



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>

May 18, 2017

Joint Committee on Finance

Paper #676

Performance-Based Funding (Wisconsin Technical College System)

[LFB 2017-19 Budget Summary: Page 482, #6]

CURRENT LAW

The three major revenue sources for general operations of the technical college system in 2015-16 were property taxes (\$416.7 million), state aid (\$513.8 million), and tuition and fees (\$264.6 million).

Of the total state aid, \$88.5 million is state general aid, the majority of which (70% in 2016-17, or \$62.0 million) is distributed through a cost-sharing formula designed to partially equalize the fiscal capacities of the 16 WTCS districts.

The remaining state general aid (30% in 2016-17, or \$26.6 million) is distributed based on each district's performance in the previous three fiscal years on seven of the following 10 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 DWD; (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 learning courses, or courses that combine basic skills and occupational 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; (i) training or other services provided to special populations or demographic groups that can be considered unique to the district; and (j) the development and implementation of a policy to award course credit for relevant educational experience or training not obtained at an institution of higher education, including skills training received during military service.

GOVERNOR

Require that 30% (\$28,060,500) of the total amount appropriated as general aid to technical college districts would be distributed according to the performance-based formula in 2017-18.

Effective January 1, 2018, specify that 70% of state aid (\$65,474,400) would be distributed based on the equalization formula, as under current law. The remaining 30% of state aid would be allocated according to four performance categories. For each category, the System Board would be required to rank each district board's performance on the specified criteria and establish a formula for allocating funding based on the district's ranking for the prior year, so that a district would receive a greater allocation than any district with a lower ranking.

Require the System Board to submit a plan for making allocations under the new performance criteria to the Secretary of the Department of Administration (DOA). Specify that the System Board could not implement the plan unless the Secretary approved or modified the plan. If the Secretary modified the plan, the System Board would be required to implement the plan as modified.

Delete current law requiring the System Board to submit an annual report to the Joint Committee on Finance describing how performance funding allocations were made to each district. Instead, beginning in 2018-19, require the System Board to submit such a report to the Secretary of DOA. The report would be required to include the following: (a) the amount allocated to each district; (b) the performance of each district with respect to the criteria; (c) the methodologies used to calculate each district's allocation; and (d) the performance of the System as a whole with respect to the criteria.

Delete current law establishing performance criteria and specifying that each district's performance funding allocation is calculated based on seven of the 10 criteria defined under current law. Delete current law specifying the percentage of state general aids allocated to performance funding from 2014-15 to 2017-18, effective January 1, 2018.

The four performance categories and the criteria and funding amounts assigned to each category are displayed in Table 1.

TABLE 1

Performance-Funding Categories And Funding

<u>Criteria</u>	<u>Funding</u>	<u>Percent of Performance Based Funding</u>	<u>Percent of State Funding</u>
Affordability and Attainability (1) participation in dual enrollment programs; and (2) 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.	\$9,821,200	35.0%	10.5%
Workforce Readiness (1) placement rate of students in jobs related to their programs of study; (2) the number of degrees and certificates awarded in high demand fields; (3) the number of programs or courses with industry-validated curriculum; and (4) the workforce training provided to businesses and individuals.	9,821,200	35.0	10.5
Student Success in State Workforce (1) number of adult students served by basic education courses, adult high school or English language learning courses, or courses combining basic skill and occupational training, and their success rate; (2) the transition of adult students from basic education to skills training; and (3) training or other services provided to special populations or demographic groups that can be considered unique to the district.	5,612,100	20.0	6.0
Efficiency Participation in statewide or regional collaboration or efficiency Initiatives	2,806,000	10.0	3.0
Total	\$28,060,500	100.0%	30.0%

DISCUSSION POINTS

1. Prior to 2014-15, state general aid to technical colleges was distributed based on each district's enrollment and property valuation using a cost-sharing formula designed to partially equalize the fiscal capacities of the districts. Under the formula, districts with less property valuation behind each student receive a higher percentage of their aidable costs through the general aid formula because they are able to generate less 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 four (from \$20.3 million of value per FTE at Nicolet to \$4.5 million of value per FTE at Northcentral), so that the fiscal capacity of districts differs significantly.

