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## The Political Origins of Higher Education Performance Funding in Six States

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Performance funding is a method of funding public institutions based not on inputs such as enrollments but on outcomes such as retention, degree completion, and job placement. While there has been great interest in performance funding for over 30 years, only half of all states have ever created a performance funding system for higher education. Given state interest in performance funding, why are such systems not more widespread? To answer this, it is necessary to look at what forces have driven the development of performance funding and how those forces differ across states.

This Brief summarizes a study that examined the origins of state performance funding in six states: Tennessee, Missouri, Florida, South Carolina, Washington, and Illinois. In order to capture a wide range of possible forces at work in the origins of performance funding, we selected states that differed in a variety of ways, including when performance funding was established, how long the system was in place, which sectors of public higher education were affected, the proportion of state higher education funding taken up by performance funding, higher education governance structures, state political culture and government functioning, degree of party competition, and differences in social characteristics such as population, income, and education. The research was based on semi-structured interviews in each state with a variety of political actors and on examinations of the documentary record in the form of public agency reports, academic books and articles, doctoral dissertations, and newspaper articles.

Our analysis drew on two powerful theories of policy origins: the Advocacy Coalition Framework (Sabatier & Weible, 2007) and the Policy Entrepreneurship perspective (Mintrom & Norman, 2009). The Advocacy Coalition Framework looks at how policy evolves over long periods of time, driven by the efforts of different “advocacy coalitions” that have distinctive sets of beliefs about how society is and should be organized and what form higher education policy should take. The Policy Entrepreneurship perspective highlights the role of policy entrepreneurs who identify public issues, develop policy solutions, bring together political coalitions, and take advantage of timing and political opportunities to promote their policy issues and solutions. Used in conjunction, these two theories help

identify important features of the politics of performance funding that are not sufficiently addressed by the prevailing literature on the origins of performance funding.

We find that while the prevailing perspective on the rise of performance accountability is correct on a number of points, it overlooks several important elements. Our analysis confirms that the following circumstances favor the establishment of a performance funding system: a revenue/cost squeeze on elected government officials, business demand for greater government efficiency and lower costs, and a rising Republican presence in state legislatures. However, we identify a variety of actors, and their beliefs and motives, that the prevailing perspective does not address, such as advocates of performance funding from within higher education itself and their desire for new sources of public funding. We also draw greater attention to the opponents of performance funding and the long-term effects of such opposition. Finally, our research calls attention to the influence of policy learning and “policy windows” or “external shocks.”

In this Brief, we first provide an abbreviated background on the origins of performance funding for each of the six states (see full report for more details). We then examine the supporters and opponents of performance funding, their beliefs and interests, how performance funding came to be identified as a policy option, and the political openings that allowed advocates to place it on the government decision agenda. We conclude by drawing lessons for policymakers.

### Background

#### Tennessee

Tennessee’s performance funding system began as a pilot program in 1974. The Tennessee Higher Education Commission then adopted performance funding for the state’s public two- and four-year higher education institutions in 1979. Funds were first allocated to institutions using performance funding in fiscal year 1980–81. Under that system, higher education institutions could earn up to 2% of their annual state appropriations for achieving certain goals based on five performance indicators. These indicators have changed over the years, and the percentage of funding that institutions could earn based on performance has increased from 2% to 5.45%.

#### Missouri

Missouri created a performance funding system in 1993 with a \$3 million appropriation to be applied to the performance of public four-year colleges. Funding peaked in fiscal year 1999 at \$11 million for the four-year colleges and \$2.3 million for the two-year colleges, accounting for 1.6% of state public higher education funding. However, the program failed to receive state funding after fiscal year 2002 and disappeared.

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## Florida

Florida has adopted two performance funding systems for higher education. Performance-Based Budgeting (PB2) was enacted in 1994 for community colleges and remains in effect. This program created a specific pot of money that would be allocated by formula to community colleges based on specific performance indicators. The Workforce Development Education Fund (WDEF) applied to both the community colleges and the area vocational centers operated by the K-12 districts. WDEF operated between 1997–1998 and 2000–2001 and then lapsed. The program held back 15% of an institution's state appropriation from the previous year for vocational and technical education. Institutions could then win this money back based on performance. At its peak in fiscal year 2001, performance funding accounted for 6.6% of state funding for community colleges.

## South Carolina

South Carolina passed Act 359 in 1996, which mandated that the state's Commission on Higher Education (CHE) distribute *all* state dollars to the state's research universities, teaching institutions, two-year regional campuses, and technical colleges based on their performance on nine success factors. Each institution was required to submit performance data to the CHE, which would then decide how to measure performance and draw up the funding formula accordingly. Act 359 mandated that after fiscal year 2000, 100% of each school's state funding be tied to these measures. As a result, South Carolina became the first state to legislate that 100% of state appropriations for public higher education be based on institutional performance. However, performance funding accounted for only 38% of state higher funding at its peak in fiscal year 1999, and the performance funding system ended in 2003.

