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The Politics of Performance Funding in Eight States: Origins, Demise, and Change

Final Report to Lumina Foundation for Education

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Chapter 1

Introduction and Overview

Over the past three decades policymakers have become concerned about finding ways to secure better performance from higher education institutions, whether in the form of greater access and success for less advantaged students, lower operating costs, or improved responsiveness to the needs of state and local economies. As a result, significant effort has gone into designing incentives for improved public college performance.

One of the key incentives that state governments have tried is performance funding. This strategy ties state funding directly to institutional performance on specific indicators such as rates of retention, graduation, and job placement. The principal rationale for performance funding is that it prods institutions to be more effective and efficient, particularly in a time of increasing demands on higher education and increasingly straitened state finances (Albright, 1998; Alexander, 2000; Burke, 2002, 2005; Dougherty & Hong, 2006; Ewell & Jones, 2006; Gaither, Nedwek, & Neal, 1994; Layzell, 1999; Jenkins, Ellwein, & Boswell, 2009; McLendon, Hearn, & Deaton, 2006; Ruppert, 1994, 1995; Shulock, 2003; Shulock & Moore, 2002, 2005, 2007; Zumeta, 2001).

One of the great puzzles about performance funding is that, despite its popularity, state adoption has been uneven and unstable. In fact, only half the U.S. states have adopted performance funding for higher education (Burke & Minassians, 2003; Dougherty & Reid, 2007; McLendon et al., 2006). Moreover, about half of those that have adopted performance funding later eliminated it (Burke, 2002c, d; Dougherty, Natow, & Vega, in press). Even among the states that retained performance funding, its form and content have not been stable; states have often and substantially changed both the amount of funding they allocate for performance funding and the criteria by which they award that funding after the strategy was initially adopted (Dougherty & Natow, 2010).

If performance funding systems are to be effectively adopted, retained, and kept relatively stable, certain questions need to be answered:

- *Origins*: What design features, political forces, and socio-political context (such as higher education governance structure, state government structure and fiscal situation, and political culture) make performance funding systems more likely to be adopted by states?
- *Demise*: What design features, political origins, strategies for policy implementation, and socio-political context make performance funding systems less likely to persist after enactment?
- *Change*: What design features, political origins, strategies for policy implementation, and socio-political context make performance funding systems more subject to large changes in state funding levels and criteria for allocating performance funds?

The Community College Research Center, with the support of Lumina Foundation for Education, undertook an investigation to answer these questions. Over the past two and a half years we examined the experiences of eight states, six of which adopted performance funding and two that did not. The six states adopting performance funding include a few that later relinquished it. Among those that retained it, some have had their performance funding system change relatively little while others have had their system change a lot.

Research Methods

Origins of Performance Funding Analysis: The Choice of the States

This part of the study is based on an intensive investigation of the experiences of eight states (see Table 1.1). Six states established performance funding systems for higher education: Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington. We contrasted their experiences with two states that did not establish such a system, although they considered it: California and Nevada.

In each of the eight states, we examined the documentary record and conducted interviews with state and local higher education officials, state legislators and their staff, governors and their advisors, business leaders, and academics, consultants, and other actors and observers of policymaking on performance funding.

Table 1.1.
Characteristics of Eight Study States

Characteristic	Tennessee	Missouri	Florida	South Carolina	Washington	Illinois	California	Nevada
1. Year PF established	1979	1993	1994	1996	1997	1998	Never est.	Never est.
2. If PF terminated, year of termination		2002		2003	1999	2002		
3. Duration of PF system if given up		9 years		7 years	2 years	4 years		
4. Year that PF system was re-established, if applicable					2007			
5. Public higher education sectors covered	2 and 4 years	2 and 4 years	2 years only	2 and 4 years	2 and 4 years (1997–1999); 2 years only (2007–present)	2 years only		
6. Peak in PF share of state public higher education funding	4.4% (FY 2005)	1.6% (FY 1999)	6.6% (FY 2001)	38% (FY 1999)	1.2% (FY 1999)	0.4% (FY 2001)		
7. State higher education governance structure at the time of enactment of performance funding:								
* State governing board for all public higher education								X
* State coordinating board for all public higher education	X	X	X	X	X	X	X	
* Public universities: Governing board for *all* public universities			X					
* Public universities: Governing boards for *each* public university or university system	X (U of Tennessee 5 campuses)	X		X	X	X	X	
* Public 2-year colleges: Governing board for *all* public 2-year colleges	X (all public 2-year colleges & non-UT universities)			X				

Characteristic	Tennessee	Missouri	Florida	South Carolina	Washington	Illinois	California	Nevada
* Public 2-year colleges: Coordinating board for all public 2-year colleges			X		X	X	X	
* Public 2-year colleges: Governing boards for *each* public 2-year college		X						
8. Political culture: Conservative ideology	39.3%	35.5%	31.9%	39.1%	31.2%	29.2%	27.9%	34.8%
9. Gubernatorial powers (2002)	3.9	3.2	3.4	3.1	3.2	4.1	3.4	3.0
10. Legislative professionalism (2000)	32nd	15th	10th	30th	14th	11th	1st	23rd
11. Party competition index (1999–2003)	0.924	0.968	0.802	0.935	0.943	0.981	0.818	0.915
12. Population (2000)	5,689,000	5,597,000	15,983,000	4,012,000	5,894,000	12,420,000	33,872,000	1,998,000
13. Personal income per capita (2000)	$26,099	$27,243	$28,511	$24,426	$31,780	$32,187	$32,466	$30,438
14. Persons 25 years and over with bachelor's degree or more (2000)	22.0%	26.2%	22.8%	19.0%	28.6%	27.1%	27.5%	19.3%

Sources:
1. Burke & Minassians (2003); McLendon, Hearn, & Deaton (2006); Authors' interviews.
2. Burke & Minassians (2003); Dougherty, Natow, & Vega (in press).
6. See Dougherty, Natow, Hare, & Vega (2010) for the derivation of these percentages.
7. McGuinness (1994). The governance structures are circa 1994 for all the states, except in the case for Tennessee, where the information is circa 1975.
8. Erikson, Wright, and McIver (2005, p. 46). Figures are percentage of adults identifying as conservatives. Data are derived from CBS/*New York Times* polls for 1996-2003. For an alternative approach, see Berry, Ringquist, Fording, & Hanson (1998).
9. Beyle (2004, p. 212). Average of five-point scale applied to six items: number of separately elected executive branch officials; tenure potential of governor; governor's appointment powers; governor's budget power; governor's veto power; gubernatorial party control of legislature. Average for 50 states is 3.5.
10. Hamm & Moncrief (2004, p. 158). Squire's index based on state legislative salary, number of permanent staff, and length of legislative session.
11. Bibby & Holbrook (2004, p. 88). Ranney interparty competition index: 0.5 to 1.0 scale, with higher number meaning higher competition. Average for 50 states is 0.871.
12. U.S. Census Bureau (2005, p. 20).
13. U.S. Census Bureau (2005, p. 434). Figures are in current dollars. U.S. average is $29,847.
14. U.S. Census Bureau (2005, p. 143). Average for the United States is 25.6%.

