



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #721

### Performance Based Funding (WTCS)

[LFB 2015-17 Budget Summary: Page 537, #6 and Page 538, #7]

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#### CURRENT LAW

State aid is provided to Wisconsin Technical College System (WTCS) districts in the form of unrestricted general aid distributed through two statutorily defined formulas. The majority of general aid (90% in 2014-15) is distributed through a partially equalizing formula that takes into account each of the 16 districts' costs, full time equivalent (FTE) students, and equalized property valuation. The remainder (10% in 2014-15) is distributed based on each district's performance on seven of nine performance criteria defined in statute. The percentage of state aid distributed based on performance will increase to 20% in 2016-17 and 30% in 2016-17. This percentage will be set at 0% in 2017-18 and thereafter as a result of a gubernatorial veto following the Legislature's passage of 2013 Act 20.

#### GOVERNOR

Require the System Board to increase the percentage of general state aid allocated to technical colleges based on each district's performance. In fiscal year 2017-18, require that 40% (\$35.4 million) of the total amount appropriated as general aid to technical college districts would be distributed according to the performance based formula. Require that the remaining 60% (\$53.1 million) be distributed according to the property tax equalization funding formula, which is based on property values and aidable costs. Provide that in 2018-19, an additional 10% of general aid would be distributed using the performance based formula. Specify that in 2019-20, 100% of general aid would be allocated using the performance based formula.

Additionally, establish a tenth criterion that would be added to the nine current law criteria on which performance based funding is allocated. The criterion would allocate funding based on the development and implementation of a policy to award course credit for relevant educational

experience or training not obtained through an institution of higher education, including skills training received during military service.

## **DISCUSSION POINTS**

1. The three major revenue sources for general operations of the technical college system in 2013-14 were property taxes (\$796.7 million), tuition and fees (\$281.3 million), and state aid (\$102.9 million). In 2014-15, state aid will increase by \$406 million attributable to property tax relief aid included in 2013 Act 145, and property taxes will be reduced by the same amount from what they otherwise would have been.

2. The majority of state general aid (90% in 2014-15, or \$79.7 million) is distributed through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts. Districts with less property valuation behind each student receive a higher percentage of their aidable costs through the general aid formula because they are less able to generate as much property tax revenue at a given mill rate than districts with higher property valuations. Equalized value per FTE varies by a factor of more than five (from \$21.5 million of value per FTE at Nicolet to \$4.1 million of value per FTE at Northcentral), so that the fiscal capacity of districts differs significantly. In 2014-15, Nicolet received general aid equal to approximately 3.2% of its net aidable cost, while Northcentral received aid equal to approximately 13.8% of its cost. The partially equalizing aid formula is intended to address the differing tax bases among the districts.

3. The remaining state general aid (10% in 2014-15, or \$8.9 million) is distributed based on each district's performance in the previous three fiscal years in seven of the following nine criteria: (a) the placement rate of students in jobs related to students' programs of study; (b) the number of degrees and certificates awarded in high demand fields, as determined by the Board and the Department of Workforce Development; (c) the number of programs or courses with industry-validated curriculum; (d) the transition of adult students from basic education to skills training; (e) the number of adult students served by basic education courses, adult high school or English language courses, or courses that combine basic skills and occupation training as a means of expediting basic skills remediation, and the success rate of adult students completing these courses; (f) participation in dual enrollment programs; (g) the workforce training provided to businesses and individuals; (h) participation in statewide or regional collaboration or efficiency initiatives; and (i) training or other services provided to special populations or demographic groups that can be considered unique to the district. Annually, each college designates which of the seven outcomes will be used for its performance funding calculations, using preliminary calculations.

4. The first performance-based aid was distributed in 2014-15 based on data from the three most recent fiscal years for which data are available (2010-11, 2011-12, and 2012-13). The total performance aid awarded varied by district from \$248,800 awarded to Nicolet, to \$1,115,400 awarded to Milwaukee. The following table shows the amount of performance-based funding, partially equalizing aid, and total state aid distributed to each district in 2014-15, as well as each district's performance-based and partially equalizing aid allocation as a percent of the total distribution of performance-based aid and partially equalizing aid.

**WTCS State Aid, 2014-15**  
**(\$ in Millions)**

	<u>Partially Equalizing Aid</u>		<u>Performance-Based Aid</u>		<u>Total Amount</u>	<u>% of Total</u>
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>		
Blackhawk	\$2.58	3.2%	\$0.38	4.3%	\$2.96	3.3%
Chippewa Valley	4.97	6.2	0.42	4.8	5.40	6.1
Fox Valley	8.19	10.3	0.74	8.3	8.92	10.1
Gateway	5.08	6.4	0.69	7.8	5.77	6.5
Lakeshore	1.88	2.4	0.39	4.5	2.28	2.6
Madison Area	11.07	13.9	0.81	9.1	11.88	13.4
Mid-State	2.11	2.6	0.39	4.5	2.50	2.8
Milwaukee	16.21	20.3	1.12	12.6	17.33	19.6
Moraine Park	2.84	3.6	0.62	7.0	3.46	3.9
Nicolet Area	0.65	0.8	0.25	2.8	0.90	1.0
Northcentral	5.25	6.6	0.53	6.0	5.78	6.5
Northeast WI	6.99	8.8	0.66	7.4	7.64	8.6
Southwest WI	2.19	2.7	0.36	4.1	2.55	2.9
Waukesha County	3.01	3.8	0.61	6.9	3.62	4.1
Western	5.06	6.4	0.46	5.2	5.52	6.2
WI Indianhead	<u>1.60</u>	2.0	<u>0.42</u>	4.7	<u>2.02</u>	2.3
Total	\$79.68		\$8.85		\$88.53	

