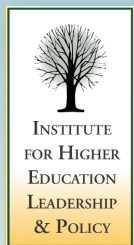




# Performance Incentives to Improve Community College Completion: Learning from Washington State's Student Achievement Initiative

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## A State Policy Brief



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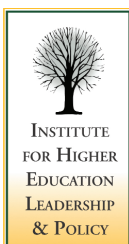
This policy brief is based on an ongoing evaluation of Washington State's Student Achievement Initiative by the Community College Research Center (CCRC) and the Institute for Higher Education Leadership and Policy (IHELP). In addition to the authors of this brief, our research team includes Vivian Cazanis, Colleen Moore, and Jeremy Offenstein of IHELP and John Wachen of CCRC. We are indebted to the administrators, faculty, and staff we interviewed at 17 of Washington State's 34 community and technical colleges. We also want to thank the staff of the Washington State Board for Community and Technical Colleges, who have provided invaluable input on our analysis and who reviewed drafts of this brief. Thanks also to Thomas Bailey and Kevin Dougherty, who provided helpful comments on an earlier draft of this brief. Funding for this research is provided by the Bill & Melinda Gates Foundation.



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## Inside This Brief

In 2007, Washington State launched an innovative performance incentive policy for community colleges, called the Student Achievement Initiative (SAI). The purpose of the SAI is to use data and performance funding to motivate colleges to implement systemic changes in practice that lead to improved student outcomes. The SAI seeks to address some of the key shortcomings of previous state higher education performance incentive policies and so has attracted a lot of interest from policymakers and funders nationally. By drawing on initial observations from our ongoing evaluation of the SAI as well as knowledge about earlier-generation performance funding policies attempted elsewhere, this brief aims to inform the conversation currently going on in many states about using state policy levers to meet ambitious state and national goals for increased college attainment. To that end, this brief calls particular attention to a number of policy choices that the Washington community and technical college system faced as it designed and began to implement the SAI across its 34 colleges. These are some of the same key choices policymakers and college leaders in other states will confront should they begin to design and enact performance incentive policies as means to improve community college student outcomes:

- **Complexity in the measurement framework:** What is the best way to balance simplicity and comprehensiveness in selecting the specific measures to use in a performance incentive system that rewards intermediate milestones as well as completions?
- **Nature of attainment data to be reported:** Should cross-sectional or longitudinal student data be used to compute achievement points? If cross-sectional data are used, how can they be connected to longitudinal cohort analysis to better inform institutional improvement efforts?
- **Defining college performance:** Is it more prudent to reward colleges on the basis of gains in “total points” or on the basis of gains in “points per student”?
- **Proportion of performance-based funding:** What portion of the total institutional budget should be distributed on the basis of performance?
- **Source of performance funds:** Should performance dollars be new appropriations or should they be reallocated from institutional base budgets? What is a reasonable time period and process for reaching this ultimate level of performance funding?
- **Mechanism for allocating performance funds:** Should performance be factored into the basic funding formula (regardless of funding level and source) or should performance funds be allocated as a bonus on top of regular funding?
- **Buy-in and engagement:** What activities, such as the creation of a broadly representative task force for developing overarching design principles or the establishment of a low-stakes “learning year” during early implementation, are conducive to gaining the support of key college personnel, such as college presidents and institutional researchers?
- **Technical assistance:** What sorts of assistance should states provide to help colleges learn how to use data to continuously improve programs and services?



# Introduction:

## Washington State’s Student Achievement Initiative and the National Imperative to Improve Community College Completion

Amid growing signs of America’s weakening position in the global economy, federal and state policymakers and major foundations have set ambitious goals for increasing postsecondary attainment in the United States. Given changing U.S. demographics, it has become clear that these national goals are attainable only with vastly improved outcomes among traditionally less-successful populations, which include academically underprepared students who come from poor primary and secondary schools, adults who are working in low-wage jobs or are unemployed, and immigrants with limited English proficiency. These populations enroll predominantly in the nation’s community colleges. Accordingly, much of the national mobilization around college completion is focused squarely on community colleges as well as on state policy, because community colleges receive most of their funding from state and local sources.

Given declining public resources for public higher education and skyrocketing enrollments, better outcomes from community colleges will require gains in productivity. Colleges will need to learn how to increase student progression and success with the same or fewer resources. Doing so will require community colleges to make systemic changes in their policies and practices.

It is within this context that the Washington State Student Achievement Initiative (SAI) has attracted national attention. As states strive to increase community college student success, many are looking at two policy levers—data and performance funding—to motivate and guide colleges to implement changes in practice that lead to improved student outcomes. Washington’s State Board for Community and Technical Colleges is at the forefront of efforts to develop better measures of student success and to use those enhanced measures as the basis for rewarding colleges for increasing student achievement. In adopting and

implementing the SAI, the State Board is seeking to use data and fiscal incentives to drive systemic institutional improvement and thus increase productivity across its 34-college system.

