



An Overview of Performance-Based Funding in American Higher Education

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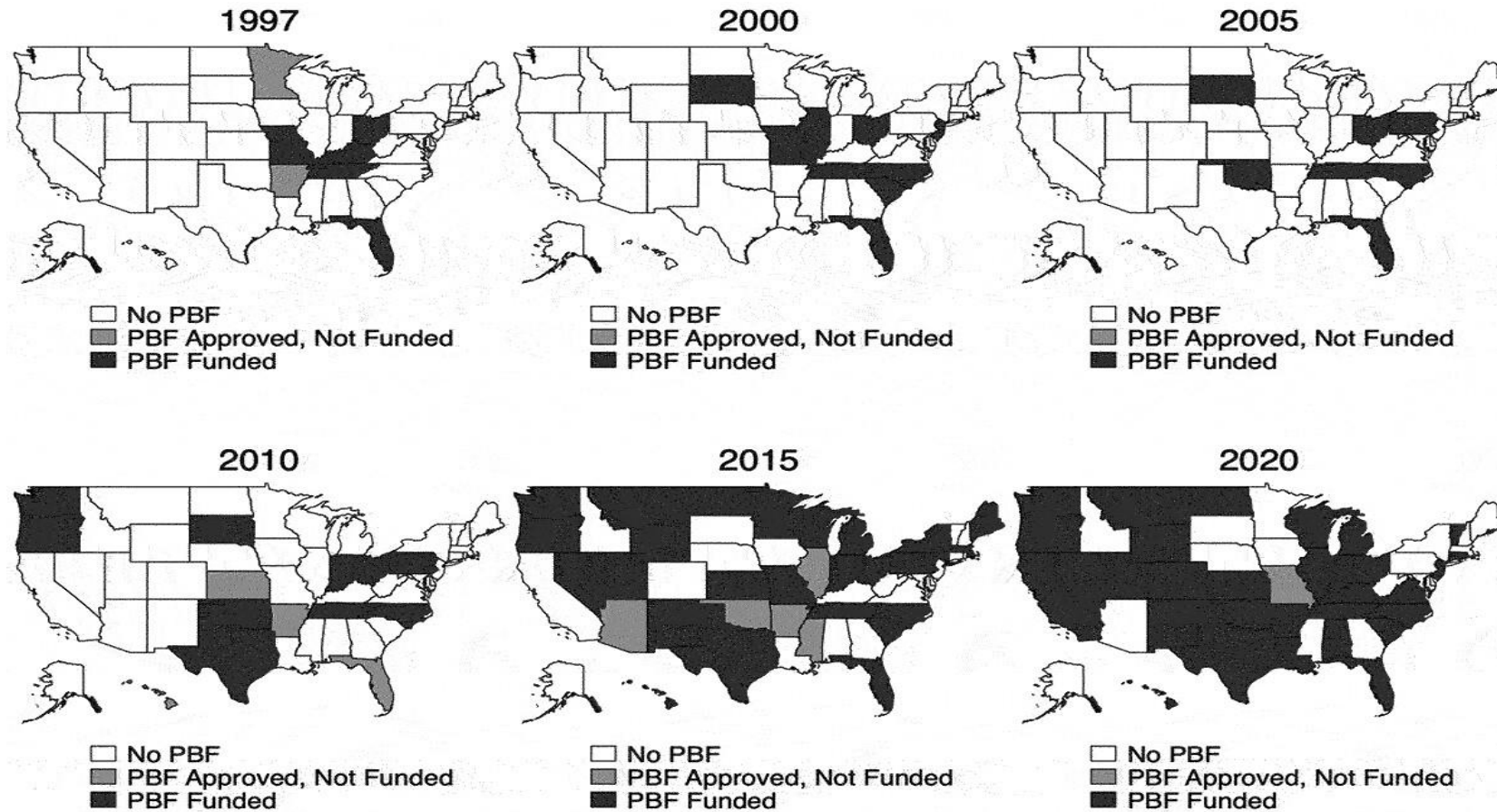
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*Presentation based on collaborative work with Kelly Rosinger, Robert Kelchen, and a team of graduate research assistants

Background

- Performance-based funding (PBF) is generally defined as a policy that links a percentage of state funding to institutional outcomes, such as retention and graduation
- Approximately 9% of state general funds were allocated to public colleges and universities for performance-based funding (Rosinger et al., 2022)
 - The proportion of funding linked to performance has grown over time but still varies widely across states (e.g., Arkansas, Connecticut, Michigan – fewer than 2%; Louisiana – 30%; Tennessee – 87.55%)
- In FY 2024, 31 states had a funded PBF policy, with 29 including the two-year sector and 22 including the four-year sector