## Illinois

In 1998, the Illinois Community College Board approved the formation of the Performance-Based Incentive System (PBIS) for the state's community college system, and the General Assembly voted to begin the program in fiscal year 1999. Funding allocations for PBIS were \$1 million in fiscal year 1999, \$1.5 million in fiscal year 2000, and \$1.9 million in fiscal year 2001 (0.4% of state funding for community colleges). The program ended in 2002 amid the state's dire fiscal crisis.

## Washington

Washington enacted a performance funding system in 1997 for its public universities and community colleges. During the first year, institutions developed implementation plans for achieving improvement on specified performance indicators. The following year, a small percentage of institutions' state appropriations was held back (1.2% of state funding for public higher education), and colleges and universities were required to meet or exceed certain levels on those performance indicators in order to receive full appropriations. This program was discontinued in 1999.

In 2007, the State Board for Community and Technical Colleges established the Student Achievement Initiative for Washington's two-year colleges. Unlike the 1997–1999 performance funding proviso, the State Board's new performance funding system was designed not to withhold

any money but instead to reward technical and community colleges with a small amount of new money when their students reach certain outcome thresholds. The 2008 fiscal year was a "learning year," during which community and technical colleges could examine their performance on these measures and develop plans to improve. During the 2009 fiscal year, institutions began to be rewarded for their performance on the measures (Jenkins, Ellwein, & Boswell, 2009).

## Findings

### Supporters

In all six states, the main proponents of performance funding were state officials. In Florida, South Carolina, and Washington (in 1997), state legislators, particularly Republicans, played the leading role. Meanwhile, state higher education board officials played the leading role in Illinois, Missouri, Tennessee, and Washington (in 2007). Governors were openly supportive in four states (Florida, Missouri, South Carolina, and Washington) but played a significant role in only Florida and Missouri.

These leading state officials were joined in supporting performance funding by local college officials (particularly from community colleges) and business. Officials of individual public colleges were openly supportive of performance funding in Florida, Illinois, Tennessee, and Washington (in 2007). In fact, in all four states, college and university officials were directly involved in designing the performance funding system.

Meanwhile, business supported performance funding in a direct and organized fashion in South Carolina, Washington, and Florida. In South Carolina, a group of business leaders pushed hard for performance funding for higher education, working closely with legislative activists to secure and then design the performance funding system. In Washington, business openly favored performance funding. In Florida, although business did not endorse performance funding specifically, it strongly endorsed the 1994 Government Performance and Accountability Act that gave rise to performance funding.

Florida had the broadest advocacy coalition, comprising the governor, legislators, state higher education board officials, business, and community college presidents. Narrower coalitions were present in Missouri, South Carolina, and Washington in 1997 and were comprised of legislators, the governor (weakly), and either the state coordinating board or business. The narrowest coalitions were present in Illinois, Tennessee, and Washington in 2007, comprising a state higher education board and the heads of individual colleges (particularly community colleges).

Popular pressure was not a factor. Popular concern about rapidly rising tuitions and insufficient room at public colleges and universities may have played a role in putting the issue of higher education effectiveness, efficiency, and accountability on the legislative agenda in Washington, but we have no evidence that it played such a role in the other states. Even in Washington, popular pressure did not focus at all on performance funding as a specific solution to this concern about effectiveness, efficiency, and accountability.

### Supporters' Beliefs and Motives

Legislators, governors, and business united around the importance of increasing the efficiency of government and higher education and a belief that market-oriented methods

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such as performance funding would make government agencies operate more efficiently. This belief can be clearly seen in Florida, Missouri, South Carolina, and Washington.

For state and local higher education officials in all the states except South Carolina, the driving belief was in the importance of finding new means of securing additional funds for higher education institutions in a time of fiscal stringency. Performance funding particularly recommended itself as a means of securing new funds because it couched requests for new funding in terms that resonated with current concerns about limited government revenues and the utility of market-like forces in government.

There was also more scattered belief in the importance of increasing the quality of higher education, increasing the accountability of higher education, meeting the workforce needs of business, and preventing performance funding from being imposed on higher education institutions without their participation and input.

### **Opponents**

In Florida, Missouri, South Carolina, and Washington, there was discernible opposition to performance funding from public institutions, particularly the state universities. However, this opposition was not mobilized, except to a degree in Florida and Washington. Opposition was primarily expressed by lack of enthusiasm and foot-dragging rather than by any sharp attack on performance funding or on the issue of higher education accountability.

### **Opponents' Beliefs and Motives**

There were three central beliefs that drove opposition to performance funding. The first belief was evident in Florida, Missouri, and South Carolina, where institutions expressed a fear that performance funding would provide state officials with an excuse to cut back on regular state funding of higher education. The second belief, present in Missouri and Washington, was that performance funding intruded on the autonomy of higher education institutions. Institutions felt that they knew how best to run themselves and resented performance indicators that impacted course offerings and pedagogy. Finally, higher education institutions in Missouri and Washington criticized their respective performance funding programs for failing to tailor performance indicators to differing institutional missions. These institutions felt that the program indicators did not sufficiently distinguish between research universities, other state four-year institutions, and community colleges.