The six states that developed performance funding. We chose the six states that established performance funding with an eye to allowing for considerable variation across cases in terms of the timing of performance funding; the higher education sectors it covered; the amount of funding involved; the governance structure for higher education; and a state's political culture, government structure, and social characteristics. Because this was an exploratory study, the aim was to maximize the range of state differences in order to capture a wide range of possible forces at work in the origins of performance funding. Hence, the states were chosen to vary along several different dimensions.

One dimension of the six states that developed performance funding was the timing of establishment. Tennessee formally initiated its system in 1979 after piloting it for five years; Missouri and Florida in 1993 and 1994, respectively; and the other three states in the late 1990s (South Carolina in 1996, Washington in 1997, and Illinois in 1998).

Second, the states retained performance funding for varying lengths of time. Tennessee and Florida have retained performance funding to this day.[1] Illinois, Missouri, and South Carolina abandoned their systems more or less rapidly (after four years in Illinois, seven years in South Carolina, and nine years in Missouri). Washington dropped performance funding in 1999 after two years but then reestablished it eight years later in 2007.

Third, the states also differed in terms of which sectors of public higher education were subject to performance funding. The systems in Florida, Illinois, and Washington (post-2007) applied only to community colleges. However, those in Missouri, South Carolina, Tennessee, and Washington (1997–1999) applied to all of public higher education.

Fourth, the states varied considerably in the proportion of their higher education funding taken up by performance funding. It accounted for a much larger share of the state appropriation for higher education in South Carolina, Florida, and Tennessee than in Illinois, Missouri, and Washington.

Fifth, higher education governance structures varied considerably across the states at the time they adopted performance funding. Tennessee's system was fairly centralized, with a strong statewide coordinating board, a governing board for the University of Tennessee's five campuses, and a governing board for all the other public universities and the public two-year

[1] Florida established two performance funding systems: Performance-Based Budgeting, which survives to this day; and the Workforce Development Education Fund, which ended in 2002.

colleges. Missouri's system was at the other end of the pole in degree of centralization: the state did not have any governing boards or coordinating boards covering all public universities or public community colleges and only a weak coordinating board for all public higher education. Meanwhile, the other four states adopting performance funding fell somewhere in between in their degree of centralization (McGuinness, 2003).

Sixth, the six states differed considerably in state political ideology. Tennessee and South Carolina have had a considerably more conservative electorate than Illinois and California, with the other states falling in between (Erikson, Wright, & McIver, 2005).

The differences in political culture are accompanied by differences in political structure and functioning. Illinois and Tennessee were above average in the institutional powers of the governor, whereas the other four states were a little below average (Beyle, 2004, p. 212). On legislative professionalism, Illinois, Florida, Washington, and Missouri were above average, while South Carolina and Tennessee were below average (Hamm & Moncrief, 2004, p. 158). Finally, the states differed in degree of party competition, with Florida much less competitive than the other states (Bibby & Holbrook, 2004, p. 88).

Finally, the states differed considerably in their social characteristics: population, income, and education. For example, among our six states, Illinois and South Carolina were the polar opposites with respect to several important factors: Illinois was well above the U.S. average in population size per state, per capita income, and proportion of college educated adults while South Carolina was well below (U.S. Census Bureau, 2005).

The two states that did not develop performance funding. In order to better understand the socio-political forces behind the development of performance funding, we also analyzed two states that considered performance funding for higher education but did not adopt it. These cases provide an important counterpoint to the cases where performance funding was established, giving us greater confidence that we are actually isolating the causes that led to the establishment of performance funding.

The two non-performance funding states we examined are California and Nevada. California was of interest not only because it is a large and important state, but also because in 2010 the state legislature considered an effort to establish performance funding for community colleges on the basis of course completions (an up-and-coming form of performance funding that is attracting considerable attention). The fight over this failed effort sheds considerable light on the forces that have kept performance funding from developing in California.

Nevada was of interest because performance funding had never been extensively considered and certainly had not been brought to a legislative vote, although the concept was raised. The state was of additional interest because it has a consolidated governing board for all public higher education institutions, a feature found to be negatively associated with the development of performance funding in a multivariate analysis of performance funding enactments (McLendon, Hearn, & Deaton, 2006). We wished to examine how having such a board might have been a factor in why Nevada and several other states with consolidated governing boards have not developed performance funding.

Demise of Performance Funding Analysis: The Choice of States

To shed new light on the causes of the demise of performance funding, we examined the experience of three states with different experiences of ending performance funding and different contextual factors. The states did so at different times: Washington gave up performance funding in 1999, while Illinois and Florida gave it up in 2002. Hence, in contrast with previous analyses of performance funding demise (Burke, 2002c, d; Burke & Modarresi, 2000), our study included cases from both before and during the recession of the early 2000s. In addition, our examination of Florida is particularly instructive, because it created two performance funding systems, giving one up while retaining the other to this day. Hence, by contrasting the experiences of these two programs in Florida, we can shed further light on the circumstances that lead to the demise of performance funding systems.

Besides their different timing in relinquishing performance funding, the three states differed in other ways that provided different windows into the politics of program cessation (see Table 1.1). They differed in the sectors of higher education covered, with performance funding in Florida and Illinois applying only to community colleges, while in Washington it covered both two-year and four-year public institutions. In addition, the states differed considerably in the proportion of state higher education funding taken up by performance funding, with Florida considerably higher than Illinois and Washington. Finally, the states differed in their higher education governance structures at the time of performance funding demise (McGuiness, 2003). All three had state coordinating boards for their community colleges, but unlike Florida, Washington and Illinois did not have a state governing board for the public four-year colleges and universities (McGuinness, 2003).