2. Under 2013 Act 20, the WTCS System Board was required to create a plan for

allocating a percentage of general state aid based on each college's performance on criteria defined in statute, with the remainder allocated using the equalizing formula. The WTCS System Board was required to submit the plan to the Joint Committee on Finance for review by March 31, 2014, and to submit reports describing the funding allocation in each year. Under state law, the performance-funding model was used to distribute 10% of general aid in 2014-15, 20% in 2015-16, and 30% in 2016-17, and the percentage is set at 0% in 2017-18 and thereafter as a result of a gubernatorial veto following 2015 Act 55.

3. Under the formula developed by the System Board, the amount of funding assigned to each of the criteria varies depending on the number of districts choosing to use each criterion as part of their performance-based funding calculations. A base allocation is assigned to each criterion by dividing 25% of the total sum of available performance-based funding evenly among the 10 performance criteria. If a criterion is not selected by any of the districts, the base allocation is redistributed to the other criteria. The remaining 75% of funds are distributed proportionately, based on the number of districts selecting to include each criterion in their calculations.

4. Under the bill, the 10 performance criteria would be retained, but would be placed in four weighted categories. The weight given to each criterion would depend on the category in which it was placed, the weighted percentage assigned to that category, and the number of other criteria in the same category. For example, the two criteria placed in the category of affordability and attainability would receive the greatest weight, while the three criteria in the category for student success in the state workforce would receive the smallest weight. The modifications would result in distributional effects for the districts. Based on information prepared by WTCS staff, if the proposed changes had been in place for the 2016-17 aid distribution, effects would have ranged from an increase in overall state aid for Waukesha County of 16.7% to a decrease in overall state aid of 12.6% for Nicolet. However, the distribution could change significantly from year to year, and therefore the future effect of the change is unknown.

5. Table 2 shows the amount of funding allocated to each of the four weighted categories under the 2016-17 aid distribution compared to the allocation proposed under Assembly Bill 64 / Senate Bill 30 (AB 64/SB 30). The total amount of funding in 2016-17 is equal to 30% of the 2016-17 state general aid appropriation, while the total under AB 64/SB 30 reflects a proposed general aids increase under the bill equal to \$5 million annually. It should also be noted that under the category of affordability and attainability, the 2016-17 distribution includes only one criterion (participation in dual enrollment programs), while a second criterion (course credit for prior educational experience or training) is not yet in use because sufficient data is not available to calculate funding amounts. The additional criterion will be included in future years, and could increase the funding allocation under that category.

TABLE 2

Performance Funding Distribution Under Bill and Under Current Law

	<u>Under AB 64 / SB 30</u>		<u>Under Current Law (2016-17 Distribution)</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Affordability and attainability	\$9,821,200	35.0%	\$2,516,400	9.5%
Workforce readiness	9,821,200	35.0	12,200,000	45.9
Student success in state workforce	5,612,100	20.0	8,616,300	32.4
Efficiency	<u>2,806,000</u>	10.0	<u>3,227,800</u>	12.2
	\$28,060,500		\$26,560,500	

6. Performance-based funding systems are intended to promote accountability and transparency in publicly funded institutions of higher education by encouraging institutions to place a greater emphasis on their outcomes related to those criteria on which their funding will be based, leading to improved outcomes relative to those criteria. Under the proposal, it could be the case that districts would focus more heavily on those outcomes which would receive greater weight under the formula. Therefore, it could be argued that the weighting system proposed in the bill would be beneficial if the goal is to emphasize the more heavily weighted criteria.