This brief examines key policy issues raised by Washington State’s experience to date with its vanguard performance incentive policy. It draws on our observations from the first year of a three-year, Gates Foundation-funded evaluation of the SAI as well as from our experience with these issues in a national context. Because the evaluation of the SAI and the SAI policy itself are still in their early stages, it is too early to assess the long-term effectiveness of this effort. However, insights from Washington State’s early experience with the policy can help inform the conversation currently occurring in many states on how to use state policy levers to meet ambitious state and national goals for increased college completion. To that end, the brief examines policy challenges and choices that the Washington community and technical college system has grappled with as it designed and is now implementing the SAI, and that policymakers and college leaders in other states will have to address in their efforts to improve community college outcomes.

# The Student Achievement Initiative: A Next-Generation Performance Incentive Policy

Neither performance measurement nor performance funding is new in U.S. higher education. Both have decades-long histories as part of the growing interest in public accountability and efficient government.<sup>1</sup> But the traditional means of measuring and accounting for outcomes in community colleges have proven inadequate,<sup>2</sup> and many of the earlier-generation state performance funding policies have been abandoned.<sup>3</sup> In developing the Student Achievement Initiative, the Washington community and technical college system sought to address the shortcomings of earlier policies, including previous policies enacted in its own state.

## Limitations of Traditional Approaches to Measuring and Rewarding Success

Traditional measures of postsecondary student outcomes are typically focused on completion rates for students in degree programs. Yet community colleges serve many students who start in remedial or even adult basic skills programs and who may take years to progress toward credentials. Measures that focus on completion in a set period of time thus put colleges that serve large numbers of underprepared students at a disadvantage. As such, they might discourage colleges from serving these students, which is contrary to the community college “open access” philosophy. Moreover, while outcome measures such as graduation rates are important, they provide no information on where students struggle on their paths to earning a credential, thus offering colleges little information on what they can do to improve their performance.

Previous attempts to design performance funding schemes for postsecondary education have also proven inadequate.<sup>4</sup> A primary reason is that they have typically been devised without much input from college educators, who often do not embrace the definitions of “performance” reflected in the chosen metrics. Systems that reward completion alone have been especially unpopular across

community colleges because they do not reflect the full range of missions assigned to the colleges. By providing rewards primarily for completion, these earlier performance funding systems were feared to encourage colleges to turn away from their historic mission to serve underprepared students, who are the least likely to succeed. Many performance funding systems set targets for colleges to meet in order to earn rewards, which led to controversies about reasonable expectations for open-access institutions. Finally, these earlier performance funding systems were financially unstable. Proposals to carve performance funding from college base budgets were met with stiff political resistance. But funding systems that relied on “new” money often fell victim to budget cuts as institutions fought to protect their base budgets at the expense of special programs.

Another weakness of the traditional approaches to both performance measurement and performance funding is that the impact of these policies did not penetrate to the level of classroom faculty and student support personnel whose interactions with students must change before substantial improvements in student learning and completion can be expected.<sup>5</sup> Thus, these tools have had more relevance in the arenas of public accountability and political decision-making than in institutional improvement and effectiveness.

Perhaps because of these limitations, there is scant evidence, if any, that performance reporting and performance funding, separately or in combination, have led to any fundamental changes in institutional practice or effectiveness.<sup>6</sup>

## Development and Design Features of the SAI

Like many states, Washington implemented performance funding in the 1990s, but that effort was short-lived, lasting only from 1997 to 1999. Its demise is attributable to a number of factors, including lack



of support from the colleges, which were being affected by a policy that was developed and imposed by a coalition consisting largely of legislators and business leaders.<sup>7</sup> This time around the impetus came from within the system. In conceiving the SAI, the State Board was responding to heightened expectations from policymakers and the public for accountability and improved college outcomes, but the Board did this in a proactive way intended to reflect the mission and values of the college system better than the earlier efforts had done.

In September of 2007, the State Board for Community and Technical Colleges launched the Student Achievement Initiative for Washington’s two-year colleges, following its development by a task force comprising State Board members, college trustees, presidents, and faculty representatives. The policy that emerged from the task force reflected a set of design principles that would guide the implementation of the SAI (see box, “SAI Design Principles”).<sup>8</sup> These principles indeed shaped the development of the two main

components of the policy—the measurement framework and the funding mechanism.

### *SAI Measurement Framework*

The Student Achievement Initiative sets forth a framework for computing the number of “achievement points” attained by students enrolled in the state’s 34 public two-year colleges. Colleges earn points when students achieve one or more of these educational milestones, which are organized along a continuum from remedial programs (which include adult basic education and pre-college, “developmental” education) up through the completion of credentials and training programs. An achievement point is generated for attainments in any of four areas:

- (1) Building toward college-level skills (two types of attainments)
  - a. Basic skills gains—increase in skill level based on a standardized test (multiple points attainable by a student)

## SAI Design Principles

### *Overall Principles:*

- The initiative leads to improved educational attainment for students, specifically the goal of reaching the “tipping point” (of at least a year of college and an occupational certificate) and beyond.
- The initiative allows colleges sufficient flexibility to improve student achievement according to their local needs.
- The initiative results in the identification and implementation of successful practices to improve student achievement system-wide.