Performance Funding Stability and Change Analysis: The Choice of States

For our final analysis, we chose two states that have had performance funding for many years but whose systems varied greatly in their design and origin, and in their socio-political environment. Tennessee, which pioneered the development of performance funding for higher education in 1978–1979, has a system that applies to both two-year and four-year colleges and universities (Banta, Rudolph, Van Dyke, & Fisher, 1996; Bogue, 2002; Bogue & Johnson, 2009; Dougherty, Natow, Hare, & Vega, 2010). In 2010, this performance funding system was joined by a new one, created by the Complete College Tennessee Act. This new system, which comprises the larger funding formula for higher education, focuses on degree completion, student accrual of certain amounts of credits, and in the case of the community colleges, job placement and remedial success (Tennessee Higher Education Commission, 2011b).

Florida enacted performance funding in 1994. Its system has had two incarnations: Performance-Based Budgeting (PBB), which has operated since 1996, and the Workforce Development Education Fund (WDEF), which operated between 1997 and 2002 (Wright, Dallet, & Copa, 2002). Because the WDEF no longer exists, we focused on the evolution of the Performance-Based Budgeting system.

Data Gathering and Analysis

We based our analysis on interviews in each state and on examinations of the documentary record in the form of public agency reports, academic books and articles, doctoral dissertations, and newspaper articles.

Table 1.2 presents the number and types of interviews that we conducted with various political actors: state and local higher education officials, state legislators and their staffs, governors and their advisors, business leaders, academics, consultants, and other observers of policymaking on performance funding in these eight states. The interviews were semi-structured, and we used a standard protocol but adapted questions to the circumstances of a particular interviewee and to content that emerged in the course of the interview. All interviewees spoke with the understanding of confidentiality. In order to maintain confidentiality, we have not identified our interviewees by name but rather indicated their approximate occupational position.[2]

Table 1.2.
Interviewees in Each State

Interviewee	CA	FL	IL	MO	NV	SC	TN	WA
State higher education officials	5	10	8	4	4	5	8	6
Higher education institution officials	7	8	10	4	5	7	5	5
Legislators and staff	1	3	2	5	1	4	2	6
Governors and advisors	2	3	3	3	1	1	2	2
Other state government officials		1						
Business leaders	2	2	1	2	1	3	1	1
Other (e.g., consultants, researchers)	4		1	2	1	5	5	2
Total	21	27	25	20	13	25	23	22

Almost all of the interviews were transcribed, coded, and entered into the NVivo qualitative data analysis software system. We also entered into NVivo and coded our documentary materials if they were in a format that allowed doing so. The coding began with a preestablished list of codes, focusing on the content of the performance funding systems; the actors, beliefs, and motives supportive of or opposed to performance funding; and contextual events, such as state budget problems or changes in control of the government that were hypothesized to affect the likelihood that performance funding would be put on the government decision agenda and adopted. We added new codes and changed existing codes as we proceeded with our interviews and documentary analysis.

To analyze the data, we ran coding inquiries in NVivo to find all references in the interviews and documentary materials to particular actors, beliefs, and motives, or to contextual events. We used these references to construct analytic tables to compare different references to the same actor, motive, or event. This allowed us to analyze the degree to which our evidence was converging on certain findings and whether divergences were due to the fact that different respondents occupied different social locations that might influence their perceptions. When we found major discrepancies in perception, we conducted additional interviews to resolve these differences.

[2] Some of the interviews in Florida and Illinois were conducted as part of a study funded by the Sloan Foundation (Dougherty & Hong, 2006). We thank the foundation for its support of the National Field Study of Community Colleges (Bailey & Morest, 2006).

Theoretical Perspectives

In addressing our three research questions, we drew on a variety of theoretical perspectives. In analyzing the political origins of state performance funding systems, we used the advocacy coalition framework, the policy entrepreneurship perspective, and policy diffusion theory. We applied these theories heuristically, as sensitizing constructs to point us toward examining different features of the policy process involved in enacting or not enacting performance funding. The advocacy coalition framework focused our attention on how policy evolves over long periods of time, driven by the efforts of different "advocacy coalitions" that have distinctive sets of beliefs about how society should be organized, what are important higher education problems, and how those problems should be addressed (Sabatier & Weible, 2007). The policy entrepreneurship perspective highlights the role of policy entrepreneurs who identify public issues, develop policy solutions, bring together political coalitions, and take advantage of political opportunities to promote their policy issues and solutions (Mintrom & Norman, 2009). Finally, policy diffusion theory extends the emphasis of the advocacy coalition framework on policy learning by analyzing the impact on state policymaking of the example of neighboring states and of cross-state professional associations and state policy organizations such as the National Governors Association and the National Conference of State Legislatures (Berry & Berry, 2007; McLendon, Heller, & Young, 2005).

In analyzing the demise of performance funding systems, we applied insights from policy termination theory in the policy sciences literature and program sustainability theory in the public health and social welfare literatures. Both analyze the conditions under which policies are terminated or, conversely, sustained. Policy termination theory argues that a policy is more likely to be terminated when it is operating in a period of budget cuts; there is a change of administrations, with new office holders who are not wedded to existing policy; the initial champions of a policy are no longer present; the resistance to policy termination lacks capable leadership or effective defensive tactics; the ideological matrix in which the policy is embedded has been delegitimated; and the policy is new and has had less opportunity to accumulate allies (Bardach, 1976; DeLeon, 1978; Kirkpatrick, Lester, & Peterson, 1999). Program sustainability theory holds that programs are more likely to be sustained if the program design conforms to traditional practices and organizational forms, the design process allows for input from program constituents, the implementing institutions champion the policy and have the resources to effectively implement it, and the program is perceived as effective (Racine, 2006; Scheirer, 2005; Shediac-Rizkallah & Bone, 1998).

Finally, to analyze changes in the funding and content of long-established performance funding systems, we drew on policy implementation theory. Policy implementation theory is useful in highlighting the fact that the politics of policymaking do not end with enactment but continue thereafter. This reality has been particularly highlighted by second- and third-generation theories in policy implementation, which pay as much attention to the perspectives of those applying policy as to those designing it. Such later-generation perspectives highlight the reactions of lower level policy implementers, and focus on an examination of how the implementers' interests, beliefs, knowledge schema, and experiences shape their views of a policy and thus their willingness to support it and in what form (Elmore, 1979–80; Honig, 2006; Matland, 1995; McLaughlin, 1987, 2006; Spillane, Reiser, & Gomez, 2006). This "bottom-up" perspective is particularly useful in situations of "high ambiguity" of policy ends or means, as is typical of educational policymaking (Matland, 1995, pp. 160, 165–170). The implementation of performance funding is a good candidate for a bottom-up perspective. Even if there were agreement on the policy goals, and even on the specific performance indicators, there is great ambiguity about how tying funding to those indicators should and does shape institutional practice.