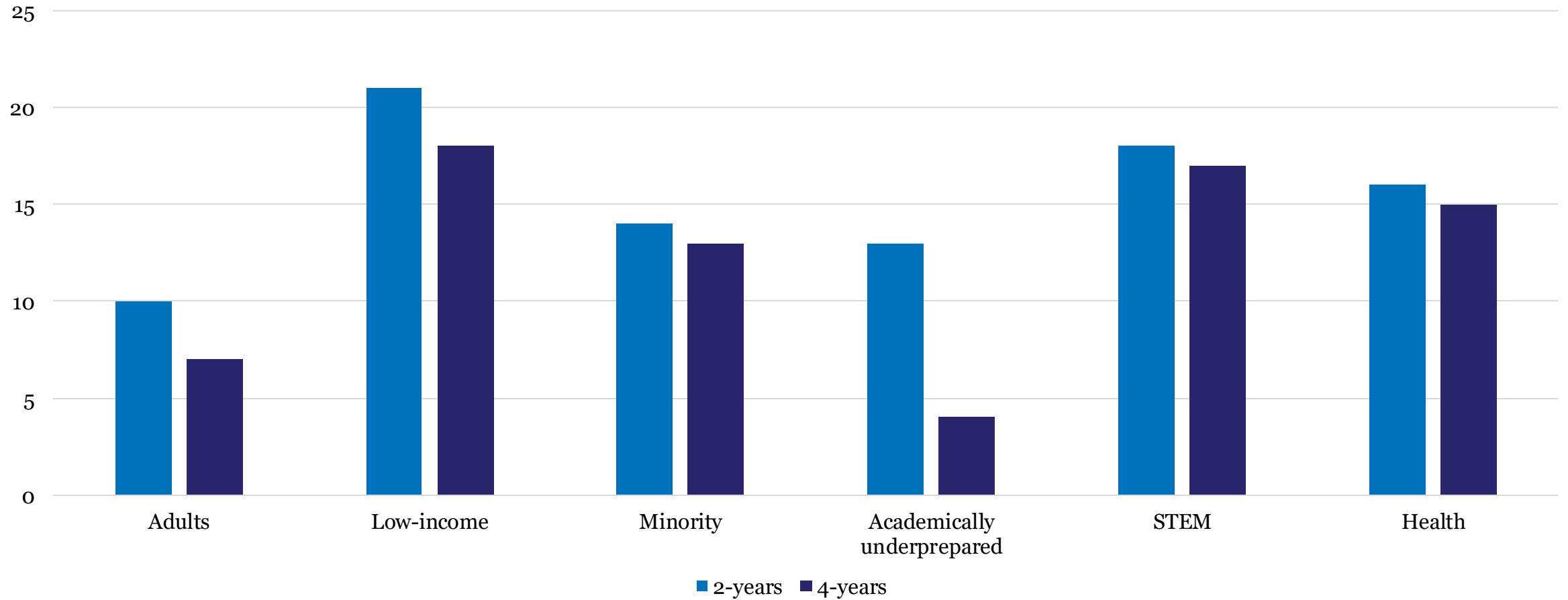
PBF Growth Over Time



PBF Metrics

- The most common metric within PBF formulas is the number of students who complete their degree
- Outcome metrics vary widely across states
 - Additional outcome metrics include retention, vertical transfers, number of credit hours *completed*, number of students who graduate in high-demand/STEM fields, wages, etc.
- Bonus metrics can also focus specifically on equity
 - Equity metrics include incentives for the graduation of low-income students, racially minoritized students, adult students, first-generation students, academically underprepared students, veteran students, etc.

PBF Bonus Metrics (FY 2024)



A Need for Better Evidence

- PBF isn't going anywhere, so the focus should shift to *how* we can design more equitable, effective PBF policies
- Studies focused on binary measures of PBF adoption fail to capture the complexity and variety of PBF policies
- Our work has tackled this issue and considers the dosage and design of PBF policies to better understand what (if anything) currently works in PBF systems
 - Focus on both intended and unintended consequences

Brief Summary of Our Work on PBF

- Here's what we know: PBF typically leads to null or modest positive effects on retention and graduation (i.e., intended outcomes)
- Prior work also suggests that PBF can lead to unintended outcomes
 - PBF can: restrict access, lead to gamification, and exacerbate disadvantages for underserved students and under-resourced institutions
- I will provide some high-level findings from some of our recent empirical work on PBF
 - Access, completions, and institutional revenue

PBF and Access

- Some evidence suggesting that increases in the share of revenue at stake are associated with decreases in racially minoritized student enrollment
 - Exacerbated among selective institutions
- A key point is that PBF will not expand access and reduce inequities at four-years regardless of design
 - Equity metrics are helpful at moderately or less-selective four-years, but they're unlikely to help at the most-selective institutions

PBF and Completions

- When we look at pooled effects of the presence of PBF, we show there's no impact on completions
 - Driven by low-dosage PBF policies
- High-dosage PBF at four-years has a negative influence on bachelor's degree completion among racially minoritized students
 - Positive impact on bachelor's degree completion among White students
 - Positive impact on bachelor's degree completion when there's a targeted adult student incentive
- No relationship between any type of funded PBF policy and associate degree completion
 - A note on certificates and prior literature

PBF and Institutional Revenue

- Once again, when we look at the presence of *any* funded PBF policy, it had no effect on state appropriations among PBF-adopting four-years
 - High-dosage PBF policies had a negative effect on state appropriations for four-year HBCUs and four-year institutions serving an above-average share of racially minoritized students
- The picture among community colleges is a bit more complex
 - Generally speaking, PBF policies had a modest positive influence on state appropriations among community colleges that were non-MSIs or serving a below-average share of racially minoritized or low-income students
 - Modest negative influence on state appropriations among community colleges that were MSIs or serving an above-average share of racially minoritized students

Implications

- A consistent theme linked to PBF results: Advantages for the advantaged and disadvantages for the disadvantaged
 - Design elements focused on equity-oriented metrics can mitigate these harms
- PBF is a bipartisan policy that may be necessary to ensure adequate funding for HI ED
 - Important not to dismiss PBF given that the alternative would likely be less funding
 - Policymakers typically think of PBF as more of a signal than a panacea
- Our ongoing work will update PBF data through FY 2024 and look at the impacts associated with updated PBF policies

Thank you!

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