### **Sources of Ideas**

It is not always easy to determine the sources of the ideas for performance funding in a given state. Jenkins-Smith and Sabatier (1993) have argued that a potent impetus for policy change is when an advocacy coalition encounters new data that questions its policy core or secondary beliefs about the severity of a public problem and the best ways to address it. We found evidence of such policy learning in three states. Florida and South Carolina experimented with performance accountability policies for a long time before shifting to performance funding. They made the shift as they perceived that less intrusive forms of performance accountability, such as performance reporting and incentive funding, were limited in their effectiveness. Meanwhile, in Washington in 2007, advocates of performance funding were influenced by the state's prior experience with performance funding.

In addition, the experiences of other states and advice from outside organizations and experts can play an important role in the development of performance funding (McLendon, Heller, & Young, 2005). Observers in Florida, Illinois, and South Carolina noted how performance funding activists in these states were influenced by the examples and experiences of other states, particularly Tennessee (as the first state) and South Carolina (as the most radical state). Regional and national policy organizations played a role as well.

Interviewees in Florida and South Carolina mentioned that activists were influenced—either through personal contact or exposure to relevant publications—by organizations, such as the Southern Regional Education Board and the National Conference of State Legislatures, that had discussed or even recommended performance funding. Finally, outside experts, such as consultants, functioned as sources of ideas in all six states. Fairly frequently these experts were consultants associated with the National Center for Higher Education Management Systems.

### **Political Openings and Occasions for Action**

Relatively transitory political events played an important role in these six states by providing openings for advocates of performance funding to advance their ideas. As Kingdon (1995) and Sabatier and Weible (2007) point out, “policy windows” or “external shocks” provide an opportunity for policy proposals to get a hearing that they may not have otherwise had. The most important political opening—present in all but Tennessee—was a change in party control of either the legislature or the governorship. Particularly important was Republican capture of a new house of the legislature. This greatly increased the number and power of legislators who were predisposed to favor market-like incentives as a way of securing desirable government outcomes. This central role of Republican state legislators fits with the finding by McLendon, Hearn, and Deaton (2006, p. 11) that the probability of a state adopting performance funding legislation is significantly associated with a higher percentage of Republican legislators.

Another important political opening was a growing antitax mood among both the electorate and politically influential interest groups. This provided an opening to promote performance funding in the name of securing both greater efficiencies from higher education and new higher education funding that was not based on rising enrollments.

Finally, in two states, the advent of performance accountability in a related policy subsystem also created a political opening for advancing the idea of performance funding. In Tennessee and Washington (in 2007), increasing state interest in performance accountability for K-12 schooling led higher education officials to develop a performance funding plan of their own, rather than risk having one be imposed that they did not find palatable. Similarly, in Illinois, the advent of the radical South Carolina plan led Illinois community college officials to move proactively to develop a form of performance planning that was less radical.

### **The Weakness of Egalitarian Concerns**

One of the surprising features of the discourse on performance funding in the six states is how little concern has been expressed about the possible impacts of performance funding on equality of higher education opportunity. We saw little discussion about how performance funding might enhance (or damage) access to and success in higher education for underserved populations, such as

low-income students, students of color, or older students. Performance accountability systems can enhance the prospects of such students by making access to and success in college for disadvantaged students important performance indicators. Conversely, performance funding can damage the prospects of these students to the degree that it rewards higher course completion and graduation rates but does not deter boosting both rates by becoming more selective in admissions (Dougherty, Hare, & Natow, 2009; Dougherty & Hong, 2006). Performance funding is too important a policy instrument not to be subject to careful analysis and discussion of how to maximize its positive impacts on equality of higher education opportunity (Dougherty, Hare, & Natow, 2009).

## Lessons for Policymaking

For those interested in performance funding as a policy, our findings carry a number of implications. First, the state universities rarely supported performance funding. Their opposition prevented the application of performance funding to the state universities in Florida and played a key role in its later demise in Missouri and South Carolina. To secure their support, policymakers would need to address their fears that performance funding is an excuse to contain regular state funding for higher education, undercuts the autonomy of higher education institutions, and insufficiently recognizes different institutional missions. Our research suggests that extended consultation with higher education institutions to address their concerns would prove useful.

Second, community colleges were more supportive of performance funding than were the state universities. They provided key support for performance funding in Florida, Illinois, and Washington (in 2007). However, the main reason behind community college support for performance funding was the need to secure additional state funds, as enrollment-based financing was becoming insufficient in these states. This emphasis on new sources of revenue makes performance funding vulnerable to economic downturns. In such situations, higher education institutions prefer to eliminate performance funding in order to prevent deeper cuts in their base appropriations (Dougherty & Natow, 2009; Dougherty, Natow, & Vega, in press). To retain community college support, performance funding advocates would need to justify it as more than just a source of new revenues and, in any case, find ways to insulate performance funding from the ups and downs of the state revenue cycle.

Finally, it is noteworthy that the supporters of performance funding in these six states did not include groups that principally view higher education as a means to serve social equality. Missing from the supporters of performance funding were minority groups and other equality-oriented groups. Addressing such groups and their concerns would not only broaden the political support for performance funding but also make it more likely to promote not just greater government efficiency and service to the economy but greater social equality as well.

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