

# AFT MICHIGAN POLICY BRIEF

## PERFORMANCE-BASED FUNDING AND MICHIGAN UNIVERSITIES

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### Measuring Student Success

Policymakers across the country are asking if enough students who enroll in college earn a degree or certificate. Many answer that the United States could be doing a better job in this area, particularly in certain fields of study. These findings have led many policymakers and legislators to seek policies and funding formulas that will lead to better completion rates in higher education. For state legislators, including many in Michigan, this has resulted in a renewed interest in performance-based funding (PBF). The underlying concept is that basing funding on specific benchmarks will enhance accountability and performance.

While we share the goal of seeing more students succeed in higher education and understand the desire to find a policy lever that would lead to such an outcome, we have serious concerns about the use of PBF to achieve that end. **While PBF sounds attractive in the abstract, many states have experienced negative unintended consequences in their experiments with the strategy.**

Most importantly, Michigan has been falling behind in its responsibility to provide basic funding for our universities for years, and this basic need must be fulfilled before any experiments with performance-based funding. In general, we recommend that funding for our state's colleges and universities should respect the different missions and roles of each institution, the different goals of individual students, be driven by data, avoid past mistakes with PBF, and ensure our decisions are best for our students, our state economy and our institutions.

### Funding Michigan Public Higher Education

There is bi-partisan recognition of the importance of higher education to Michigan's renewal, as well as an understanding of the value of a university education. Our first and primary concern is that a call for performance-based funding assumes our colleges and universities in Michigan are adequately funded and already have the capacity to address the enrollment demands and programmatic challenges they face.

Unfortunately, our state has been cutting state appropriations for higher education for the past decade, even as enrollment has continued to increase. Michigan ranked close to the national average, with an 8.2% increase in enrollment between 2004 and 2009. However, during that same time period, Michigan universities suffered the sixth greatest drop in educational appropriations per full time equivalent student among the 50 states, a decline of 13%. Concomitantly, Michigan saw the seventh highest increase in net tuition as a

proportion of higher education revenue during that same time period.

The 2011-12 state budget slashed higher education funding by another 15%, making state appropriations per student 33.4% lower than they were in fiscal year 2000-2001 (in absolute dollars). **On an inflation adjusted basis, state dollars per student are 48.6% lower than just a dozen years ago.**

The drastic reversal of the state's obligation towards funding higher education has meant that universities have had to either reduce programs or raise tuition significantly. The former undercuts the excellence of our universities. The latter reduces access for many unless they are willing to assume heavy student debts.

### Performance-Based Funding as a Policy Alternative

Michigan's universities believe in accountability and are constantly striving to enhance their outstanding quality, productivity, efficiency, affordability and access. Our universities have long benchmarked themselves against similar universities according to a series of factors. We support policies that will further allow our universities to continue to improve but are concerned that what is usually called performance-based funding is not the right policy to achieve that end, particularly because our base funding levels have fallen below that of most states.

#### 1) Many other states have tried and discarded Performance-Based Funding

According to the American Association of State Colleges and Universities, "between 1979 and 2007, 26 states enacted performance funding, while 14 abandoned their program (two states, however, reestablished programs)." Most PBF policies were enacted when state finances were healthy and money that flowed through PBF formulas was considered to be an "add-on" to already existing funding. As state revenue declined, PBF funds were often eliminated.

#### 2) It is difficult to adequately define success across institutional types

Performance-based funding has historically employed rather narrow definitions of student success based on completion and degree attainment. Many are based on a national graduation rate formula that has been widely criticized for inadequately measuring degree attainment. We would do a disservice to our students and universities by implementing a formula that fails to consider the diverse needs and goals of students, the broad missions of each institution, or the differences between them.

### 3) “One size fits all” formulas can lead to negative consequences for students

The value of Michigan’s system of higher education is based on the variety of our institutions. Each has a special mission, purpose and unique student body. To believe that one set of metrics fits all undermines the core value of our state university system and could lead institutions to pursue harmful policies, with particular consequences for students from disadvantaged backgrounds.

- a) *Diminished access and opportunity:* PBF has the potential to lead institutions toward several undesirable responses, particularly when implemented as a one-size-fits-all strategy. For instance, an institution may narrow access by raising the bar for admittance; not for the benefit of students and the state, but to increase the likelihood of student completion.
- b) *Increased burdens on disadvantaged students:* Economic circumstances directly impact common measures like time to completion. For instance, most of our students are now working substantial hours during the semester—the days when students could cover a year’s tuition with a summer job at the auto plant are long gone. Raising the stakes on measures like time to completion has the potential to further limit access beyond what state funding cuts have already done (other states have struggled to find formulas to avoid such undesirable impacts).
- c) *Lowered standards and grade inflation:* Another unintended consequence can be lowered standards for graduation and grade inflation. If funding is contingent on completion rates, it is easy to see how an institution might be pushed to make programmatic changes and/or lower standards for courses or prerequisites to create an easier path for students. While employers and other stakeholders care about time to degree, quality education is by far their top priority. In this instance, PBF would have the exact opposite impact it seeks to promote.
- d) *Narrowing of the curriculum and reducing student choices:* Finally, PBF may result in limited program and course offerings, making these institutions less attractive to students and less valuable as a driver of economic development. Businesses routinely look to our universities for innovation to support new businesses and industry and to spark entrepreneurial behavior. That requires a level of risk taking on the part of our institutions. Performance funding may discourage such risk-taking in favor of programs that students are more likely to complete regardless of whether they are the best programs for students or our state’s economic development.

## Conclusion

In short, while performance-based funding may appear to offer a straightforward solution to concerns about student success, it conceals many pitfalls. We believe that given the lack of basic funding that our public universities are currently dealing with, the historical ineffectiveness of PBF in other states, and our need for more data on how our students are currently doing, this is not the time to rush into such an experiment.

Rather, we recommend assessing each of our universities, identifying where improvements could and should be made, and then developing policies to promote such changes. In our 2011 Higher Education Platform (available at <http://aftmichigan.org/files/higheredplatform11.pdf>), we called for improving our ability to track student success by:

- Completing development of a longitudinal PreK-postsecondary student data system to enable tracking student progress across institutions;
- Restoring Higher Education functions to the Department of Education to create a single point of accountability; and
- Developing a framework for student success reporting within which each campus and program would engage in systematic planning and reporting of student success, based on benchmarking against similar institutions.

A strong network of public colleges and universities is absolutely essential to rebuilding Michigan. Our members and other educators across the state want to engage in real discussions about how to tackle the tough challenges of increasing student success. Performance-based funding is not a policy that will facilitate that partnership.



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