

Performance Funding in Virginia Higher Education

Melinda V. Crowder¹ and Steven M. Janosik²

Note to the Reader: This paper originally appeared in *Virginia Issues and Answers: A Public Policy Forum* and can be found in Volume 7, Number 2, pages 25-29, 2001. It has been reprinted here with permission of the editor. Person's wishing to be added to the mailing list for *Virginia Issues and Answers* should email the managing editor at via@vt.edu.

Performance-based funding (PBF) in higher education is not a new concept, but it is now more likely to be legislatively mandated than at any other time in history. Taxpayer skepticism about public expenditures, consumerism, calls for accountability, interest in tangible performance measures, past budget reform efforts, the outcomes assessment movement, and advances in cost-accounting software are paving the way for fundamental change to seriously link performance and budget through legislative action (Albright, 1998; Layzell, 1999). In 1997 Albright (1998) reported that 38 states used performance measures, with 22 directly or indirectly linking funding to performance. By 1999, 16 states had fully implemented PBF, nine states were on the threshold of adopting it, and four had scratched their plans to adopt the model (Burke & Modarresi, 2000). Clearly, PBF has gained notoriety in the public and private sectors over the past several years, and financial experts suggest that this is no passing fad (Wiersma, 1995). Virginia, however, has not yet adopted this funding process and continues to consider its options.

This article reviews the history of PBF or its variants in Virginia over the past decade. PBF involves a four-step process, which includes identification of desirable outcomes, specification of outcome measurements, determination of thresholds of success, and establishment of cash-award amounts. Characteristics of effective performance funding models include measurable objectives, past performance gauged by common cost-classifications versus line-item comparisons, flexible reallocation of funds by recipients, financial rewards and penalties based upon the outcomes achieved, and the collection of credible information that can be independently audited (Layzell, 1999). Ongoing assessment, identification of key performance indicators, and establishment of success benchmarks are integral to the PBF model.

¹ **Melinda V. Crowder**, assistant director for assessment in University Unions and Student Activities at Virginia Tech, teaches in the First-Year Experience and Residential Leadership Community programs. Crowder worked for several years as a corporate inventory manager, auditor, and cost-accounting analyst specializing in business start-ups. She is currently conducting grant-funded research on the impact of student leadership on postgraduate skills, student center environments, and administrative best practices in student center management.

² **Steven M. Janosik** is associate professor of higher education and student affairs and co-director of the Educational Policy Institute of Virginia Tech. From 1994 to 1997, he served as the deputy secretary of education for the Commonwealth of Virginia. He has won outstanding research awards from two national associations in higher education and is the author of 30 articles, book chapters, and monographs. His latest work, "The Impact of the Campus Crime Awareness Act on Student Behavior," will be published in the *NASPA Journal* in spring of 2001.

What have others learned about PBF?

Performance-based budgeting has significant implementation challenges, including selection of performance indicators, establishment of the benchmarks that represent success, measurement validity and reliability, transience of legislative interest, issues related to competition for funds, and financial systems that support cost-accounting needs. Virginia legislators should consider the experience in other states, where there is general agreement that the following practices lead to the successful implementation of PBF:

1. Performance measures must account for each institution's unique clientele and mission.
2. Performance indicators should be selected jointly by faculty, administrators, and the state legislature to ensure that performance measures satisfy institutional needs while simultaneously satisfying external constituencies' needs for information.
3. This "negotiation" process could lead to different benchmarks for different institutions on the same performance indicator, and this is appropriate.
4. A well-balanced performance-measurement plan should incorporate qualitative and quantitative measures. Given that institutional assessment officers and policy makers alike find it difficult to develop valid and reliable quantitative measures and measures of educational outcomes, the importance of explanatory qualitative data is critical.
5. Funds tied to performance-based systems should be used as institutional incentives to allow for the traditional autonomy that is generally afforded to higher education institutions. According to a 1997 State Higher Education Executive Officers (SHEEO) opinion survey, higher education administrators believed that 2 to 5 percent of an institutional budget provided ample incentive to engage in meaningful change without risking budget instability (Albright, 1998).

