



## **TCCRI Testimony to the Senate Committee on Higher Education**

May 22, 2018

### Charge:

*Funding Models: Examine different models of student-focused funding for general academic institutions, including competency-based and performance funding models, and make recommendations on whether a new funding model would produce greater efficiencies and student performance.*

### **Introduction**

This committee's charge on funding for general academic teaching institutions is an important one. Once minimum operational obligations have been met with respect to government funding of education, there is a strong argument in favor of *all* additional funding being tied directly to student competency and performance. The second part of the charge, to recommend "whether a new funding model would produce greater efficiencies and student performance," is only answerable once it is clear what a student-focused competency or performance-based model looks like. As this testimony will explain, the performance-based metrics used for funding at two-year institutions of higher education achieve little in the way of driving better performance from students. One need only look at those metrics to understand that merely enrolling students will drive performance-based funding from the state. The Texas Conservative Coalition Research Institute (TCCRI) has published research on this point and would caution the Committee to avoid adopting a similar version of a performance-based funding system at general academic institutions. Any performance-based system should offer true rewards for performance, but there should also be a true risk to institutions that they will receive fewer financial resources should they not perform.

### **Higher Education Funding in Texas**

Via formula funding, The Texas Legislature appropriates funds in higher education specifically to provide "funding for instruction, student services, administration, employee benefits, facility construction and renovation, capital equipment, special items that represent an institution's area of expertise or special

need, and student financial aid.”<sup>1</sup> Outside of formula funding, but still within general revenue, the Legislature appropriates for non-formula funded items, formerly known as “special items,” which include programs and projects specifically identified by the Legislature for funding support. Examples of non-formula items are institutional enhancement, public service projects, research and research support, and funding for separate campuses. Non-formula funding amounted to 11.8 percent (\$564 million) of appropriations for general academic teaching institutions in 2016-17.<sup>2</sup>

Chapter 61, Subchapter D, of the Education Code does allow the Texas Higher Education Coordinating Board (THECB) to recommend student success funding based on the following measures:

- (1) the total number of bachelor's degrees awarded by the institution;
- (2) the total number of bachelor's degrees in critical fields awarded by the institution;
- (3) the total number of bachelor's degrees awarded by the institution to at-risk students;
- and
- (4) as determined by the board, the six-year graduation rate of undergraduate students of the institution who initially enrolled in the institution in the fall semester immediately following their graduation from a public high school in this state as compared to the six-year graduation rate predicted for those students based on the composition of the institution's student body.

Up to 10 percent of the total amount of general revenue appropriations to institutions at which the student success funding applies may be based on THECB's student success measures. That includes “performance incentive funding found in Chapter 62, Subchapter D, of the Education Code, which requires THECB to distribute any performance incentive funds appropriated by the legislature for that purpose to eligible students based on degrees awarded in various categories of critical and noncritical fields and at-risk and not at-risk students.”

### **Community College “Student Success” Funding Should Not Be a Model for Four-Year Institutions**

Community colleges have three sources of funding. Approximately one-third comes from tuition and fees, another approximate one-third comes from local property tax collections, and the last one-third comes from state appropriations.<sup>3</sup> Roughly 10 percent of the state's share is purportedly based on performance, as measured by “student success points.”<sup>4</sup> Giving “student success” the benefit of the

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<sup>1</sup> “Financing Public Higher Education in Texas: Legislative Primer,” *Legislative Budget Board* (Aug. 2016), [https://www.lbb.state.tx.us/Documents/Publications/Primer/3148\\_Financing\\_Public\\_Higher\\_Ed\\_Texas\\_Aug\\_2016.pdf](https://www.lbb.state.tx.us/Documents/Publications/Primer/3148_Financing_Public_Higher_Ed_Texas_Aug_2016.pdf)

<sup>2</sup> Mary E. Knight, CPA, “The Budgeting Process for Public Universities in Texas,” *Texas Higher Education Leadership Conference* (Nov. 30, 2017), <http://www.thecb.state.tx.us/reports/PDF/10218.PDF?CFID=78173369&CFTOKEN=32275139>

<sup>3</sup> “Community College Funding,” *Texas Association of Community Colleges*, <https://www.tacc.org/pages/data-and-info/community-college-funding> (Last visited May 21, 2018).