### *Principles for Measurement:*

- Performance measures recognize students in all mission areas and reflect the needs of the diverse communities served by colleges.
- Performance measures must measure incremental gains in students’ educational progress irrespective of mission area.
- Measures are simple, understandable, and

reliable and represent valid points in students’ educational progress.

- Measures focus on student achievement improvements that can be influenced by colleges.

### *Principles for Incentive Funding:*

- Colleges are rewarded for improvements in student achievement.
- Funding is structured so that colleges compete against themselves for continuous improvement rather than competing with each other.
- Funding is stable and predictable, and cumulative over time.
- Incentive funding rewards student success and becomes a resource for adopting and expanding practices leading to further success.
- New funds provide the greatest incentive.

- b. Passing pre-college writing or math courses with a grade that would qualify a student to advance to the next level (multiple points attainable by a student)
- (2) First year retention and progress
  - a. Earning 15 quarter credits of college-level course work
  - b. Earning 30 quarter credits of college-level course work
- (3) Completing college-level math (passing math courses required for either technical or academic associate degrees)
- (4) Completions (degrees, occupational certificates, apprenticeship training)

Notably, the achievement points encompass the full range of mission areas, including basic skills, remedial, workforce education, and academic transfer. The State Board provides the colleges with quarterly student unit record data (the colleges operate on a quarter term system) to track trends in the attainment of achievement points by their students. The data are intended to help colleges identify opportunities for improvement and evaluate the impact of efforts to increase achievement. The achievement points are computed for each college based on the total achievements by all students over the course of one year (with quarterly reporting along the way).

### ***SAI Funding Mechanism***

The measurement framework yields data on total achievement points earned by category of achievement, but colleges receive funding for increases in total achievement points attained by students in a given year compared to the baseline year. The baseline year was 2006-07 for the first round of performance funding, but it became the prior year after that initial round. Funding per point gain is determined by the amount of dollars available to fund the initiative and the total point gain achieved across the system. The State Board estimates the size of the point gain at the start of the year and announces the approximate value of a point gain that can be earned. Funding per point gain in the first two years of performance funding was \$31 and \$40, respectively.

The implementation schedule for SAI funding awards was designed to help colleges understand and adapt to the metrics and funding rules:

- 2006-07 was established as the base year for measuring colleges' initial performance.
- 2007-08 was designated as the "learning year" for colleges to begin to use data and develop institutional responses prior to the introduction of performance funding; each college received \$51,000 in seed money (which was added to their base budgets).
- 2008-09 was the second year of seed money (\$66,000 of base budget funding per college).
- In fall 2009 colleges collectively received \$1.8 million for performance gains in 2008-09, in addition to retaining the increased base budget funding from the prior years. At a rate of \$31 per point gain, the average performance-generated funding award was \$60,000 per district. Of the \$1.8 million, \$800,000 was granted on a one-time basis by the Ford Foundation and was not carried forward into college base budgets.
- In 2010-11 colleges will retain the state-funded awards from the prior years and receive an additional \$1.8 million for performance gains achieved in 2009-10, funded at \$40 per point gain. The Gates Foundation provided \$800,000 of this amount, which, as a one-time grant, will not be carried forward into college base budgets.

The SAI funding mechanism does not affect the formula by which the bulk of the system's budget is allocated to colleges. SAI funding is provided as a financial reward in addition to the amount each college receives through the system's basic funding mechanism. Once earned, however, the reward is a bonus to be added to the college's base budget. For now, the SAI funds constitute less than one percent of the system's total budget. The intent is to gradually increase reward amounts.

### **How the SAI Addresses the Limitations of Earlier Policies**

The measurement system devised for the SAI addresses one of the key concerns with traditional metrics by monitoring student *progression* through intermediate milestones on the way to program completion, in addition to tracking completions. The milestones were chosen on the basis of research into where students tend to struggle and drop out.<sup>9</sup> If students can be helped to reach these key

transition points, research suggests they will build momentum toward completion. A continuum of milestones was developed to span all mission areas of the colleges, with all students, both noncredit and credit, eligible to earn points as they progress. Through another design feature that aimed to improve upon traditional accountability for outcomes, the State Board gives colleges timely data on achievement points earned by students to help them identify areas of weakness and opportunities for improvement.

In an effort to increase support for the initiative from across the college system, the State Board convened a task force of college representatives to develop the SAI measurement system, informed by the research on progression milestones. The task force's decision to define performance measures around progression points has resonated with policy reform initiatives across the country that are seeking to improve college completion rates.<sup>10</sup> Some of the better known examples are the Complete College America initiative, which has developed metrics in concert with the National Governors Association; the Achieving the Dream initiative and its Developmental Education Initiative; and the Access to Success initiative of the Education Trust and National Association of System Heads. As activity around intermediate measures grows, the experience of Washington's SAI will be increasingly valuable in helping to establish connections between intermediate attainments and progression toward ultimate outcomes.

