th>TX</th>
<th>WA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

South Carolina’s “Moving Target” PBF, 1996-99
- Lack of consensus over success KPIs = 37 indicators
- Share of state allocation dropped from 38% to 3% in one year after budget shortfall

Ongoing Confusion

ASHE Report, 2013
“State officials not infrequently disagree in their understanding of what PBF is, and whether their state has it...”

The Federal Ratings System That Wasn’t
College Scorecard Differs Greatly from Original Proposal

What was proposed
New College Ratings System
Access
• Percent of Pell students
• EFC gap
• Percent first-generation
• Family income quintiles
Affordability
• Average net price
• Net price by quintile
Outcomes
• Completion rates
• Transfer rates
• Labor market success
• Graduate school attendance
• Loan performance outcomes

What we got
College “Scorecard”
• A repackaging of data available in IPEDS and other sources
• New visibility into financial aid and debt
• Retention and completions data limited to only first-time, full-time students
  ▶ No clear institution ratings or ability to compare institutions

The big risk:
Proposal to tie $150M in annual federal aid to performance against these metrics

Not Quite Off the Hook
At least 10 states already promoting public comparison of alumni salary data

Toward a Broader Definition of Success
Scorecard Efforts Suggest that We Will Be Reporting More in the Future

Federal Requirements

<table>
<thead>
<tr>
<th>First-Year Retention</th>
<th>Many States in the Lead with Performance Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Persistence to Next Term</td>
<td>Affordability and Access</td>
</tr>
<tr>
<td>Large majority of students not tracked (PT and transfers)</td>
<td>Members finding useful for making quick corrections</td>
</tr>
</tbody>
</table>

Original federal proposal

But We Still Need Better Leading Indicators, Not Lagging Metrics...

<table>
<thead>
<tr>
<th>Process completion</th>
<th>Support service interaction</th>
<th>Interim outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Registration</td>
<td>• # advising interactions</td>
<td>• Term-to-term persistence</td>
</tr>
<tr>
<td>• FAFSA completion</td>
<td>• Tutoring appointments</td>
<td>• Term GPA change</td>
</tr>
</tbody>
</table>
Another Means of Defunding Public Education?

State Appropriations Firming Up, But…

Hope on the Horizon:
Appropriations Are Coming Back
• In 2015, state appropriations increased by 6% over the prior year.


Harder-to-Detect Cuts?

"Some individual institutions see more funds under competitive PBF formulas, but in aggregate most schools will be losers and there may be less overall to go around. I wonder if a motive of performance funding is to continue the trend of defunding public higher education while avoiding the publicity fallout."

Senior Administrator
Public Research Master’s Institution

Bigger Piece of a Smaller Pie

"If PBF doesn't get traction, it will be because the increase in outcomes-based funds will be dwarfed by decreases in overall funding. The pie overall is shrinking over time."

Senior Administrator
Midwestern Regional Public Institution

Source: EAB Interviews and Analysis.
Balancing Competing Goods

Challenging Questions in Designing Performance Funding Models

How Can We Design a Fair and Effective PBF Model?

**Right Measures**
Balancing Comparability and Mission Diversity

- How Do We Account for Diverse Missions?
- What Student Populations and Programs Should We Overweight?
- Reward Intermediate Achievement, or Just Completions?
- Is It Financially Feasible to Track Career Outcomes?

**Right Change Levers**
Balancing "Consequential" Incentives and Stability

- How Much Funding Should Be at Risk?
- How Do We Help Low Performers Manage Transition Risks?

Source: EAB interviews and analysis.
Limited Agreement around a Handful of PBF Features

### Performance Funding 1.0

**Bonuses**
In addition to enrollment-based allocation

**Trivial Funds at Stake**
Success metrics affect only 1-2% of total funding, changing year by year

**Rates**
Completions measured as percentages of cohorts

### Performance Funding 2.0

**Core Funds**
Success KPIs embedded in core funding formula

**Meaningful Dollars at Stake**
Success metrics apply to 8% to 100% of allocation in new formulas

**Counts**
Aggregate completion, regardless of student start date

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How Do We Account for Diverse Missions?