<sup>4</sup> *Ibid.*

doubt as a successful performance-based metric, it amounts to roughly 3 percent of all community college funding, a relatively insignificant overall number. The rest of the state's share is based on contact hours.

But it is difficult to give "student success" the benefit of the doubt. TCCRI has been highly critical of this funding mechanism, which awards "points" based on milestones as simple as completing a developmental education course in a core area (math, reading, and writing), earning a "C" or better on the student's first math course, or simply completing a semester.<sup>5</sup> TCCRI published a whitepaper on community colleges in 2016 that explains the problems with student success funding quite well:

There are several issues raised by the current structure of state funding. For example, while conditioning state funding on outcomes is important, and "student success" funding is an earnest attempt to do so, basing funding on a raw total of achievements raises questions about its effectiveness, particularly when "points" can be maintained by continued enrollment and boosted by increasing enrollment. In other words, increased enrollment input can boost outcome output on the other end. That makes it barely distinguishable from contact hour funding, which already accounts for 86.5 percent of state appropriations for community and junior colleges.<sup>6</sup>

Put differently, to lose performance-based funding through "student success," community colleges would have to completely stop allowing students to complete courses, which is an absurd proposition. Simply maintaining current levels of productivity ensures that the funding will continue. And in an extreme hypothetical scenario where for some reason student completion of coursework is reduced by half, the loss of funding—which would be entirely deserved—would be easily absorbed by the school's other sources of funding.

Although highly critical of "student success" funding at community colleges, TCCRI's paper was optimistic that a different metric of measuring performance could be implemented:

[I]nstead of awarding a single point for completing developmental education in mathematics, points should be awarded based upon the percentage of students enrolled in developmental mathematics who complete the course. We learn very little about a school's improvements when that school announces that 25 more students completed a particular course over the number from the previous year, but to learn that the percentage of students enrolled in a course who complete the course increased by eight percent from one year to the next strongly suggests that improvements were made. A

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<sup>5</sup> See "Fiscal Size-up 2016-17 Biennium," *Legislative Budget Board*, [http://www.lbb.state.tx.us/Documents/Publications/Fiscal\\_SizeUp/2939\\_Fiscal\\_Size-up\\_2016-17.pdf](http://www.lbb.state.tx.us/Documents/Publications/Fiscal_SizeUp/2939_Fiscal_Size-up_2016-17.pdf).

<sup>6</sup> "Texas Public Community Colleges: A Policy Whitepaper," *Texas Conservative Coalition Research Institute* (Sum. 2016), <http://txccri.org/wp-content/uploads/2016/12/Community-College-Full-Draft-FINAL.pdf>

higher number of points could be awarded based on higher percentages of students who complete and pass a given course.<sup>7</sup>

The paper ultimately recommends that students success be reformed so that the metrics actually reflect *improvements* in performance, and that poor performance means less funding. If reformed in a meaningful way, the paper recommends expanding performance-based funding from 10 percent to “at least 20 percent, or higher.”<sup>8</sup>

In short, “student success” funding at community colleges needs a full reevaluation and top-to-bottom reform before it should be used as a model for other forms of performance-based funding. Should the Legislature adopt performance-based funding at general academic teaching institutions, it should avoid these issues from the start.

### **Establishing Appropriate Metrics for Performance-Based Funding**

The fundamental problem with “student success” funding at community colleges is two-fold. First, very little is at stake in terms of the amount of funding based on student success. Second, student success points are going to be achieved simply by having students enrolled and moving through the system. Performance-based funding at general academic teaching institutions can avoid this issue in any of several ways.

Several bills filed in the 85th Legislative Session offered metrics for performance-based funding at general academic teaching institutions that would be an improvement over what has been implemented at community colleges.

Senate Bill 543 (Seliger), for example, proposed “performance measures” that would be used as a metric for determining whether a school performed well enough to raise tuition beyond the rate of inflation (it could not do so if it did not meet performance measures, as defined by THECB). Those metrics included basic things like total undergraduate degrees awarded, but they also included metrics like “the total number of undergraduate degrees awarded by the institution *per 100 undergraduate full-time student equivalents*[.]” (emphasis added). The former is a raw total that will fluctuate from year-to-year without disclosing much about the school’s success because class size can fluctuate. In contrast, the latter metric gives a way of measuring the school year-to-year for improvement. It means little that University XYZ graduates 550 students one year, 575 the next, and 570 in the next, but it means a great deal if graduation rates change from 60 percent, to 68 percent, to 75 percent. Metrics used to reward performance should focus more on incentivizing or rewarding *improvements* in performance as opposed to performance in a vacuum. (Note: SB 543 is used here only as an example of the metrics proposed for school performance. TCCRI takes no position on whether strong performance of schools should trigger the ability to raise tuition).