The design of the funding features of the SAI was also an attempt to rectify some weaknesses in previous performance funding models. By rewarding colleges with funding for helping students reach these intermediate points, rather than just for completion, a greater portion of college efforts are recognized. Concerns about creating disincentives for colleges to serve underprepared students are addressed in two ways. First, the point system emphasizes the progression of students in and through pre-college study, effectively according great value to colleges' work with underprepared students. Second, colleges earn points based on their own improvement over time rather than on any targets or comparisons with sister colleges. Thus, colleges that serve more disadvantaged students are not penalized for doing so. The underlying premise of the SAI is that the

reporting of data and the financial rewards for student achievement will motivate and guide colleges to undertake systemic changes in practice to improve student outcomes on a substantial scale. These systemic changes are what so many states are seeking today as they attempt to raise education levels. It is especially noteworthy that, unlike many state performance funding systems that were imposed from the outside, in this case the State Board took the lead in developing the SAI. The internal ownership and management of the initiative is, then, another way in which the SAI attempts to overcome the shortcomings of previous policies.

# Designing Community College Performance Incentives: Policy Challenges and Choices

The Washington community and technical colleges deserve great credit for introducing a performance incentive policy that seeks to address the limitations of earlier policies and that is focused centrally on improving student outcomes. The State Board identified student success as such an important priority for the future of Washington that it took the risky step of pioneering a new approach across an entire community college system. Beginning the design process with a set of principles developed by a task force with representation from across the system helped immensely in garnering initial buy-in and in easing some of the anxiety that necessarily accompanies policy innovation. Still, the process involved making hard choices about the design of the incentive system.

In this section we describe core policy issues that the Washington State two-year college system faced in designing the SAI, with a focus on its three primary components:

- Performance measures
- Performance funding
- Support for institutional change.

We discuss how decisions about these issues seem to be playing out early on in the implementation of the SAI in Washington State, and we present key choices for policymakers to consider in developing their own performance incentive systems to improve college performance while ensuring accountability.

## Designing a Valid and Useful Measurement System

The experience to date with the SAI in Washington suggests that a performance measurement framework based on intermediate measures of student progression is viewed by faculty and staff as more valid than traditional measurement systems and thus can help colleges to focus on student success. Most of what are considered leading states in addressing performance accountability have now

begun to incorporate measures of student progression. In deciding how to attach points to the progression measures, the SAI designers opted for simplicity and timeliness of reporting by using annual counts of total points earned by all students. This approach has raised some challenges for colleges in trying to use achievement point data to inform their efforts to improve programs and services on the ground.

### *Washington State's Approach*

Washington's effort to design performance measures for the SAI began from a strong foundation that used research from the State Board research staff and the Community College Research Center to help determine the key points where students get stuck and the achievements that provide momentum for further progress and completion. In our interviews with colleges, we heard widespread support for this research, which helped to lend credibility to the measures.

Grounding the performance measures in a set of design principles helped to avoid some of the pitfalls of other measurement systems. For example, the commitment to recognize student progression across mission areas confronted head-on one of the most common complaints about performance measurement—that it penalizes colleges that serve large numbers of educationally disadvantaged students. Similarly, the design principle to measure only those achievements that can be influenced by colleges sent a strong message that this internal effort would avoid the problems encountered by those measurement systems designed by outsiders who do not understand the challenges that colleges face. Among the most important design principles, which was indeed followed, is that the measures should be simple and understandable. Too many measurement systems have failed to deliver because they have tried to incorporate too many measures. It is especially impressive that a broadly representative task force was able to agree on a simple framework.

Our preliminary field research in Washington State indicates that, among those who are familiar with it, the achievement point framework is quite popular across the colleges. In part, this seems to be a result of its ability to provide a common vocabulary around a common goal—student progression. It is important to recognize that the SAI was not introduced in a vacuum. The colleges already had a range of student retention and strategic enrollment management initiatives underway, and they are finding the SAI achievement point framework helpful in giving cohesion to a number of sometimes fragmented existing initiatives. In this environment of heightened public accountability, some college leaders are finding the framework valuable for communicating with trustees, accreditation agencies, grantors, and others about their student success goals and their efforts to meet them. The framework also seems to have elevated the importance of adult basic skills and developmental education. By rewarding achievements in those areas, the initiative has signaled not only that these are important functions of the colleges but also that student success in those areas is vital to increased attainment of certificates and degrees.

### *Key Choices for Policymakers*

While the overall SAI achievement point framework has proved to be compelling to college leaders in and outside of Washington, three of the specific design decisions reflected in the framework raise some trade-offs that should be considered carefully by those thinking of adopting a performance measurement system.