In the following chapters, we present our detailed analyses of the origins, demise, and major changes in performance funding systems as they apply to the eight states in our study. At the end of this report, we present our conclusions for policy action, drawn from the study.

Chapter 2

Origins of State Higher Education Performance Funding Systems

This chapter addresses our first research question, which seeks to identify the factors that make performance funding systems more likely to be adopted by states. We present our analysis of the design features, political forces, and socio-political contexts behind the origins of state performance funding in six states that adopted performance funding (Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington) and contrast the experiences of another two states that did not develop performance funding (California and Nevada). We chose the eight states because they have considerably different histories with state performance funding systems, as well as different higher education governance arrangements, political systems, political cultures, and social characteristics (see Table 1.1 in Chapter 1), all of which enable analysis of the formation of state performance funding systems from a wide variety of angles.

Our explanation for the rise of performance funding in six states both converges with and diverges from the prevailing perspective on the rise of performance funding. The existing relevant research literature highlights the following conditions as playing a role in adoption of performance funding: the coincidence of a revenue/cost squeeze on elected officials, business demand for greater higher education efficiency and lower costs, public unhappiness with rising higher education costs, a strong Republican presence in state legislatures, the greater vulnerability of higher education to government cutbacks, the rising capacity of state governments to collect detailed information on colleges, a growing belief in the inadequacy of traditional mechanisms of quality evaluation, and the absence of a consolidated governing board (Alexander, 2000; Burke, 2002a; McLendon, Hearn, & Deaton, 2006; Rhoades & Sporn, 2002; Ruppert, 1995; Zumeta, 2001).

Our research found that the prevailing perspective on the rise of performance accountability is correct on a number of points but that it also misses several important elements. We saw little evidence that public unhappiness with rising higher education costs and a growing belief in the inadequacy of traditional mechanisms of quality evaluation were significant factors in the rise of performance funding in our six states. More importantly, we identified a variety of actors and beliefs and motives that the prevailing perspective does not incorporate. In particular, we part company with the prevailing perspective by calling attention to opposition by higher education institutions. They prevented the establishment of performance funding in California and, in other states, its application to the state universities, and they played a major role in the later demise of performance funding in several states. Finally, our research pointed to the importance of political timing ("policy windows") and learning from past policy initiatives as important factors in the rise of performance funding.

For our analysis, we drew upon interviews and documentary analyses conducted in the eight states. We interviewed state and local higher education officials, legislators and staff, governors and their advisors, and business leaders. The documents analyzed included state government legislation, policy declarations and reports, newspaper accounts, and analyses by other investigators. In order to maintain confidentiality, we do not identify our interviewees by name in this report but rather identify them by approximate position. (For more details on the categories of individuals interviewed, see Table 1.2 in Chapter 1.)

We turn now to an examination of the origins of performance funding in six states, arrayed from earlier to later in date of enactment: Tennessee, Missouri, Florida, South Carolina, Washington, and Illinois. We follow this analysis with an examination of the lack of such development in California and Nevada. Next we summarize the main patterns across these states in terms of supporters and opponents of performance funding, motivating beliefs, and political openings shaping the actions of the supporters. Lastly, we present the implications of our findings for the prevailing explanation of the origins of state performance funding programs for higher education.

Tennessee

Adopted in 1979 following a five-year pilot period, Tennessee's program of performance funding for higher education was the first of its kind, and our research revealed that it was developed and refined almost entirely within the state's higher education community.

The Structure of Performance Funding in Tennessee

Originally dubbed "the Instructional Evaluation Schedule" (Ewell, 1994a, p. 85; Levy, 1986, p. 20), Tennessee's performance funding system began as a pilot program in 1974 (Banta, 1986; Bogue, 1980; Levy, 1986). Foundation funding was obtained to support the pilot (authors' interviews; see also Banta, Rudolph, Van Dyke, & Fisher, 1996; Bogue, 2002; Burke & Serban, 1998; Levy, 1986). During the pilot, some public institutions volunteered to take part in the development of performance funding indicators and measures and make suggestions about how the program should work. These institutions' experience led to the development of the formal performance funding policy that was applied to all of the state's public institutions five years later (authors' interviews).

The Tennessee Higher Education Commission adopted performance funding for the state's public two- and four-year higher education institutions in 1979 (Banta, 1986; Banta et al., 1996; Bogue, 2002; Ewell, 1994a; Levy, 1986; Noland, Johnson, & Skolits, 2004). Funds were first allocated to institutions using performance funding in fiscal year 1980–81 (authors' interview). Under that system, higher education institutions could earn up to 2 percent of their annual state appropriations for achieving certain goals based on five performance indicators, each of which was worth 20 out of 100 points (Banta et al., 1996; Bogue & Johnson, 2009; Ewell, 1994a; Levy, 1986).[3] The original indicators and their point allocations were as follows (Banta, 1986, pp. 123–128; Bogue, 1980; Bogue & Johnson, 2009):

1. Program accreditation: The proportion of eligible programs in the institution's inventory that are accredited (20 points).
2. Student major field performance: Student performance in major fields as assessed by examinations that have normative standards for state, regional, or national referent groups (20 points).
3. Student general education performance: Student performance in general education as assessed by a nationally normed exam such as the ACT-COMP examination (20 points).
4. Evaluation of instructional programs: Evaluative surveys of instructional programs or services for a representative sample of current students, recent alumni, or community members or employers (20 points).
5. Evaluation of academic programs by peer review teams of scholars from institutions outside state and/or practicing professionals in a field (20 points).

[3] Performance funding was designed with an "improvement" focus so that each institution was competing with itself for the 2 percent, not with other institutions. Institutions were told that performance funding was voluntary and that they did not have to participate. Performance funds allocated to institutions could be used for any purpose by the institution; they were not earmarked (authors' interview).

In the years following, the performance indicators changed. Some were added, others were dropped, and some were measured in new ways. In addition, the percentage of funding that institutions could earn based on performance increased from 2 percent to 5.45 percent (see Bogue & Johnson, 2009; Dougherty & Natow, 2010). However, Tennessee's performance funding system has exhibited a high degree of stability overall.[4]

Patterns of Support and Abstention

The Tennessee higher education community was actively involved in the development of the state's performance funding program, with the Tennessee Higher Education Commission (THEC) and institutional representatives from each public college and university leading the effort to develop the program. Legislators, the governor, and the business community played a much lesser direct role in the program's creation; however, these actors played secondary roles that were important background aspects of the development of performance funding in Tennessee. There was no organized opposition. Though many institutional representatives were skeptical of performance funding, they did not voice open opposition or organize against it.

