



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #725

Performance Based Funding and General Aid (WTCS)

[LFB 2013-15 Budget Summary: Page 505, #3 & 4]

CURRENT LAW

State aid is provided to Wisconsin Technical College System (WTCS) districts in the form of unrestricted general aid through a statutorily defined formula. In 2012-13, \$83.5 million GPR is appropriated for state general aids, and categorical aids include \$17.6 million GPR in local assistance and \$4.2 million GPR for aids to individuals. General aids are 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.

GOVERNOR

Provide \$5,000,000 in 2014-15 above annual base level funding of \$83,534,900 for state general aid to technical colleges.

Require the WTCS System Board to establish a new formula for allocating general state aid to technical colleges, which would allocate funding based on each district's performance in the previous fiscal year in all of the following 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, and provide that the Board and Department of Workforce Development (DWD) jointly determine and revise as necessary what constitutes "high-demand" fields; (c) the number of programs or courses with industry-validated curriculum; (d) the transition of adult students from basic education to skills training; (e) participation in dual enrollment programs; and (f) the workforce training provided to businesses and individuals.

Require the System Board to submit a plan for making allocations pursuant to the new performance based funding formula to the Secretary of Administration, no later than December

31, 2013. The Secretary would approve or modify the plan or formula. Upon approval or modification, the Board would be required to administer the plan. Beginning in 2014-15, in each fiscal year the Board would have to submit a report to the Secretary of Administration that describes how the amount appropriated as state general aid to technical colleges is allocated to each district under the plan for performance based funding

In fiscal year 2014-15, require that 90% (\$79,681,400) of the total amount appropriated as general aid to technical colleges would be distributed according the current law funding formula, which is based on property values and aidable costs. Require that the remaining 10% (\$8,853,500) would be distributed according to the new performance based formula. Provide that in each year following, an additional 10% of general aid would be distributed using the new formula, until in 2018-19, 50% of general aid would be distributed based on the current law formula, and 50% based on the performance based formula. In 2019-20 and each year thereafter, require that 100% of general aid would be allocated using the performance based formula.

DISCUSSION POINTS

1. The three major revenue sources for general operations of the technical college system in 2011-12 were property taxes (\$771.3 million), tuition and fees (\$279.0 million), and state aid (\$101.2 million). Within the category of state aid, general aid was by far the largest appropriation, with \$83.5 million of general aid being provided to technical college districts in 2011-12.

2. Under current law, state general aid is distributed through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts, because the large majority of funding for WTCS is generated by property taxes. 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 five (from \$22.1 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. Under the current aid formula, Nicolet received general aid equal to 2.7% of its net aidable cost while Northcentral received aid equal to 14.2% of its cost. The current partially equalizing aid formula is intended to address the differing tax bases among the districts.

3. The following table shows the amounts appropriated for general aids to WTCS districts and the ratio of general aids to aidable costs since 2002-03. Aidable costs represent expenditures, including debt service, associated with providing postsecondary, vocational-adult, and collegiate transfer programs that are funded by property taxes and state general aids. As shown in the table, the percentage that general aid represents of aidable costs has declined by 8.9 percentage points since 2002-03, from 18.7% to the April, 2013, estimate of 9.8%.

	<u>State General Aids</u>		<u>Aidable Costs</u>		<u>Ratio of Aid to Cost</u>	<u>Change in CPI**</u>
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>		
2002-03	\$118,415,000	---	\$631,725,473	---	18.7%	---
2003-04	118,415,000	0.0%	666,710,083	5.5%	17.8	2.3%
2004-05	118,415,000	0.0	696,154,218	4.4	17.0	2.7
2005-06	118,415,000	0.0	710,594,304	2.1	16.7	3.4
2006-07	117,815,000	-0.5	723,358,432	1.8	16.3	3.2
2007-08	118,415,000	0.5	761,517,440	5.3	15.5	2.9
2008-09	118,415,000	0.0	787,347,196	3.4	15.0	3.8
2009-10	119,335,600	0.8	797,879,644	1.3	15.0	-0.4
2010-11	119,335,600	0.0	858,479,226	7.6	13.9	1.6
2011-12	83,534,900	-30.0	815,664,150	-5.0	10.2	3.2
2012-13	83,534,900	0.0	853,041,534*	4.6	9.8	2.1

*Aidable costs are based on district estimates.

