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College Completion: Performance-Based Funding Can Enhance Individual Investments and Promote the Public Good

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College completion is both an individual investment and a public good. College graduates can count on higher personal income, better benefit packages, and the likelihood of living a longer, happier life. Our society can count on college graduates to be less violent, to be more economically independent, and to be more tolerant, open minded and civically engaged.

In an effort to promote these and other benefits of higher education, the [National Commission on Higher Education Attainment](#) has called us to improve graduation rates through serious reforms that will change campus cultures, improve cost-effectiveness, and make better use of data. But, these reforms imply improved quality. And, quality – even when advanced with an eye toward cost-effectiveness – requires an investment. Unfortunately, just as the need to invest in academic and support services that lead to college graduation has increased, state funding for higher education has decreased.

So, as we move toward quality improvements that enhance degree completion, we also know that we must seek innovative solutions to the higher education funding crises by working across sectors and with legislative and governmental colleagues at the state and national level to increase government-based funding allocations.

As states balance their desire to fund quality higher education with their very real financial limitations, some are moving away from an enrollment-based funding model to a performance-based funding model which rewards institutions that successfully address both the access (enrollment) and completion (graduation) agendas.

Performance-based budgeting is not new. But, the idea has gained heightened attention in the last five years. Today's fiscal environment has forced our elected officials to carefully consider how best to invest their limited funds to advance higher education attainment.

As the [National Conference of State Legislatures](#) recently explained, "Typically, colleges receive state funding based on how many full-time equivalent students are enrolled at the beginning of the semester. That model provides incentives for colleges to enroll students—but not necessarily to help them graduate."

So, many states are moving away from the traditional enrollment-based funding model and are considering performance-based funding models that allocate a portion of state resources based on retention and graduation rates.

This shift from 100% enrollment-based allocations to an allocation formula that includes some performance-based measures will incentivize public institutions to focus on both college access and completion.

And, there is some evidence –particularly in Pennsylvania – that, if done well, performance-based budgeting can result in increased retention and graduation rates. Over the past 10 years of performance-based budgeting, overall graduation rates in Pennsylvania have increased by about 10 percentage points and retention rates for Hispanic students have increased by 15 percentage points.

Given that student retention and graduation rates are among the most important measures of institutional effectiveness and student success, it is hard to argue against the value of the performance-based funding model that produced this type of quality improvement.

As with all well-intended initiatives, however, the devil is in the details. Fortunately, the [Center for American Progress](#) has collected an established set of best practices for performance-based budgeting that states can use as a guide. We can all benefit from the lessons learned from states that already have performance-based funding in place.

As states continue to move in this direction, however, we need to keep at least two important things in mind: (1) Public institutions across and within sectors of higher education have different missions – so a “once size fits all” approach is probably not appropriate and (2) Our ultimate goal is to increase access and attainment of high quality education for all students. So, we must maintain the portion of the funding stream that supports quality.

Jayne Marie Comstock