Supporters. Our research shows that the creators and main champions of Tennessee's performance funding program were administrators within the state's Higher Education Commission (authors' interviews; see also Bogue, 2002; Folger, 1989). One of our respondents, a Tennessee higher education insider, described THEC administrators as "the chief architects" of Tennessee's performance funding program (authors' interview). Moreover, a former state-level higher education official told us, "This policy was not shoved down our throats by a legislature. It was not imposed in any way. It was something that [the THEC] developed from within."

Significant parts of the higher education community joined the Tennessee Higher Education Commission to support performance funding (Folger, 1989). To help design the system, the Commission created a statewide advisory committee composed of staff members of the two governing boards, institutional staff, academic and financial specialists, and members of the education and finance committees of the state legislature (authors' interviews; Bogue, 2002; Levy, 1986). A former public university administrator noted: "There were representatives from each of the major systems, University of Tennessee being one, and the Tennessee Board of

[4] For a description of these changes, see Bogue and Johnson (2009). For an analysis of the causes of the relative stability of the Tennessee performance funding system over time, see Dougherty and Natow (2010).

Regents the other, and those representatives suggested how performance funding might be put together" (authors' interview). In addition, institutional representatives served on initial advisory committees and helped the THEC to develop the details of the performance funding policy (authors' interview). Finally, a large number of the state's public institutions volunteered to participate in the initial pilot program (authors' interviews; Levy, 1986, pp. 16–17).[5]

The supporters of performance funding were united by a certain number of beliefs held in common. They included the importance of making higher education more accountable and raising its quality. Doing both enabled Tennessee public higher education institutions to make a stronger claim for public funding and preempt the possibility of accountability systems that they would find distasteful.

Many within the Commission and the higher education institutions shared the growing national perception that public agencies—including public colleges and universities—should be more accountable to the general public and responsive to changing social needs (Levy, 1986, p. 14; see also authors' interviews). A community college official explained that the people of Tennessee:

> …knew the technology age was coming. They knew that the age of skilled workers and professional employees was coming, and factory was going away, and so they needed to tool up for that. So there was pressure both on the public and from professionals to change the focus of higher education.

Performance funding was seen as a means to improve the quality of Tennessee public higher education institutions (authors' interviews; see also Ewell, 1994a, p. 86). Advocates of performance funding believed that the existing enrollment-driven funding formula did not sufficiently address quality improvement (authors' interview).

The supporters of performance funding also believed it was a way to justify increased higher education appropriations at a time when enrollments were not rising as fast as before (authors' interviews; see also Bogue, 2002; Ewell, 1990; Folger, 1989). According to one insider, THEC administrators "decided that they could use a performance funding mechanism to convince the legislature that our campuses, public universities, and colleges in the state were

[5] Early involvement of colleges and universities in the development of performance funding was cited by some of our respondents as a reason for the program's longevity (authors' interviews; see also Dougherty & Natow, 2010).

accountable, and therefore deserved a supplement to the budget." In addition, a former state-level higher education administrator noted that:

> Tennessee was expecting to see downturns in budgets for higher education, a flattening of enrollment growth, and their thought was, "How can we demonstrate performance and accountability in return for sustained or additional funding?"

Finally, the supporters of performance funding believed that the policy would be a means to prevent externally imposed accountability measures, which the THEC thought might be enacted if the higher education community did not implement an accountability mechanism of its own (authors' interviews; see also Bogue, 2002). According to a former community college official, before performance funding was adopted in Tennessee:

> The highest level of government said, "Higher education will improve or we will improve it for you." I think that's what woke everybody up. We better fix this ourselves in higher education or legislature is going to pass some laws that make us do it.

A former state-level higher education official said that THEC administrators did not believe that an external accountability imposition was "imminent," but they "didn't want it to become imminent," and they took their "own initiative and to show that [higher education was] willing to be accountable" (authors' interview).

Supportive but not active actors. Elected officials and the business community did not push for performance funding. However, their demand for greater accountability by government agencies provided the context within which the Tennessee Higher Education Commission developed its performance funding proposal.

In Tennessee, elected officials (i.e., the governor and legislature) were essentially uninvolved in the development of performance funding (authors' interviews). According to one insider, the performance funding program "was the brainchild of [THEC administrators], and then they managed to sell it to the legislative committees that were responsible for funding higher education."

But the fact that elected officials did not have direct involvement in the creation of the performance funding program in Tennessee did not mean that the legislative and executive branches did not influence the creation of performance funding. At the very least, if the legislature and governor had opposed performance funding, the program would not have succeeded: performance funds were embedded in appropriations in the state budget bill, which had to pass the legislature and be signed by the governor (authors' interviews). In addition, legislative and gubernatorial demands for greater accountability from public agencies shaped the thinking of the higher education advocates of performance funding (authors' interviews; Bogue & Troutt, 1977). A community college official told us:

> We had relied forever on the familiar enrollment formula, and it's like counting warm bodies on the fourteenth day, and that was changing toward a performance-based view of funding, and all that discussion was going on in the general public; in the newspapers…And that trickles through the legislature and then ultimately ends up in the governor's office, and before you know it they've got a commission called the Tennessee Higher Education Commission to deal with it.

Finally, some legislators did play a more direct role. The THEC's statewide advisory committee for performance funding did include some legislators (Bogue & Brown, 1982, p. 124; Levy, 1986, p. 15).

Like elected officials, members of the business community were not directly involved in the development of performance funding in Tennessee, except insofar as there were businesspeople on the Tennessee Commission of Higher Education (authors' interviews). One of our respondents who had been involved in the development of the state's performance funding program told us that "the business community just ignored it, because it wasn't publicized very much." This position stands in contrast with the states of Florida, South Carolina, and Washington, where the business communities openly supported performance accountability for higher education.

It is worth noting, however, that business leaders served on the Higher Education Commission, which was the entity that created the performance funding program (authors' interview). Also, our findings suggest that the need to provide a skilled workforce for business and industry may have been one of the motivations for adopting performance funding (authors' interview). According to a former community college official:

> I think the call was for "improve your quality of higher education to benefit the industry and commerce, the private sector growth of the state." So there was a concern at that point that Tennessee had to move into this nearly emerging age of skilled laborers.

Thus, although the business community did not directly advocate for performance funding in Tennessee, business leaders and business concerns about quality and a highly skilled workforce were important considerations in the program's development.

Latent opposition. While a sizable number of individuals and institutions in higher education supported performance funding, many others did not. However, this opposition was not organized or even particularly vocal (authors' interviews; see also Bogue & Brown, 1982; Bogue & Troutt, 1977; Folger, 1989; Levy, 1986).