**Changes in Consumer Price Index-All Urban Consumers for calendar years 2002 through 2012.

4. The Governor's proposal would introduce a new method of distributing state general aid to technical colleges, which would base funding on performance outcomes, rather than on relative costs, enrollments, and property values, as under the current formula. By providing \$5 million of additional funding in 2014-15, most of the funding that would be allocated based on the proposed performance outcomes (\$8.8 million in 2014-15) would be from new money, so that districts would have more time to adjust to reductions in the current general aid that they receive.

5. In order to promote accountability and transparency in publicly funded institutions of higher education, 16 states have in place, or will soon transition to, some level of performance based funding system. Many more states have experimented with performance based budgeting in the past, and discontinued the practice. The Governor's recommendation would gradually transition the allocation of general aid to performance based funding over a period of five years; under the bill, in the sixth year, 100% of state general aid to technical colleges would be performance-based.

6. Performance based systems that have been kept in place over the long-term in other states share certain commonalities, including: (a) beginning with a small amount of funding, and slowly transitioning to the new system; (b) developing performance based formulas collaboratively; (c) using multiple success measures that are unambiguous, and properly weighted to encourage the desired outcomes; and (d) using a relatively simple, well-understood formula to distribute funds.

7. There are 12 states that currently have in place performance based funding incentives for higher education, and an additional four states will soon transition to performance based formulas. Of those 16, there are 14 that cap or otherwise limit the amount of state funding distributed under the performance formula to between 1% and 25% of total state funding for higher education. (The primary exception, Tennessee, distributes 100% of state funding for higher education, both at the university and community college levels, according to its outcomes-based formula. Ohio's newly adopted system distributes 100% of funding for four-year universities based on performance, while for community colleges, 5% of funding is based on student success

measures.) However, while a smaller percentage of state funding is typically allocated according to performance measures, in many states, community and technical colleges also derive a much larger percentage of their overall revenues from state funding.

8. AB 40 would establish the long-term goal of allocating all of the general aid appropriation based on the performance based formula proposed in the bill. It may be desirable to assess the effects of any performance based formula when data is available in the next biennium, before committing as a matter of law to 100% performance funding. Under this approach, the percentage would increase by 10% annually until 30% would be reached in 2016-17, and then would remain at 30%. This would give an opportunity for a review of the impact of the performance based formula on the operations of the technical college system, before eliminating the current partially equalizing formula.

9. The broad criteria for performance based funding specified under AB 40 are similar to the categories used in other states' programs, including student success and credit accumulation, degrees awarded, certification exam pass rates, and incentives for producing degrees and certificates in priority areas such as science, technology, engineering, and mathematics (STEM). Under the bill, the WTCS criteria must include: (a) the placement rate of students in jobs related to their programs of study; (b) the number of degrees and certificates awarded in high-demand fields; (c) the number of programs and courses with industry-validated curriculum; (d) the transition of adult students from basic education to skills training; (e) participation in dual enrollment programs; and (f) the workforce training provided to businesses and individuals.

10. Other states' systems include incentives for course, certificate, and degree completions, to encourage colleges to focus on student success and attainment, as opposed to student enrollments. Some states have set specific goals to increase the aggregate number of degrees and technical certificates awarded. Arkansas' new system, for example, to begin in 2013-14, has set a goal to double the number of degrees awarded by state higher education institutions by 2025. Minnesota has set targets for specific percentage increases in degrees awarded, enrollments by people of color, and enrollments in online or blended courses. Tennessee places added weight on adult learners and low-income students, who are traditionally more difficult to retain and less likely to graduate, for all metrics measured: accumulated credits, transfers out with at least 12 credits, completed workforce training, or awarded degrees.

11. On the other hand, WTCS districts are open-enrollment institutions, designed not only to provide affordable access to postsecondary education and technical workforce training for all state residents and businesses, but also required by law to provide certain adult basic education, adult high school, and English as a second language instruction free of tuition. Another characteristic of successful performance funding is the use of measures that are mission-specific to the type of institution, or even tailored to campus-specific areas of focus. In 2011-12, technical colleges served 51,273 students (4,753 FTE) in basic skills courses, and incurred costs of \$58 million. Student outcomes in these courses, or in courses that combine basic skills and occupational training as a means of expediting basic skills remediation, could also be incorporated as part of a district's performance score. If these areas were not included in the formula, it could be an unintentional disincentive for districts to focus on basic education for populations most in need of

such services, in order to reach a basic level of self-sufficiency. Other states with performance funding formulas, including Arkansas, Missouri, and Tennessee, reward colleges and universities for completions of remedial or developmental education, adult literacy or English proficiency gains, or successful completion of adult high school.