5. The percentages each district received of the total amounts of partially equalizing aid and performance-based aid distributed in 2014-15 show that some districts fare better under the partially equalizing formula, while others fare better with aid based on performance. In general, as the percentage of aid distributed based on performance increases, districts with lower property valuation or a greater number of students relative to other districts are likely to see a decrease in total state aid. Districts that receive a lesser amount of partially equalizing aid based on their higher property valuation or that have fewer students relative to other districts are more likely to see an increase in funding. However, the 2014-15 performance-based aid distribution is based on data from 2010-11, 2011-12, and 2012-13, prior to the introduction of the performance aid formula. The distribution could change significantly in future years based on changes in districts' performance resulting from increased emphasis on certain outcomes or other unknown factors.

6. Property tax increases related to technical colleges are restricted by a revenue limit that prohibits a district from increasing its revenue in any year by a percentage greater than the district's valuation factor, or any percentage increase in the district's equalized value resulting from new construction in the district. For purposes of this revenue limit, revenue is defined as the sum of the tax levy and state property tax relief aid. State general aid is not counted towards the revenue limit. Therefore, districts would not be able to increase their property tax levy to adjust for any decreases in state aid associated with the elimination of the equalization aid formula.

7. Performance based funding systems are intended to promote accountability and

transparency in publicly funded institutions of higher education. Some anticipate that distributing funding based entirely on performance would encourage districts to place a greater emphasis on their outcomes related to those criteria on which their funding will be based, and will lead to improved outcomes relative to those criteria. On the other hand, some express concern that distributing funding based on certain outcomes will result in a focus on those outcomes to the exclusion of other desirable goals or mandated responsibilities. Additionally, some argue that allocating a lower percentage of state funds based on performance would be sufficient to have the desired effect of encouraging colleges to focus on outcomes in specific areas. For example, it could be argued that allocating 30% of state aid based on outcomes would constitute an amount significant enough to encourage colleges to emphasize outcomes while still providing greater state support to colleges with less property valuation behind each FTE student.

8. Under 2013 Act 20, the Board is required to submit an annual report to the Joint Committee on Finance describing how the performance funding is allocated. The report must include the following information: (a) the amount allocated to each district; (b) the performance of each district with respect to each criterion; (c) the methodologies used to make a district's allocation based on that district's performance; (d) the performance of WTCS as a whole with respect to each criterion; (e) any other information used to administer the plan. The first report will be distributed to the Joint Committee on Finance in the spring of 2015. It may be desirable to assess the effects of the performance based formula on the state aid amount and performance of each district using on multiple years of data from the annual reports before committing as a matter of law to 100% performance funding. Under this approach, the percentage would be set at 30% in 2017-18 and annually thereafter until more data is available about funding and performance trends.

9. The additional performance criterion recommended by the Governor would allocate funding based on the development and implementation of a policy to award course credit for relevant educational experience or training not obtained through an institution of higher education, including skills training received during military service. In their agency budget request, WTCS indicated that the success of veteran students is a priority for the System and indicated that the American Council on Education has identified credit for prior learning for activities during military training as a strategy to support veterans transitioning to higher education. A current state Board policy entitled "Credit for Prior Learning" directs colleges to award credit for prior skills and knowledge including work experience and work-related training, in addition to training obtained through an institution of higher education that would not be eligible for performance-based funding under the bill. Data are not currently available on credits awarded by WTCS colleges for prior learning.

## **ALTERNATIVES**

### **A. Performance Based Aid Distribution**

1. Approve the Governor's recommendations to increase the percentage of state general aid distributed to technical colleges based on performance outcomes to 40% in 2017-18, 50% in 2018-19, and 100% in 2019-20 and thereafter.

2. Modify the Governor's recommendations by specifying that the percentage of general

aids distributed under the performance based funding formula would remain at 30% in 2017-18 and annually thereafter.

3. Delete provision. The percentage of general aids distributed under the performance based funding formula would be set at 0% in 2017-18 and thereafter.

**B. Additional Performance Based Funding Criterion**

1. Approve the Governor's recommendations to add an additional criterion to the nine current law performance criteria that would allocate funding based on the development and implementation of a policy to award course credit for relevant educational experience or training not obtained through an institution of higher education.

2. Delete provision.

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