**Standard Indicators, Institution-Specific Weights**
- Every institution assessed on same 10 indicators
- Indicators weighted differently for research vs. access missions

**Choice within a “Success” Menu**
- Schools pick one of a set of KPI options for four success indicators
- Define a fifth institution-specific metric

**Blended Standard and Self-Defined Indicators**
- All schools measured on five standard indicators
- Schools define two additional metrics that reflect their mission

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Source: EAB Interviews and Analysis.
Consistent Criteria, Different Emphases

MO and TN Formulas Encourage “Self-Calibration” of Success Indicators

Missouri’s Success “Menu”

<table>
<thead>
<tr>
<th>Student Success</th>
<th>Degree Attainment</th>
<th>Quality</th>
<th>Financial Efficiency</th>
<th>Optional Metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freshman to Sophomore Retention</td>
<td>Total Degrees Awarded</td>
<td>Assessment Results</td>
<td>Share of Spending on Mission</td>
<td>Reflected Institutional Goals</td>
</tr>
<tr>
<td>Credit Progression</td>
<td>6-Year Graduation Rate</td>
<td>Licensure Pass Rates</td>
<td>Revenue Growth Per Student</td>
<td></td>
</tr>
</tbody>
</table>

Tennessee’s Weighted Outcomes

<table>
<thead>
<tr>
<th>Success Indicator</th>
<th>UT-Knoxville</th>
<th>UT-Martin</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\text{Students @ } 30\text{ Hours}$</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>$\text{Students @ } 60\text{ Hours}$</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>$\text{Students @ } 90\text{ Hours}$</td>
<td>6.5%</td>
<td>10%</td>
</tr>
<tr>
<td>Bachelors and Associates</td>
<td>20%</td>
<td>30%</td>
</tr>
<tr>
<td>Master’s and Specialist</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Doctoral and Law</td>
<td>12.5%</td>
<td>0%</td>
</tr>
<tr>
<td>Research and Service</td>
<td>12.5%</td>
<td>5%</td>
</tr>
<tr>
<td>Degrees per 100 FTE</td>
<td>17.5%</td>
<td>10%</td>
</tr>
<tr>
<td>6-Year Graduation Rate</td>
<td>15%</td>
<td>20%</td>
</tr>
</tbody>
</table>

What Students and Programs to Overweight?

Selected States’ Funding Multipliers for Low-Income Completions

- **Illinois**: Pell-eligible completers = 1.4x
- **Tennessee**: 40% “completion premium” for low-income and adult completers
- **Pennsylvania**: 10% to 20% of total institutional success score tied to Pell-eligible completions
- **Michigan**: Institutions must comply with tuition increase restraints, participate in a transfer network, build articulation agreements, and limit double counting of dual enrollment credit

North Dakota Rewards High-Priority Degree Attainment

- Core: 1.0
- Business: 1.9
- Engineering: 2.5
- Health Sciences: 3.0
- ND’s Priority Disciplines: 6.0
- Upper Division: 5.0

Source: EAB Interviews and Analysis.
Is It Feasible to Track Career Outcomes?

Most States
Student Surveys

AR, CO, TN, TX, VA
Student Unit Record Matching

FL

Unclear FERPA Rules

Compliance Risk
50% of states cite FERPA as reason for not reporting career outcomes

Crossing Borders
Interstate data exchange requires authorization from multiple state agencies

Surveys Not Worth the Expense?

Shaky Data
Very low response rates, self-reported data

Non-Trivial Recurring Costs
$100,000+ to conduct survey

The Start of Performance Funding 3.0?

Florida Political Leaders Push Higher Education to Focus on Employment

FL Governor Convenes Higher Ed and Business Leaders to Promote Job-Ready Degrees

Demonstrate that Florida graduates are job-ready upon graduation

Encourage higher education to align programs to workforce needs

Jobs Above All Else

“Gov. Scott believes our higher education system must be solely focused on preparing grads to get jobs in high demand fields when they graduate.”

Statement from the Office of Rick Scott, Governor of Florida

Emphasis on Employment Codified in Performance Funding Formula Metrics

- Percent of bachelor’s graduates employed and/or continuing their education further one year after graduation
- Median average full-time wages of undergraduates employed in Florida one year after graduation

Not an Isolated Phenomenon

States (including Florida above) with employment and wage outcomes included in four-year institution performance funding formulas

- Minnesota
- Utah
- Louisiana
- Kansas

**Tracking Transfers More Important?**

The Great Unbundling Begins

**Typical Option**

<table>
<thead>
<tr>
<th>Six Years at Public University</th>
<th>$137K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Years in BA Program</td>
<td></td>
</tr>
<tr>
<td>Two Years in Masters</td>
<td></td>
</tr>
</tbody>
</table>

**3 + 2**

<table>
<thead>
<tr>
<th>$100K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six years of room and board significantly increase total cost</td>
</tr>
</tbody>
</table>

**2 + 2**

<table>
<thead>
<tr>
<th>$106K</th>
</tr>
</thead>
<tbody>
<tr>
<td>With this option, degree from private university costs less than six-year degree from public</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$91K</th>
</tr>
</thead>
<tbody>
<tr>
<td>By far the cheapest option, in part due to fewer years on campus</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$63K</th>
</tr>
</thead>
</table>

Source: College Board, Trends in College Pricing 2015.; EAB interviews and analysis.