7. However, it could be argued that modifying the performance-based funding system after three years of implementation could discourage colleges from long-term planning to improve outcomes based on the system. It takes time for changes to institutional policies or programs to result in improved student outcomes, and in turn for funding allocations to reflect those improvements. For example, the 2016-17 distribution of performance-based funding was calculated using data from 2012-13, 2013-14, and 2014-15; if a district chose to emphasize certain outcomes following the creation of the performance-based funding system, its allocation would reflect those changes for the first time this year even if those changes had an immediate measurable effect on student outcomes. Without confidence that the current performance-based funding system will be in place in future years, districts could be hesitant to make changes designed to improve outcomes under the formula.

8. Under the proposal, each district's aid would be calculated using one year of data, rather than using the previous three years of data as under current law. It may be the case that using one year of data to calculate each district's allocation could make the formula more responsive to changes in district outcomes. Under the proposal, outcomes would have a more immediate effect on each district's funding allocation because changes would not be averaged over three years of data. Additionally, the bill would require each district's funding to be calculated using all 10 performance funding criteria, rather than seven of the 10 as under current law. This could cause districts to emphasize outcomes under all of the criteria, rather than choosing three to disregard, and could also result in a more uniform statewide approach to outcomes based funding, under which all colleges are evaluated using an identical set of criteria.

9. On the other hand, it could be the case that as a result of the changes proposed in the

bill, districts would experience greater unpredictability in their state funding. Using multiple years of data smooths anomalies that may occur in a district's performance. Similarly, calculating funding based on seven of the 10 statutorily-defined performance criteria allows districts to exclude criteria that may cause their funding to fluctuate based on changes in enrollment, pupil demographics, or other factors over which the district has little control. As a result of these changes, it could be the case that the formula could result in large swings in funding from one year to the next. Such shifts can have a destabilizing effect on institutional budgets, causing difficulty in planning and possibly leading to disruptions in student services.

10. It could also be argued that allowing each district to select three criteria to exclude from its calculation, as under current law, introduces an element of local control into the funding calculations by allowing each district to be evaluated based on the criteria that best fit with the district's mission and programs. Because of the differing needs of each district's population and industries, some criteria may not be equally applicable to all districts. Current law allows each district some flexibility in selecting which performance criteria to emphasize.

11. 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 year-to-year fluctuations in state aid associated with the performance-based funding formula.

12. 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. Under the bill, the report to the Committee would be eliminated and instead, WTCS would submit the report to the Secretary of DOA. Additionally, the Secretary would be required to approve a plan developed by the System Board for distribution of funding under the new performance-based funding system.

13. It could be argued that because five of the eight System Board members are appointed by the Governor, requiring the DOA Secretary to approve the performance funding system and receive the annual report may be redundant. Therefore, the Committee may wish to consider retaining the Legislature's oversight of the performance-based funding system.

14. If the Committee chooses to delete the Governor's proposal, it may wish to specify that the percentage of general aids distributed under the performance-based funding formula would remain at 30% in 2017-18 and annually thereafter. Under current law, the percentage of funding distributed based on performance is set at 0% in 2017-18 and thereafter.

ALTERNATIVES

A. Performance-Based Funding

1. Approve the Governor's proposal to allocate performance-based funding using four weighted performance categories: (a) affordability and attainability (10.5%, or \$9,821,200); (b) workforce readiness (10.5%, or \$9,821,200); (c) student success in state workforce (6%, or \$5,612,100); and (d) efficiency (3%, or \$2,806,000).

2. Delete provision, and specify that the percentage of general aids distributed under the performance-based funding formula would remain at 30% in 2017-18 and annually thereafter, using the current law allocation mechanism.

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

B. Reporting and Approval Requirements

1. Approve the Governor's recommendation to require the annual report on performance funding to be submitted to the Secretary of the Department of Administration, rather than to the Joint Committee on Finance as under current law, and requiring the Secretary to approve the plan prior to its implementation.

2. Delete provisions.

Prepared by: Christa Pugh