#### *(1) Complexity in the measurement framework*

First, in seeking simplicity in the measures across the full spectrum of missions, the State Board chose to focus on a subset of achievement points among many points that could have been selected. There is always a trade-off between simplicity and comprehensiveness in constructing a performance measurement framework, and it is not surprising that arguments have been presented for more, or different, achievements to be counted. In our interviews with college personnel, numerous suggestions surfaced for “tweaking” the point system. Since funding is involved, it is not surprising that these concerns tend to reflect the program area and job duties of the person

expressing them. For example, some English faculty question why a point is generated for passing college math but not for passing college English, despite the fact that both are required for an associate degree. Similarly, some faculty in academic transfer programs question why no points are generated for a transfer, since many students transfer without earning an associate degree, generating no points despite the significant achievement. Many such suggestions were offered, indicating that people are potentially responsive to the incentives embedded in the point system and illustrating the trade-offs inherent in the State Board’s decision to design a simple measurement system. Had the Board developed a framework that included the additional measures suggested to us, we might have heard complaints that the system was too complicated.

#### *(2) Nature of attainment data to be reported*

Second, the achievement points are computed for each college based on the total achievements by all students over the course of one year (with quarterly reporting along the way). This cross-sectional reporting of achievements in a given time period is quite different from tracking student progress over time. For example, tracking student progress over time—often called “cohort tracking”—would allow reporting of how many students complete developmental education within one year, or how many complete college math within two years. The method chosen for the SAI more simply reports how many of a college’s students earn a particular achievement point in a given year, regardless of how long they have been enrolled. Collecting data on rates of progression of student cohorts over time is more complicated and would involve a lag time that the designers wanted to avoid. In addition, the SAI designers wanted a simple way to show incremental student gains made each year—information that is meaningful to policymakers but less useful to the colleges themselves as they work to identify timely student progression and to evaluate the impact of various interventions.

At the same time, the State Board has recognized that SAI data are most valuable when used in combination with local student-level transcript data. Staff are now working with institutional researchers at the colleges to understand how best to use SAI data together with local data to generate

information useful for improving programs and services. These efforts have the potential to promote sharing among colleges of effective practices—something that could not be done with SAI data alone. Colleges ultimately need to conduct cohort tracking to identify strategies for improving student progression and evaluating and further improving those efforts. For example, if a college implemented a new college-wide approach to intake and orientation, it could use local data to generate a new cohort that experienced that innovation and prior cohorts that had not experienced it. It could then use the SAI framework to compare outcomes across cohorts. That is, the rate at which the new cohort earned college readiness and first-year progression points could be compared to the rate for previous cohorts. The SAI measures are valuable when used as high-level indicators to see where, along pathways toward completion, students are most likely to drop out, and to set priorities accordingly. Student-level cohort data can then take the analysis to a deeper level as the progress of subgroups of students can be analyzed with respect to existing or new policies and interventions.

### (3) *Defining college performance*

Third, again in the interest of keeping things simple, the Board chose *gains in total points* as the common denominator to use in distributing performance bonuses. In effect, this becomes the “bottom line” definition of performance. However, a measure based on total points is highly correlated with college size (i.e., enrollment). A college may achieve point gains by recruiting more students or otherwise experiencing an enrollment increase, while taking no particular actions to help students make better progress. Indeed, a college could generate a point gain even if, on average, students earned fewer points than in the prior year, if the enrollment gain were large enough to outweigh the loss in average points per student. Our analysis of the points generated by colleges during the initial period for which the first performance funding was awarded under the SAI (2006-07 through 2008-09) found that about one-fifth of the gain in points was attributable to enrollment increases and about four-fifths to gains in points per student.

We believe that if a measurement system is to encourage greater student progress (and overall system productivity), it helps to use a measure that

*gauges outcomes with respect to inputs.* This could be some version of points per student or points per dollar of expenditure. We favor the former because it would inspire needed focus on student progress. Tracking absolute points may be consistent with state and national goals to increase the volume of college degrees, but in a period in which colleges will be compelled to increase the number of graduates with fixed or declining resources, tracking points per student or points per dollar may make more sense.

## Designing an Effective Performance Funding System

Performance funding is a complex topic with interconnected technical and political factors involved. The past history of performance funding has been a checkered one at best, with most state policies proving unsustainable.<sup>11</sup> It is fair to describe performance funding as an unsettled paradigm with a lack of consensus on effective design principles.

We noted earlier that Washington’s SAI has addressed some of the serious limitations of early generations of performance funding by developing a definition of performance that encompasses all mission areas and avoids penalizing colleges that serve underprepared students. But far less settled is the question of how to reward performance financially, once performance is defined. We find it helpful to distinguish among three features of any funding system that attempts to create fiscal incentives for performance, that is, three choices that policymakers face:

- (1) *The amount of performance funds:* What portion of the total institutional budget is distributed on the basis of performance?
- (2) *The source of performance funds:* Are the performance dollars *new* appropriations or are they reallocated from institutional base budgets, or some combination?
- (3) *The mechanism for allocating performance funds:* Is performance factored into the basic funding formula (regardless of funding level and source) or are performance funds allocated as a bonus on top of regular funding?

We have observed that the second and third choices are often conflated in discussions about the design of performance funding. It is often assumed that if

new funds are identified to support performance they somehow need to be set aside and used to reward performance after base institutional funds are distributed on the basis of enrollment. But new funds could be added to the base with the augmented total distributed by means of a formula that rewards enrollment and performance in some combination. Conversely, a percentage of the base budget could be set aside to be used as bonus funds to reward performance without changing the basic enrollment-driven funding model for the balance of each institution's budget. The point is that there are choices to be made on all three dimensions of performance funding design.