One of the reasons for institutions' opposition was the belief that performance-based funds were coming at the expense of dollars that might have come from the regular enrollment-based funding formula. Many felt that the formula was not fully funded and questioned why the state would move forward with a "new" performance element when the formula was not providing adequate funds to support enrollment growth and quality. This perception was due in part to the fact that the funds for performance funding were initially embedded within the regular state appropriation for higher education and were not a separate item. Moreover, at the time the Commission on Higher Education requested appropriations for performance funding, the governor had cut the request for enrollment-based funding (authors' interview; Bogue, 1980, p. 6; Levy, 1986, p. 21).

Higher education organizations also expressed concerns about the vagueness of some indicators and the fact that some measures were not tailored to the unique role of community colleges and some graduate programs (authors' interview; Levy, 1986).[6] Moreover, according to one of our respondents, performance funding:

> …goes against the grain of academics and faculty to think that there is something that is supposed to be showing quality and [that] it's test scores of students, [because] test scores are…so heavily influenced by prior learning so you're measuring what the students brought in with them.

Despite their unhappiness about performance funding, the institutions that disliked the program did not openly oppose its development (authors' interviews). As one former community college official said:

> Faculty and general staff and business officers and people like that

[6] Many of these criticisms continued in 1979 and 1980, after the performance funding system was authorized. The Commission responded by making various changes in the indicators and how they were measured (Levy, 1986, pp. 21–-23).

> just were looking at it like just another government program. Just another administrative hoop to jump through. And I wouldn't call it so much as opposition as I would [a] folded arms, harrumph attitude…They were suspicious of it being another government-imposed procedure or administrative process that wouldn't necessarily benefit them. But [I wouldn't] say there was any opposition in terms of banging the desk or anything. None of that.

Another higher education insider told us that institutions' lack of vocal opposition was perhaps because many institutional representatives did not believe that performance funding would actually go forward.

The Process of Establishing Performance Funding

The Tennessee Higher Education Commission moved in a deliberate fashion to develop performance funding. The executive director of the Higher Education Commission, John Folger, first gathered together some commission staffers in 1974 to develop the effort. Aided by foundation funding, this group pilot tested the performance funding system over five years.[7] The Higher Education Commission received funding from the federal Fund for the Improvement of Postsecondary Education, the Ford and Kellogg Foundations, and an anonymous foundation in Tennessee to finance the pilot of the performance funding program (authors' interviews; see also Banta et al., 1996; Bogue, 1980; Bogue, 2002; Burke & Serban, 1998; Folger, 1989; Levy, 1986; Serban, 1997).

To help design the system, the Tennessee Higher Education Commission gathered opinions from educational experts across the country and created a statewide advisory committee composed of university governing board staff members, staff from colleges and universities, academic and financial specialists, and members of the education and finance committees of the state legislature (authors' interview; Bogue, 2002; Burke & Serban, 1998; Levy, 1986). In fact, the staff of the state's two governing boards—the Tennessee Board of Regents and the University of Tennessee system—worked closely with the THEC in the development of performance funding (authors' interviews). Members of the governing boards served on one of the initial performance funding advisory committees (authors' interview). In addition, the Commission invited the state's public higher education institutions to submit proposals to

[7] Folger's successor, Wayne Brown, also supported and promoted the performance funding program (authors' interview).

develop “a set of performance indicators reflecting the identity of an institution” and “provide at least some very tentative thinking about how performance on indicators might be rewarded through the appropriation process” (as cited in Levy, 1986, p. 16). The Commission received proposals from 19 of the 21 public institutions and approved 12 of them. As the pilot projects were implemented, THEC staff visited the campuses to observe and provide advice for the projects (Bogue, 1980; Bogue & Troutt, 1977, 1978; Levy, 1986). In the process, the Commission staff learned of the importance to institutions of performance indicators that were tailored to institutional missions. The Commission also found out how important it was to institutions to have a funding system that would not lead institutions to receive less funding than they would on an enrollment basis if they performed poorly (Bogue & Troutt, 1977, pp. 7–8).

Policy Learning

Tennessee did not have the advantage of learning from previous efforts to establish performance funding from higher education, since it was the first state to establish such a system. However, previous policy experiences did play a role in shaping the views of the advocates of performance funding. Their interest in performance funding was stimulated in part by a growing perception that enrollment-based formula funding had its limits. There was growing criticism inside and outside higher education that enrollment-based formula funding provided no incentive for improving instructional performance but instead encouraged institutions to simply pursue increased enrollments (Bogue & Brown, 1982, p. 124; Bogue & Troutt, 1977, pp. 1–2; Serban, 1997, p. 91).

Agenda Setting

Certain contextual events in the 1970s appear to have spurred or facilitated the efforts of the advocates of performance funding in Tennessee. First, performance funding was developed in a period when state budgets were under great strain and yet there was great resistance to higher taxes (Levy, 1986, pp. 13–15; authors’ interview). For example, California passed Proposition 13 in 1973, which put limits on how much state taxes could rise (Levy, 1986). In addition, in the 1970s Tennessee elected two Republican governors with accountability priorities and the legislature had begun to base budget requests on “program effectiveness” (Burke & Serban, 1998, p. 45; Serban, 1997).

Summary of the Origins of Performance Funding in Tennessee

Tennessee's performance funding program was established in 1979, the first performance funding system for higher education in the country. It was begun as a pilot program in 1974, and the details were worked out over the next five years through active collaboration between the Tennessee Commission on Higher Education and representatives from the public colleges and universities. Legislators, the governor, and the business community did not play a direct role in the program's creation. However, their demands for greater accountability by government agencies, for education reform, and for an education system that produced a highly qualified workforce provided the context within which the Tennessee Higher Education Commission developed its performance funding proposal. There was no organized opposition. Although many institutional representatives were skeptical of performance funding, they did not voice open opposition or organize against it. The rise of performance funding reflected both policy learning on the part of higher education actors concerned about higher education finance and the occurrence of contextual events, such as the budget troubles of the late 1970s and the election of governors and legislators who valued greater accountability on the part of government agencies.

Missouri

Missouri was one of the first states to develop performance funding for higher education, creating a system in 1993 that took effect in fiscal year 1993-94 (Stein, 2002, p. 113; Stein & Fajen, 1995, pp. 82–83). Its system attracted a lot of attention from policymakers and analysts nationwide because it had been carefully designed and seemed likely to last a long time (Burke, 2002a; Ewell, 1994b; Schmidt, 2002a, 2002b).