12. Under the language of the bill, performance funding is to be distributed in each fiscal year based on a district's performance in the previous fiscal year. It is not clear that data on performance measures would be available before the start of each year, so it is likely that aid amounts would need to be estimated and revised as data is audited and finalized. In some state funding systems, Missouri's system, for example, which is expected to be in place by 2014, performance measures will be evaluated based on a three-year rolling average. Using an average could help smooth out anomalies, so that the formula would not result in large swings in funding from one year to the next. Such swings in funding can have a destabilizing effect on institutional budgets, leading to disruption in student services and possibly undermining support for the overall performance system. The Committee could choose to modify the bill to allow the System Board to consider using a rolling average for some or all formula factors when developing a plan for performance funding.

13. On March 25, 2013, the President of the System, in a letter addressed to the Co-chairs of the Committee, requested a modification to the definition of dual enrollment for the purposes of the performance funding formula. The language included in the bill would limit dual enrollment to mean WTCS courses taken by high school students that apply to advanced standing in associate degree programs. For those earning advanced standing, students do not actually receive the credit until they have completed high school and are admitted to a technical college. However, high school students can qualify for technical college credit in a variety of programs and courses that lead to credentials other than an associate degree, including technical diplomas and certificates. In addition, high school pupils can take courses for transcribed credit, in which they can earn high school credits and transferable technical college credits simultaneously.

14. To ensure that all types of dual enrollment programs available to high school students would be included under the performance criteria, the Committee could choose to modify the bill to define dual enrollment programs as any that provide high school pupils the opportunity to gain credits in both technical college and high school courses.

15. Some argue that it would be desirable for the Legislature to have more oversight of the performance based funding formula. Under the bill, the Board would submit a plan for making allocations pursuant to the new performance based funding formula to the Secretary of Administration, and the Secretary would approve or modify the plan or formula. However, the Legislature ultimately approves the expenditure of state revenues through the biennial budget process. Arguably, the Legislature should also have a role in determining the method by which those revenues are to be allocated among the 16 technical college districts. Therefore, the Committee could choose to require that the System Board submit its plan for a performance based funding formula to the Joint Committee on Finance for approval or modification, under a passive review process.

16. Staff for the System Board have indicated that, due to the complexity of designing a

performance based funding formula, and based on the experience of other states, it may be desirable to extend the December 31, 2013, deadline specified in the bill. Best practices, suggested by successful performance based funding systems in other states, include: (a) developing the formula collaboratively, by incorporating the input of all System stakeholders, so that the principles of the new funding formula are embraced by legislators, policymakers, college presidents, district boards, faculty, business and industry leaders, and students; and (b) adequately modeling the new formula so that its stability, incentives, and behavior are well understood, prior to implementation. To provide adequate time to develop a performance based funding system, the deadline could be extended to March 31, 2014, which would provide an additional three months for development compared to the bill. This deadline would allow three months for either the Secretary of Administration, or the Committee, to review and approve, or modify and approve, the new formula before the end of the fiscal year.

ALTERNATIVES

A. Performance Based Aid Formula

1. Approve the Governor's recommendations to require the WTCS System Board to establish a new formula for allocating general state aid to technical colleges based on each district's performance in the previous fiscal year.

2. Modify the Governor's recommendations with any or all of the following changes:

a. Provide that the System Board, in developing its plan for performance funding, would use three fiscal years of data for formula factors, rather than only the previous fiscal year as provided under the bill.

b. Provide that the performance funding formula include measures of the number of adults served by basic education courses, adult high school, or English language learning courses, courses that combine basic skills and occupational training as a means of expediting basic skills remediation, and the success rate of adults completing such courses.

c. Provide that, for the purposes of the performance based funding formula, a dual enrollment program would be any programs or courses of study designed to provide high school students the opportunity to gain credits in both technical college and high school, including transcribed credit programs or other educational services provided by contract between a school district and a technical college.

d. Require that the System Board submit a plan for making allocations pursuant to the new performance based funding formula to the Joint Committee on Finance under a passive review process, rather than to the Secretary of Administration as provided under the bill. Upon approval, or modification and approval, by the Committee, require the Board to administer the plan.

e. Provide that the deadline for the System Board to submit its plan for a performance based funding formula would be March 31, 2014, rather than December 31, 2013.

f. Specify that the percentage of general aids distributed under the proposed performance based funding formula would increase by 10% annually until a cap of 30% is reached.

3. Delete provision.

B. Funding for General Aids

1. Approve the Governor's recommendation.

2. Delete \$5,000,000 GPR in 2014-15 from state general aid for technical colleges.

ALT B-2	Change to Bill
	Funding
GPR	- \$5,000,000

Prepared by: Layla Merrifield