### *Washington State's Approach*

In designing the funding mechanism, the State Board and the SAI task force drew upon expert opinion about performance funding and made a set of considered choices. Based on this advice, the State Board and the task force designed a performance funding approach that (1) at least initially devotes less than one percent of the system budget to performance with no clear plans to phase in increases; (2) relies, in principle, on new funding alone, and (3) leaves the base funding formula unchanged while allocating SAI performance dollars as bonuses. To mitigate opposition to the new policy, Washington started small. The "learning year," in which colleges were given non-competitive funding to lay the groundwork locally, and the small budgetary stakes thereafter have reduced resistance up to this point. The State Board has also stressed that performance funding is for purposes of internal improvement and not for punishment or inappropriate comparisons.

### *Key Choices for Policymakers*

Washington State has so far gone through two cycles of SAI performance funding. Based on this experience, and in light of a dramatically changed fiscal situation in Washington and most other states, we can examine in hindsight crucial issues that flow from initial design decisions.

#### *(1) The amount of performance funds*

Definitive evidence on how much performance funding it takes to stimulate systemic change is lacking (because most past attempts have dedicated

only small amounts to performance). However, the consensus among the college leaders we interviewed in Washington is that the amount allocated so far through the SAI—less than one percent of the budget—is insufficient to inspire the kinds of fundamental systemic changes the State Board is seeking. To date, colleges seem to have spent the modest funding they received from the SAI on relatively small-scale, isolated activities. Some states that have borrowed heavily from the design of the SAI measurement framework have, in fact, chosen different approaches to funding.<sup>12</sup> In contrast to Washington, Ohio has set 20% as the budget target for full implementation of its community college performance funding policy, which is based in part on the Washington achievement point model, and other states have similarly set their sights on a significant portion of budgets dedicated to funding performance. Still, regardless of the portion decided on, we believe that it is prudent to phase in performance funding gradually so that colleges have time to learn from the data and implement better practices. A slow, staged implementation toward a significant level of funding supports the goal of continuous improvement. While policymakers may push for quicker implementation for public accountability purposes, such approaches are understandably viewed as punitive and counterproductive from inside the academy.

#### *(2) The source of performance funds*

In Washington, the State Board was advised by outside experts at the outset that using new funds is more *effective* in creating fiscal incentives to increase student success. Certainly new funds are more politically popular, as no college would choose to lose base funds over earning new funds. But whether new funds are more effective than reallocated funds in changing behavior is an unresolved empirical question. Regardless, the design principle to rely on new funds became impossible to follow as the budget situation deteriorated in Washington State. As the community college system budget was being reduced significantly over the last two years, the SAI was funded increasingly through base reallocation. The popularity of the SAI with the governor and the legislature very likely inoculated the system against even larger budget cuts, as lawmakers agreed to preserve some funding that

might otherwise have been cut as long as it was used for performance. Yet the college leaders we interviewed did not seem to have considered the political capital that the SAI may have bought them; instead they focused on what they perceive as a renegeing on the promise not to take away funds to support the SAI. One lesson emerging from this difficult situation may be that more research is needed to examine the impact of new base budget incentives on institutional behaviors. What is clear, however, given the fiscal realities facing public postsecondary education, is that states implementing new performance funding programs over the foreseeable future should not structure them around new funding if they have any intention of devoting a significant amount of funds to performance.

### *(3) The mechanism for allocating performance funds*

As with the prior choice of new versus reallocated funds, this choice necessarily confronts a powerful institutional point of view that colleges are already underfunded for basic enrollment and operations. According to this view, major new initiatives should be accompanied by specially designated funds. Colleges see increasing numbers of what they call “unfunded enrollments” and believe they can justify base budget increases on those grounds alone. If they are to be expected to make fundamental performance gains, they expect special funding designated for that purpose. This attitude has become pervasive across American higher education as lawmakers repeatedly add categorical programs or other budget line items to accomplish policy objectives.

The bonus mechanism adopted by the State Board in Washington reflects this perspective by leaving the base budget allocation methodology unchanged and creating a pool of additional bonus funding. Yet even in the best of budgetary times, this arrangement could be seen as carrying the message that colleges are funded to operate, irrespective of performance levels, and are expected to improve their performance only to the extent that special funding becomes and remains available. In the worst of budgetary times, as have hit Washington and other states, the bonus mechanism becomes very difficult to explain. We believe that it is not credible to tell colleges they are getting a bonus for performance when, from their perspective, they

have had their budgets cut by far more than the amount of the bonus. Several college leaders we interviewed were upset by what they see as the “raw deal” of having to earn back even just a portion of the funds they have lost. Although not materially different in terms of total resources, it seems that a more credible message would be that today’s fiscal realities require the state to invest its scarce resources in success. That, in turn, would require a phased-in change to the way colleges are funded—moving away from straight enrollment funding toward funding colleges in part for their ongoing work to help students make progress and complete their education. Colleges might still complain about having to earn back their lost funds, but the reason for having to do so would be clear: they are living in a new fiscal reality in which taxpayers invest in performance.