The Structure of Performance Funding in Missouri

The performance funding system (Funding for Results) began in fiscal year 1994 with a $3 million appropriation to be applied to the performance of public four-year colleges. The following year, $4.3 million was appropriated for the four-year colleges and $500,000 was added for the two-year colleges. In subsequent years, funding rose and fell, peaking in fiscal year 1999 at $11 million for the four-year colleges and $2.3 million for the two-year colleges (Stein, 2002, pp. 127–128). However, the Funding for Results (FFR) program failed to receive state funding after fiscal year 2002 and disappeared (Dougherty, Natow, & Vega, in press), although performance funding requests were sent forward in the higher education budget requests sent to the governor and the General Assembly in subsequent years.

The Funding for Results program began with three indicators but they eventually flowered into six for the community colleges and eight for the universities. Four indicators were common to both types of institutions: freshman success rates, success of underrepresented groups, performance of graduates, and successful transfer. The community colleges had two additional, sector-specific indicators: degree/certificate productivity and successful job placement. The four-year colleges and universities, meanwhile, had four additional sector-specific indicators: quality of new undergraduate students, quality of new graduate students, quality of prospective teachers, and attainment of graduation goals. Two of the early indicators were dropped in later years: assessment of graduates and degrees in critical disciplines (Naughton, 2004; Stein, 2002).

Patterns of Support and Abstention

Performance funding for higher education in Missouri was supported by a coalition involving the Coordinating Board for Higher Education, Governors Mel Carnahan (Democrat, 1993–2000) and John Ashcroft (Republican, 1985–1993), and Democratic legislative leaders. While the program was not formally opposed by any organized group, there were pockets of resistance both within and outside higher education. Individual business leaders were supportive but the business associations were quiet. However, business did exert considerable indirect influence. Finally, higher education institutions ranged from mildly supportive to decidedly negative, but the institutions did not become involved politically.

Supporters. The main coalition in support of performance funding was comprised of the Coordinating Board for Higher Education, Governor Carnahan, and Democratic legislative leaders (Stein, 2002, p. 119). Also playing significant roles were Governor Ashcroft and external consultants, including the National Center for Higher Education Management Systems (NCHEMS).

Virtually all the individuals whom we interviewed stated that the Coordinating Board—most particularly, its top leadership—played the most important role in conceiving and pushing performance funding. Especially singled out were the Commissioner of Higher Education, Charles McClain (1989–1995), and a senior administrator, Robert Stein. They had conceived of performance funding and then championed the idea with the governor, legislators, and institutional leaders (authors' interviews; see also Naughton, 2004; Stein, 2002; Stein & Fajen, 1995).

Governors Carnahan and, less so, Ashcroft were key supporters of performance funding. Carnahan was the first governor to recommend a budget appropriation for performance funding in his fiscal year 1994 budget message (Stein, 2002, p. 113; Stein & Fajen, 1995, pp. 82–83). Furthermore, in his budget message for the fiscal year 1995, Carnahan highlighted Funding for Results by placing it under a separate budget heading, "Requiring Performance and Rewarding Success" (Stein, 2002, p. 114). Ashcroft had also supported the concept of rewarding institutions based on student performance (Cobbs, 1989; Stein, 2002, pp. 109, 111–112; Thomson, 1991). However, he did not support an actual appropriation of performance funding dollars, as recommended in 1991 by the Coordinating Board for Higher Education for the fiscal year 1993 budget (Naughton, 2004, p. 95; authors' interviews).

Democratic legislative leaders played a key role in the formation of the Missouri Business and Education Partnership Council that recommended incentive funding for higher education and a 1991 referendum Proposition B that would have mandated it (Ganey, 1991; Missouri Business and Education Partnership Commission, 1991). Interestingly, Republican legislators were not leading advocates of performance funding, as they were in states such as Florida, South Carolina, and Washington (authors' interviews).

Rounding out this advocacy coalition were outside consultants associated with the National Center for Higher Education Management Systems (NCHEMS). They were involved in the design of Proposition B, including its provision to reward colleges and universities for each minority student they graduated (authors' interviews; Aguillard, 1990).

The coalition advocating performance funding was united by certain beliefs they held in common. One was the importance of getting more state funds for higher education. The second was the importance of increasing higher education efficiency by reducing unnecessary duplication in the provision of higher education programs. In addition, the Coordinating Board was animated by the belief in the importance of improving the quality of higher education. In each case, performance funding was seen as a very useful way of securing these benefits.

The Coordinating Board, Governors Carnahan and Ashcroft, and Democratic legislative leaders wanted to increase state funding for higher education. But this was notably difficult given the state's anti-tax mood and recent legislation (the Hancock Amendment) that made it difficult to raise taxes. Performance funding was seen as a way to legitimate an increase in state funding because of its promise to make higher education more efficient and effective (authors' interviews). For example, a state higher education official argued:

> It's not very dramatic to get up and talk about how many library books you have or the input measurements. A person sitting on the Appropriations Committee [is interested in] how many are graduating and what kind of citizens that you are producing and things of that type. All of the evidence that one can accumulate to show that here are the things that are happening as a result of the education that is going on the campuses, it makes a very powerful and persuasive case for additional funding…I just thought it was a creative way to try and get to tell our message in a little more measurable way and put a little meat on the message so it wouldn't just be high rhetoric that tells how wonderful it is if you will support higher education and how much of a difference it will make in our economy and economic development and blah, blah, blah. Remember we're from the Show Me state and there must be a reason for some of those mottos.

The second belief animating the coalition's support for performance funding was the importance of making higher education run more efficiently and the usefulness of performance funding in doing this (Missouri Coordinating Board for Higher Education, 1992; authors' interviews). For example, a state university official noted:

> There was a move on a lot of institutions in Missouri to expand and to try to be like each other and compete with each other…They were doing things like setting up satellite operations in each other's backyard; universities that…grew out of normal school systems and then became regional universities were now wanting to be research universities…That was a great concern to the commissioner [of higher education]…It would have been prohibitively expensive for all institutions to try to expand their missions. …What I see the [Coordinating Board for Higher Education] was able to do with performance-based funding was to provide incentive for institutions to…do the right things or to stay within their mission.

Governor Carnahan and legislative leaders shared this concern about finding ways of keeping down the operating costs of higher education. As a university official noted:

> Carnahan's motives too, I think, were pretty straightforward…We have too many publicly supported institutions of higher education

> in this state. We spread our dollars very thin…So the governor, regardless of who it is, is going to hear a lot of concerns about funding of public higher education, and I think this in part was probably a reasonable way for a governor to respond. "Okay, let's see how good we are, how we can make ourselves better, and can we make our few dollars go further and be more effective."