Evolving performance-funding models in Virginia

The Office of the Secretary of Education, the Department of Planning and Budget (DPB), the State Council of Higher Education for Virginia (SCHEV), and the presidents and chief financial officers of senior public institutions³ have been working on various performance measures and funding models since the mid 1990s. As part of the 1996 Performance Measures Project, these parties developed six core-performance measures for higher education. Agreed upon measures included

- graduation, retention, and transfer rates;
- percent of graduates employed in program-related work or pursuing further study;
- classroom utilization;

³ Christopher Newport University, College of William and Mary, George Mason University, James Madison University, Longwood College, Mary Washington College, Norfolk State University, Old Dominion University, Radford University, University of Virginia, University of Virginia's College at Wise, Virginia Commonwealth University, Virginia Military Institute, Virginia Tech, Virginia State University, and the Virginia Community College System.

- expenditures on instruction, libraries, and academic support as a percent of total educational and general (E&G) expenditures;
- percent of management standards successfully met; and
- a measure of faculty productivity.

As part of this project, performance baselines and targets were created for all state agencies, including higher education institutions, and were reported in the December 1996 budget document. Tying budget allocations to meeting or exceeding targets was anticipated but never implemented.

In early 1997 DPB, the secretary of education's office, SCHEV, staffs of the Senate Finance Committee and House Appropriations Committee, and representatives of the senior colleges and universities revised the peer-selection process and selected new national peer groups for benchmarking purposes. That same year, DPB and SCHEV met with a group of institutional researchers to determine the best data sources for comparing Virginia institutions to their national peers. Five performance measures were recommended, including

- graduation and retention rates,
- instructional and library expenditures as a percent of E&G expenditures,
- credit hours generated per full-time instructional faculty member,
- space utilization, and
- research and public service expenditures per full-time faculty member (doctoral universities only).

Performance for each measure was based on the percentile rank of the Virginia institution relative to its national peers, or in the case of space utilization, relative to other Virginia institutions. Measures were weighted equally, and monetary rewards were weighted by institutional size according to in-state full-time equivalent (FTE) students. The 1997 proposal established a \$50-million incentive fund and was proposed in Governor Allen's outgoing 1998-2000 budget. Governor Gilmore and the General Assembly deferred this plan for future study (Lauterberg, 1999).

In late 1998 the SCHEV staff assembled options for revising Virginia's higher education funding policy. This work resulted in the creation of a block-grant performance-funding model. SCHEV adopted this plan in May 1999. The key components of the model included

- a determination of an institution's base budget adequacy;
- a block grant comprised of all E&G appropriations in the institution's previous year's budget,
- technical adjustments,
- inflation growth factors,
- base budget adequacy adjustments, and
- incentive funding (State Council of Higher Education for Virginia, 1999, p.2).

While this model drove some of the system-wide budget recommendations in the SCHEV 2000-2002 budget proposal, the model was not implemented because of the pending work of Governor Gilmore's Blue Ribbon Commission.

Concurrently, the Joint Subcommittee on Higher Education Funding Policy commissioned a study of the issue. This group has focused its attention on more traditional funding formulas designed to assess the adequacy of current higher education funding levels based on institutional missions and the type and level of their academic courses and programs. At its last meeting before the 2001 General Session, the Joint Subcommittee adopted a framework for new funding guidelines and determined that Virginia's system of higher education was under funded by about 10%. The Joint Subcommittee determined that this under funding fell in the range of \$187 to \$206 million. Members of the committee agreed to propose legislation that would incorporate their guidelines into the Appropriation Act and have vowed to do something on this funding need during the 2001 General Session. (Joint Subcommittee on Higher Education Funding Policies, 2000).

In its final report, the Blue Ribbon Commission proposed the creation of Institutional Performance Agreements (IPAs) developed by the institutions and negotiated with the secretary of education, DPB, SCHEV, and selected committees of the General Assembly. Final approval would be made through the legislative appropriations process. Agreements provide for a six-year plan for funding and performance of the institution, subject to the constitutionally mandated appropriations process and any unforeseen circumstances warranting a change. According to the commission, the advantages of the IPAs are that they supply a vehicle for combining adequate and reliable funding, managerial flexibility, institution-specific performance standards, and accountability. Institutions would provide key indicators of institutional performance and educational quality in their plans. Incentives for institutional achievement of identified quality- and efficiency-related performance objectives and consequences for deficient performance would be negotiated (Governor's Blue Ribbon Commission on Higher Education, 2000, p.11-14).