The most important lesson from the performance funding aspect of the SAI implementation to date is that communication is critical. Ways must be found to simplify explanations of what is by nature a very complex undertaking. Despite the vigorous communication efforts of the State Board staff, we were told at every campus we studied that most faculty and staff, including high-level administrators, have no familiarity with the complexities inherent in performance funding, including the design choices noted above and the means available for defining “performance” to avoid perverse incentives, such as discouraging enrollment of underprepared students. States will be well served by engaging college leaders in ongoing discussions about the goals, choices, and strategies attendant to performance funding in their states. Protecting funding levels in Washington and elsewhere may increasingly require college systems to incorporate performance incentives into their base funding formulas. As state policymakers work to invest state funds most productively to increase college attainment and improve economic competitiveness, current methods of funding colleges may no longer be politically and economically sustainable. Common ground among policymakers and colleges might be found in the claim that performance funding can enhance total funding which, in turn, allows college faculty and staff to focus more intently on student success.



## Fostering Conditions for Institutional Change

We have already described what will be required for the data to become more useful for identifying effective practices and for the funding incentives to be more likely to motivate systemic change. Research and reform around the country have shown that data and incentives alone may not be sufficient, however. Colleges can collect and report data as a compliance activity without learning anything or doing anything as a result.<sup>13</sup> New fiscal incentives often fail to penetrate the collective consciousness of institutions, and even if they do, they can lead to gaming or other accounting devices that only give the appearance of improvement toward the intended outcomes.<sup>14</sup> Here we consider the conditions that promote systemic change and how states can foster them.

### *Washington State's Approach*

The State Board's strategy for achieving institutional change has primarily involved gaining internal buy-in and engaging in extensive educational sessions about the SAI across the system, particularly during the early stages of planning and implementation. Acting on the knowledge that performance reporting and performance funding policies imposed from the outside have not worked well and have not gained buy-in from the institutions they affect, the State Board formed a task force with broad representation from across the system to develop the SAI. College presidents were a critical part of the task force, as on-the-ground leadership is vital to instilling a culture supportive of continuous improvement. That has been an invaluable factor in the sustainability of the SAI to this point. Also valuable was the learning year that helped colleges understand the new initiative in a low-stakes environment. Throughout that year the State Board engaged in a major communication effort, with extensive site visits and televised sessions broadcast to various segments of the college communities. In the subsequent years, because of resource constraints and the need to address other priorities, the Board reduced the scope of its communication efforts but attempted to keep the colleges informed through the system's presidents' council and through its work with the various statewide professional councils that have representatives from every college. Board staff also worked extensively with college institutional researchers to address identified problems with the

data, knowing that the validity of the data is a precondition for the success of the initiative. Recently, the State Board began to work with the colleges to provide much more hands-on technical assistance on using data for improvement. There is a good infrastructure in place across the system that allows the Board to do this on a system-wide basis. Working with the various professional councils (e.g., basic skills, workforce, and academic transfer) and including college institutional researchers in these meetings, the Board can greatly improve the prospects for data-informed improvement across the system.

### *Key Choices for Policymakers*

Achieving a change in institutional culture in any organization is difficult, and doing so demands a great deal from institutional leaders. But in higher education, with shared governance and shared leadership, the change process is especially challenging.

#### *(1) Buy-in and engagement*

From our interviews we identified presidents and institutional researchers as key players influencing a college's response to the SAI—the former for obvious reasons and the latter because researchers' attitudes about the validity and usefulness of data can promote or impede willingness to use the data as a basis for decision-making. For their part, presidents face some strategic choices. For example, do they frame the SAI as a discrete initiative and work with faculty leaders and others to implement it? Or does that risk a backlash of "just another thing we have to add to our list when we're already over-worked"? Is it more effective to frame the initiative as a way to bring together existing college initiatives and establish a common vocabulary around them? Presidents also face a choice about how quickly and thoroughly to engage the campus—particularly the faculty—around the SAI. Given a history of faculty opposition to performance funding and a history of many short-lived reforms, is it best to take a more muted approach at the outset, perhaps until it is abundantly clear to faculty that the initiative is not going away?

Another important choice to be made by presidents involves strategies for using the performance funds

earned by their colleges. In Washington, some presidents have used the funds to support small-scale efforts aimed at improving student success, such as a new orientation program for special populations or additional advising staff. Other presidents have so far chosen to fold SAI funding into the overall college budget. The former investments, while garnering support among the direct recipients, were too small to have a systemic impact while the latter approach limited awareness of the funds that are intended to spur new institutional behaviors.

Research on practices associated with organizational improvement in and outside of higher education suggests that deep engagement of faculty and staff with student data is another precondition of fundamental change in institutional policies and practices.<sup>15</sup> Achieving this kind of engagement requires political and technical strategies. Politically, it is important to get influential faculty on board as spokespersons for the value of these kinds of data. It also requires a substantial commitment of faculty and staff time, including the time of institutional researchers.