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**Transfer-Friendliness as Success Indicator**

Michigan Considers Articulation with Two-Years for PBF Eligibility

**Linking PBF Escalators to Transferability**

**Michigan’s SB-193 Performance Funding Eligibility Requirements**

- Participate in Michigan’s student transfer network
- Reverse transfer agreements with three community colleges
- Accept dual-enrollment credits
- “Tuition Restraint”

Schools adopting these policies eligible for 3% increase in PBF

**An Unintended Temptation to Raise Tuition?**

**Heard on the Street**

“Another institution told us they realized they weren’t going to meet the PBF eligibility requirements in time. They knew they’d lose the state funding boost no matter what, so they upped tuition 9% to offset the hole in the performance funds.”

Senior Administrator
Regional Public Institution

Source: EAB interviews and analysis.
Balancing Competing Goods

Challenging Questions in Designing Performance Funding Models

How Can We Design a Fair and Effective PBF Model?

Right Measures
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Right Change Levers
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- How Do We Help Low Performers Manage Transition Risks?

How Much Should Be Put at Risk?

No Consensus Yet on Minimum Needed to Spur Change

<table>
<thead>
<tr>
<th>Percentage of Base Allocation Tied to Success¹</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Betting on Signal Value and Unrestricted Funds</td>
<td></td>
</tr>
<tr>
<td>Under 2%</td>
<td>0%</td>
</tr>
<tr>
<td>IL, MA, WA, MO, WY</td>
<td></td>
</tr>
<tr>
<td>3% to 7%</td>
<td>15%</td>
</tr>
<tr>
<td>PA, NM, MN, MT, IN</td>
<td></td>
</tr>
<tr>
<td>15% to 25%</td>
<td>80% to 100%</td>
</tr>
<tr>
<td>LA, AR², CO, OR</td>
<td></td>
</tr>
<tr>
<td>80% to 100%</td>
<td></td>
</tr>
<tr>
<td>TN, OH, NV, ND</td>
<td></td>
</tr>
</tbody>
</table>

Above the 15% Visibility Bar

¹) Does not include states treating performance funds as fixed-dollar pools or bonuses on top of base allocations.
²) End-state PBF goals phased in over next years

Learning Years
One-year data-baselining period to get buy-in for success KPIs and familiarize institutions with formula
(WA, MO)

Escalating Risk Pools
Increase amount of funds subject to PBF in predetermined increments (e.g., 5% → 10% → 15%) until formula’s steady-state cap achieved
(AR, IN)

Stop-Loss Provisions
State sets floor of how much individual institutions can lose (usually 1-2% of previous year’s allocation) in first year of PBF
(NM, OH)

Rolling Averages
Formula uses 3-5 year average of success indicators to insulate institutions from economic cycles
(OH, TN)

PBF Impact Modeling
Tennessee Tool Helps Anticipate Financial Impact of Competitive Funding

<table>
<thead>
<tr>
<th>Annual Outcome Change</th>
<th>Institution A</th>
<th>Institution B</th>
<th>Institution C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students Accumulating 30 Hours</td>
<td>4%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Bachelors and Associates</td>
<td>30%</td>
<td>27.5%</td>
<td>20%</td>
</tr>
<tr>
<td>Six-Year Graduation Rate</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Percent Change in Estimated Funding</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Change in Estimated Funding ($1K)</td>
<td>$110.3</td>
<td>$54.0</td>
<td>$108.2</td>
</tr>
</tbody>
</table>

Models gains and losses in Tennessee’s competitive funding system

1) Illustrative gain and loss estimates
Source: EAB Interviews and Analysis.
Problems with Peer Benchmarks
Neither Systems Nor Institutions Happy Tying Targets to Peer Sets

1. Institutions Define Peer Sets
   - **Sandbagging**
   - Schools choose mediocre comparators

2. System Defines Peer Sets
   - **Pushback**
   - Institutions reject comparators; “not like me…”

3. Underperforming Peer Sets
   - **Plateauing**
   - Doesn’t guarantee continuous momentum improvement

Competitive Funding
“Winners” Capturing an Increasing Share of Tennessee Resources

