

Performance Funding: Are we on the right track?

(Attachment to Salisbury University President's 2013 Legislative Session Testimony)

Who can argue with the notion that some, if not all, of the public funds that support higher education should be allocated in accordance with desired institutional outcomes and State goals? Performance funding is being considered and implemented in a number of states across the nation. It seems like good common sense.

Yet, as with all seemingly "good ideas," the devil is in the details. And, it should be noted, no state has yet to find a model that might actually work.

I served on the MHEC task force which has been studying this issue. While I was the only four-year college president member of the group, a number of my colleague presidents in the USM, as well as some members of the task force, have publicly expressed many of the same concerns I outline in this document.

The task force began its work in earnest during summer 2012, and met regularly, studying models of performance funding elsewhere and trying to devise a plan that might work in Maryland, a plan which would link general fund support to a college or university's progress toward meeting State goals (completion, closing the achievement gap, increasing capacity in academic programs that address critical workforce needs).

Despite our best efforts we failed, in my opinion, to come up with a workable plan.¹ While it has been recommended that the MHEC task force continue its work on a model for performance-based funding, given political realities in Maryland, and the great diversity of our institutions, it may be that no workable plan is possible, at least not for Maryland's public four-year and graduate universities, for the following reasons:

1. Performance funding makes no sense until there is equity in funding among public institutions, as institutions currently are not at the same starting point. While State funding support for community colleges is allocated strictly on a per FTE student basis,² the distribution of funding to public institutions that award baccalaureate and graduate degrees (USM institutions, St. Mary's College, and Morgan State University) is not. Instead, the allocation of general funds in Maryland's current model is based primarily on the institution's prior year base allocations (which are not readily adjusted for institutional fluctuations in enrollment), and a generally poorly-understood funding guideline. And, even with this guideline in place, Maryland's public institutions are funded *at different levels* of the funding guideline. For USM institutions, Morgan State University, and St. Mary's College, there is no funding formula which is applied

¹ MHEC sent the final report to DBM prior to the study group members having seen the final document. Several key issues remain unresolved.

² Notably, the Sellinger formula also allocates funds in a straight-forward way, based on FT enrollments.

uniformly based on student enrollment. It is my belief that for performance funding to be effective, the current funding guideline would need to be changed in favor of a formula which, through its application, would ensure an objective and equitable system for the allocation of public funds (as takes place in other states).

2. The report that MHEC submitted to DBM on behalf of the performance funding task force suggests a model where institutional performance is measured based upon an institution's previous year's outcomes. In other words, institutions which *currently* out-perform their peer institutions would have difficulty demonstrating the same levels of improvement in different categories as compared to institutions that had been "under-performing." Paradoxically, then, the model put forth by MHEC would not adequately acknowledge, reward, nor direct funds to those institutions which currently are high performing; in fact, the performance funding model could disadvantage those high performing (and, in several cases, underfunded) universities. Is it not logical that performance funding would seek to reward institutions which out-perform their peers and not those which simply improve on previously sub-standard outcomes?³
3. The experience of other states with performance funding clearly demonstrates that any and all systems are subject to "gaming." In other words, institutions find ways to perform in accordance with rewards in funding, even when progress on other institutional or State goals may suffer. When it comes to performance funding, there appears to be no "magic bullet," no straight-forward, functional, operationally successful model, at least not to date.
4. The model proposed by MHEC would not apply to private institutions in Maryland. So long as the privates receive State subsidies through the Sellinger formula, should they not also be expected to meet expectations for performance outcomes? Shouldn't our performance funding plan include funds allocated through Sellinger?

To conclude, if a goal of our State is truly to maximize degree production, close the achievement gap, and increase the degree production in areas of critical workforce need, then we may need to go back to the drawing board. It not only makes good sense, but in light of fiscal realities, it is *imperative* that we find a way to maximize Maryland's investment in those institutions that are performing at high levels with a low cost to the State while also providing financial incentives to those institutions with significant room – and the need – to improve.

³ There is recognition of this problem in the DLS Budget Overview: "In regards to 'high performing' institutions, the [performance funding] report noted the model may be modified to provide a 'maintenance of effort' provision, which would allow performance-based funding allocations based on the continued level of high performance...This acknowledges that institutions that have achieved a level of excellence on a particular measure have little room for improvement but should be encouraged to sustain this high level over time."