## *(2) Technical assistance*

Washington's experience suggests that technical assistance to colleges is both critical and time-consuming. Moreover, providing technical assistance to colleges on using data to continuously improve programs and services is a new role for many state higher education agencies. At the very least, state agencies should provide forums where faculty and staff can get together from across colleges and discuss key problems with student progression and share promising solutions, backed up with evidence. In Washington, the State Board has partnered effectively with the various statewide councils of college personnel, in a number of cases bringing different councils together to share promising practices. Many other states have similar statewide organizations and could seek to work with them strategically as the Washington State Board has done.

In a period in which community colleges, not richly funded to begin with, are facing draconian budget cuts even as enrollments increase, any discussion of changing the measures and means by which colleges are funded is going to be politically

sensitive. Faculty and staff are likely to argue that such changes should wait until college budgets return to more normal levels. Yet it is precisely because the current climate has likely become the "new normal" that states such as Washington are charting new ground in seeking to use scarce resources in ways that provide incentives for colleges to improve outcomes. Communication is essential in this uncertain and challenging environment. Fear and resistance are natural urges, and a lack of information increases these tendencies. State agencies must explain clearly the goals and strategies of performance incentive reforms to college leaders who, in turn, need to communicate these issues across their campuses. Systemic change is unlikely to take hold unless the majority of stakeholders understand the political and economic realities that are shaping strategies around performance reporting and funding.

## Next Steps in the National Conversation

The Student Achievement Initiative is a vitally important effort from which there is, and will continue to be, much to learn. The Washington State Community and Technical College System deserves accolades for its willingness to innovate to such an extent. The stature of community colleges and the rates of student success across the country would likely be higher if all state community college systems shared the spirit, commitment, and tenacity of the Washington system.

Evaluation of the SAI continues through 2012. Even as Washington considers refinements to its own model, the national conversation around intermediate measures, performance funding, and institutional change can benefit from Washington's experience to date in implementing the SAI. In

addition to considering the policy challenges and choices we presented above, we hope that those involved in similar efforts will put some thought into additional questions to further advance collective knowledge about these issues (see box, "Performance Incentive Policies: Further Questions for Consideration").

National efforts to increase college completion and use resources more productively stand to be enriched by the Washington experience. Through its integrated application of new approaches to data and funding, the Student Achievement Initiative is raising important questions, yielding some useful answers, giving states a model to adapt to their own circumstances, and generally providing hope for better student outcomes in the nation's precious community college sector.

### Performance Incentive Policies: Further Questions for Consideration

#### *Questions About Performance Measurement Systems:*

- How can annual count data on student achievement, such as data from the SAI achievement point system, be used most effectively in combination with student longitudinal cohort data as a basis for identifying problems and improving practices?
- Given the value of cohort data but the delays attendant to tracking progress over time, how can colleges get timely feedback on the impact of their actions to help students?
- Does public accountability for intermediate student achievements, short of completion, help or hurt community college efforts to convey their value to external stakeholders (general public, business, trustees, etc.) who may place more value on the award of credentials?

#### *Questions About Performance Funding Systems:*

- What kinds of messaging and communication strategies can increase understanding across colleges and among

policymakers about the purposes of performance funding and the design choices involved?

- How can performance funding systems best provide incentives for colleges to serve underprepared students?
- How does a college's attitude toward performance funding change with experience over time, and how does it vary with respect to its relative performance?

#### *Questions About Promoting Systemic Institutional Change:*

- What campus practices seem most conducive to fostering widespread engagement in data for purposes of learning how to improve student outcomes?
- What good models exist for integrating performance data into a college's strategic planning and institutional improvement processes?
- How can colleges best innovate at scale in order to have the best chance of achieving systemic change?

## Endnotes

1. See Dougherty, Natow, Hare, & Vega (2010); Wellman (2002); and Zumeta (2001).
2. Offenstein & Shulock (2009).
3. See Burke & Associates (2005) and Dougherty & Reid (2007).
4. See Burke & Associates (2005) and Dougherty et al. (2010).
5. Burke & Associates (2002).
6. Dougherty & Hong (2006).
7. Dougherty & Natow (2009).
8. Washington State Board for Community and Technical Colleges (2007).
9. Leinbach & Jenkins (2008).
10. Offenstein & Shulock (2010).
11. See Burke & Associates (2005) and Dougherty & Hong (2006).
12. See, for example, Tennessee Higher Education Commission (2010), Ohio Board of Regents (2010), and Indiana Commission for Higher Education (n.d.).
13. A national survey of community college institutional research practices found that top administrators generally do not use data on student outcomes for decision making. This is the case even in some colleges that have well-staffed research departments and strong information systems. See Morest & Jenkins (2007).
14. See Burke & Associates (2005) and Dougherty & Hong (2006).
15. For a review of research on ways community colleges can improve organizational performance, see Jenkins (2011).

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