**Percent Change in Share of State Allocations**
Since Onset of Tennessee’s Outcomes Funding Model
2010-2011 vs. 2013-2014

- Univ A: -3.8%
- Univ B: -2.9%
- Univ C: -2.9%
- Univ D: -2.8%
- Univ E: -1.7%
- Univ F: -1.1%
- Univ G: 0.1%
- Univ H: 4.1%
- Univ I: 8.4%

Laggards Lose Share of Allocation
Six schools together received less than 1% of the recent $14.6M increase in overall Tennessee state funding

“Winners” capturing an increasing share of funding.

“This is definitely a philosophical shift. We decided to push money to where it was earned rather than distribute it evenly to all. Our model is rewarding those who outperform the rest.”

Tennessee Higher Education Commission representative
Shifting Institutional Financial Behaviors

Slight Shift Toward Selectivity and Increase in Student-Focused Spending

- **Pell Grants per FTE**
  - Decline in one of the major markers of a student body’s income and the selectivity of the institution
  - Trend holds over multiple years, not just the first year after PBF implementation

- **Student Services Expenditure Per FTE**
  - Increase in spending here shows intended outcome of PBF occurred for many states
  - Limited research fails to explore which areas of student services received more funds

- **Increase in Institutional Grant Aid Per FTE**
  - Typically merit-based aid increases after PBF implementation
  - Without test scores, GPA, and other data, difficult to determine if this shift represents growing selectivity or simply more aid to more students

- **Instructional Expenditure Per FTE**
  - Under PBF, instructional spending rises after two years
  - Other areas, such as auxiliary enterprises and institutional support, show signs of decreasing

Limited Research on Effects of PBF Reveals Few Trends

### PBF’s Effects on Completion Over Time, 1990-2010

<table>
<thead>
<tr>
<th></th>
<th>Effect on 2-Year Completions</th>
<th>Effect on 4-Year Completions</th>
</tr>
</thead>
<tbody>
<tr>
<td>ID</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>MN</td>
<td>Positive</td>
<td>None</td>
</tr>
<tr>
<td>AR</td>
<td>Mixed</td>
<td>None</td>
</tr>
<tr>
<td>IN</td>
<td>None</td>
<td>Positive</td>
</tr>
<tr>
<td>OK</td>
<td>Mixed</td>
<td>None</td>
</tr>
<tr>
<td>TX</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>NM</td>
<td>Negative</td>
<td>Positive</td>
</tr>
</tbody>
</table>

### Qualitative Evidence More Positive for PBF

- Increased awareness of state priorities and institutional performance
- More funding dedicated to instruction
- Improved student services
- Higher quality developmental education and tutoring
- Increased professional support services to improve teaching
- Changed course sequence and curricula
- Data used to inform decision-making more frequently


### Not a Quick Fix for Completions

Where They Occur, Positive Effects Take Several Years to Appear

### Performance Funding’s Effects Over Time

<table>
<thead>
<tr>
<th>Number of Years</th>
<th>Effect on Four-Year Completions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>None</td>
</tr>
<tr>
<td>2</td>
<td>None</td>
</tr>
<tr>
<td>3</td>
<td>None</td>
</tr>
<tr>
<td>4</td>
<td>None</td>
</tr>
<tr>
<td>5</td>
<td>None</td>
</tr>
<tr>
<td>6</td>
<td>None</td>
</tr>
<tr>
<td>7</td>
<td>Positive</td>
</tr>
<tr>
<td>8</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Many PBF initiatives fail as states initially inject new funding but cut back after several years


“States ought to exercise significant caution in pursuing performance funding as a quick fix...States should also expect a long wait before performance funding has any impact on degree completion at four-year institutions.”

David A. Tandberg, Assistant Professor of Higher Education Florida State University

Nicholas W. Hillman Assistant Professor, Department of Educational Leadership and Policy Analysis University of Wisconsin-Madison
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How Can We Design a Fair and Effective PBF Model?

Right Measures
Balancing Comparability and Mission Diversity
- How Do We Account for Diverse Missions?
- What Student Populations and Programs Should We Overweight?
- Reward Intermediate Achievement, or Just Completions?
- Is It Financially Feasible to Track Career Outcomes?

Right Change Levers
Balancing “Consequential” Incentives and Stability
- How Much Funding Should Be at Risk?
- How Do We Help Low Performers Manage Transition Risks?

Source: EAB interviews and analysis.