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<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*

Another example is Senate Bill 1892 (Bettencourt), which proposed substantial reforms to the student success funding for general academic teaching institutions found in Chapter 61 of the Education Code. Under the bill, THECB would be required to “prescribe a formula for distributing funds to the institutions in proportion to the number of scaled points earned by each of the institutions according to the following performance metrics,” which include factors such as total undergraduate degrees awarded (and the number of degrees adjusted by graduation rate), the number of degrees awarded qualified by enrollment, and multiple metrics tied to graduation rates. Again, the metrics tied to graduation *rates* avoid the pitfalls of raw totals, and that should be the emphasis of any performance-based plan.

### **“Performance” versus “Incentives”**

Intuitively, people understand that incentives work. Reach a milestone or achieve a goal and receive the fruits of that success in the form of a reward. That is why so many jobs in the larger marketplace pay bonuses. Stay in a position for a full year, receive a retention bonus. Gain five new clients for the company, earn a performance bonus. The successful motivation of incentives is why so many sales jobs are based on performance; more successful sales means greater commission earnings.

A successful incentive structure is more difficult to implement in the public setting, particularly where a revenue stream is already available and expected, and the proposal is to convert that stream to one that is based on performance, which is precisely what happened when a performance-based system was adopted at two-year institutions of higher education in Texas. “Student-success” funding at community colleges essentially guarantees that the performance funding will continue as long as students are moving through the system.

There is an opportunity to make performance funding truly *incentive*-based at general academic teaching institutions. Most proposals to date focus on funding for the institutions, given that they meet certain targets, but it is difficult to change the trajectory of large institutions. One way to incentivize better performance at general academic teaching institutions is to go around the institutions and go straight to the students.

#### *Incentivize Student Performance with Tuition Rebates*

Higher education is expensive. Cost of attendance at Texas’s flagship, the University of Texas (Austin), is over \$25,000 for in-state students and over \$50,000 for out of state.<sup>9</sup> If students had the added incentive of knowing that a portion of their tuition would be rebated back to them upon satisfaction of benchmarks met on the path from enrollment to graduation, then that may incentivize more students to complete courses, semesters, and degree requirements. It would not take a statistically staggering number of students affected by incentives to improve overall school performance in a statistically

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<sup>9</sup> See “College Profile: University of Texas at Austin,” [www.CollegeData.com](http://www.CollegeData.com), [https://www.collegedata.com/cs/data/college/college\\_pg03\\_tmpl.jhtml?schoolId=788](https://www.collegedata.com/cs/data/college/college_pg03_tmpl.jhtml?schoolId=788) (Last visited May 21, 2018).

meaningful way. The state's responsibility in funding this incentive could simply be a "hold harmless" provision to pay for the rebates.

### **Conclusion: Performance-based Funding Should Use a Carrot *and* a Stick**

Most discussions surrounding performance-based or outcomes-based funding use a metric to help determine how much funding the school will receive, but what is lacking from these proposals is the possibility that schools receive *no performance funding* at all. The result, as is the case with "student success" at community colleges, is that there is a baseline expectation for performance-based funding. The schools receive this baseline funding, and anything added to it is essentially a bonus. If performance-based funding is truly meant to impact school performance, and performance-based funding amounts to, for example, 5 percent or 10 percent of total state appropriations for general academic teaching institutions, then the proposition that they receive *none* of those funds should be a tangible possibility.

The second part of the Committee's charge today asks "whether a new funding model would produce greater efficiencies and student performance." The answer to that questions depends on what the model is. If it is a model in which very little is at stake from the school's perspective, then then it will *not* produce greater efficiencies and student performance. Furthermore, adoption of a model in which there is no real possibility of both a carrot (incentive-based funding) and a stick (less funding) allows for the illusion of a system that is not fundamentally different from the one that preceded it. It would be better to make no change at all in that case. However, a true reformation of state funding for general academic teaching institutions could realistically achieve the desired goals of greater efficiency and performance.