While the commission's report and the governor's budget recommended immediate action on the development of these plans, the General Assembly adopted a "go slow" approach by amending the language in the current appropriation act. Instead, the General Assembly asked the secretary of education to identify selected institutions that appeared ready to develop draft IPAs. (State Council of Higher Education for Virginia, 2000).

In August 2000 Governor Gilmore and Secretary of Education Bryant acted on this permissive request by identifying five institutions deemed ready to develop IPAs. The proposals of George Mason University, Norfolk State University, Virginia State University, the University of Virginia, and Virginia Commonwealth University have been submitted to the General Assembly as drafts so that members can review an actual agreement before approving the IPA process.

The future of PBF in Virginia higher education

The current proposal by the Governor's Blue Ribbon Commission is a bold step forward. While IPAs contain many elements of models that have been successful in other states, the commission's proposal goes well beyond the incentive model that is *perceived* as most effective by higher education executive officers. Leaders in the General Assembly appear open to such an idea, but they have been extremely cautious. Both Senator John Chichester, chair of the Senate Finance Committee, and Delegate Paul Councill, co-chair of the House Education Committee, have said that base funding must be addressed before agreement can be reached on a performance-based system (Janosik, 2000). Delegates Diamonstein and Dickinson have expressed similar concerns (Virginia Business Higher Education Council, Summer, 2000). Despite the fact that the adoption of a results-based performance funding strategy is likely to sit well with higher education consumers and tax payers, this caution and refinement process is prudent since the research has not established a definitive cost/benefit relationship for performance funding.

For the past few months, SCHEV has been developing the General Assembly-mandated Report of Institutional Effectiveness—a critical component of the IPA and performance-funding plan. SCHEV staff, institutional representatives, and other stakeholders are working to identify a set of widely accepted and understood institutional performance measures. Twenty-seven measures are currently under consideration. The hope is that working with these measures, as part of a mandated report before tying them to funding, will increase the likelihood that the performance measures and the IPA will eventually be accepted.

With each new attempt, the measures have become more comprehensive and seem to gain greater acceptance. They are becoming more output- and outcome-based and increasingly mission-sensitive. While some may argue that progress is painfully slow, this consensus-building process is uncovering more common ground. Despite this progress, providing adequate base funding prior to implementation of this PBF model appears to be a major sticking point. Prominent members of the General Assembly have expressed this long-standing concern in their public remarks, as have many college and university presidents. If IPAs are to be embraced by the General Assembly and supported by the institutions, addressing this issue in the governor's next budget may be the key to moving forward on performance funding for Virginia higher education.

References

- Albright, B. A., *The transition from business as usual to funding for results: State efforts to integrate performance measures in the higher education budgetary process*. Denver: State Higher Education Executive Officers, April 1998.
- Burke, J. and S. Modarresi, "To keep or not to keep performance funding," *Journal of Higher Education* 71 (4): 432-453, 2000.
- Governor's Blue Ribbon Commission on Higher Education, *Final Report of the Governor's Commission on Higher Education*, Richmond, Va., 2000.
- Janosik, S., *Perspectives on Important Issues in Virginia Higher Education: An Interview with Senator John Chichester and Delegate Paul Council*, Educational Policy Institute of Virginia Tech, no. 4, 2000.
- Joint Subcommittee on Higher Education Funding Policies, *Status Report and Recommendations from the Joint Subcommittee on Higher Education Funding Policies*, Richmond, Va., 18 December 2000.
- Lauterberg, R., "Performance funding in higher education: The DPB model." Paper presented at meeting of Governor Gilmore's Blue Ribbon Commission, Harrisonburg, Va., 1999.
- Layzell, D.T., "Linking performance to funding outcomes at the state level for public institutions of higher education: Past, present, and future," *Research in Higher Education* 40(2): 233-246, 1999.
- State Council of Higher Education for Virginia, "Virginia higher education performance funding model," Richmond, Va., 1999.
- State Council of Higher Education for Virginia, "Summary of the 2000-02 Higher Education Budget," Richmond, Va., 2000.
- Virginia Business Higher Education Council, "Newsletter: Support for higher education falls short," Richmond, Va., summer 2000.
- Wiersma, K., "Performance measures resources." *NASBO Information Brief* 3(2). Washington, D.C.: National Association of State Budget Officers, June 1995. Available online: <http://www.nasbo.org/pubs/infobrf/v03n02.htm>.