Similarly, legislative leaders were attracted to the promise of performance funding in reducing duplication in higher education (authors' interviews; Thomson, 1992). A Democratic legislative leader who served on the Missouri Business and Education Partnership Commission noted:

> Mission-drift is what we were trying to prevent…We were working on missions and each of the institutions was to define as clearly as possible the mission of the institution… We attempted to eliminate mission-drift as much as possible because of duplication…And the institutions were getting funding based on the efficacy of their missions and their attempt to prevent mission-drift.

Thirdly, the Coordinating Board believed in the efficacy of performance funding in improving the quality and effectiveness of higher education (authors' interviews). As a Coordinating Board official noted,

> The overriding concern was to try to focus on quality at the state level. The temptation—particularly with institutions that have a fairly decent Chamber of Commerce so to speak —[is]… to want to boost the fall enrollment and to get state appropriations based on the enrollment as of October without regard to whether or not the students succeed or whether or not they stay and graduate…One of the ways that it occurred to me that one might try to change the conversation slightly would be to say we're going to have some measurements that relate to the academic part of the house and the quality part rather than just the quantity part. …It was a mechanism to provide an incentive to look at the outputs in higher ed as well as the inputs such as FTE [full time equivalent] and student enrollment…I knew that it was not possible to get funding at 100 percent or even a large percent, but we started and said, "Well let's see if we can get a margin of excellence, if you will, and fund that 5 percent or 6 percent margin based on some agreed-upon academic outputs."

Supportive but not active actors. Elements of the business community were supportive of performance funding—for example, there were business members on the blue-ribbon commissions that called for incentive funding or performance funding (Missouri Business and Education Partnership Commission, 1991; Missouri Coordinating Board for Higher Education, 1992). However, none of the business associations formally came out in favor of performance funding (authors' interviews). As a state higher education official noted:

> I'm not sure the Chamber really ever got it…I'm not sure; maybe we didn't do a good job of selling it to them…We had individual corporate types that might have been curators [members of the board] at the University of Missouri for example…So you had the individual support, the individual institutional support, but nothing on an organized basis from the Chamber of Commerce that I recall.

Even if business was not mobilized in favor, it could be argued that it still exerted a powerful indirect role.[8] Its possible resistance to funding increases for higher education unless they were coupled with accountability requirements shaped the strategy of the advocates of more funding (authors' interview). As a prominent state legislator noted:

> You've got [a] group of people looking for money… You've got this maybe coincidental group of conservative business entities who as a resistance to additional funding. …they want to talk about things like accountability…So you know, performance-based funding was just kind of brought to us by consultants as a way to pacify various conservative groups.

Ambivalent and not involved actors. Higher education institutions ranged between mildly supportive to decidedly negative about performance funding, but initially they did not get involved politically in the passage of the measure (authors' interviews; Stein, 2002, p. 115). As a state higher education official noted:

> In my perception, in the beginning years, there was a lot of resistance to FFR from the presidents. They were not overly enamored with it…because it was intrusive. It was a perception that they were going to have to earn some of their money out of an era where [it was felt], "We do good things, we're entitled and we deserve increases. You're encroaching on…our increases." You know that whole tension between the days of "We do good work. Put the money on the stump and go away and give it to us because we deserve it."

[8] For more on this concept of non-participatory business power, see Dougherty (1994).

To be sure, the medium-prestige institutions and the community colleges were somewhat supportive, though they had their criticisms of the original formulation of performance funding (authors' interviews). However, the University of Missouri was decidedly negative (authors' interviews; Stein, 2002, p. 115). In fact, in a 1994 letter to the Commissioner of Higher Education, Chancellor Charles Kiesler of the University of Missouri–Columbia urged reconsideration of the whole Funding for Results approach, labeling it "basically flawed" (Stein, 2002, p. 115).

Pulling the higher education institutions toward supporting performance funding was an awareness that it might be the necessary price for securing more state funding (authors' interviews; Naughton, 2004, p. 69). As a prominent state legislator noted:

> I don't know if I'd say [the universities did] flat out oppose it [performance funding], but they certainly had problems with it. I think they also wanted money, too…Recalling my conversations with the faculty, they were philosophically opposed to it, but they also were listening to people like myself about the political realities and the things we needed to do if we ever were going to get any more money…I think a lot of people…recognized the other goodies that it [performance funding] brought along.

However, this awareness of the political benefits of performance funding was counterbalanced by reservations on the part of higher education institutions about performance funding. Above all, there was a feeling that performance funding brought an unwanted and illegitimate infringement on academic autonomy (authors' interviews; Aguillard, 1992; Stein, 2002, p. 116). A university official observed:

> Initially, the University of Missouri opposed it mainly on the basis that…the funding was based on a general education competency test and on major field exams…A lot of people felt that we should not let politicians and the legislature get involved in what we teach.

In addition to this rather widespread feeling, there were other more localized objections. Some institutions voiced concern that performance funding came at the expense of increases in their regular funding and was just one more bureaucratic requirement superimposed on an already underfunded, overworked faculty (Stein, 2002, p. 116; Stein & Fajen, 1995, pp. 86–88; authors' interview). There was also concern that performance funding imposed a one-size-fits-all system on higher education, with indicators and standards that did not sufficiently reflect different institutional missions (authors' interviews). This was particularly the concern of the community colleges, which felt that the indicators were tailored too much to the realities of the four-year colleges and too little to those of community colleges with their commitment to open enrollment and student progress that did not necessarily require graduation (authors' interviews).

The Process of Establishing the Funding for Results Program

The heads of the Coordinating Board for Higher Education, especially Commissioner of Higher Education, Charles McClain, were the key political entrepreneurs in the development of performance funding in Missouri (authors' interviews; Stein & Fajen, 1995, p. 80). A university official observed:

> It was [Charles McClain's] idea, and he based it in part on his success at what became Truman State University up in Kirksville…A value-added approach to the evaluation of the academic program. He basically had students come in having taken the ACT or the SAT and he would re-give that test at the end of the second, third year…So leaving that role, he came to be the Commissioner of Higher Education, and Charles is not one to just let things rock along…One of the initiatives that he started was this performance-based funding.

As noted above, McClain had developed a much celebrated academic assessment program in the 1980s that brought national attention to Northeast Missouri State University (later called Truman State) (Ewell, 1991; Serban, 1997, p. 81; Stein & Fajen, 1995, p. 79). In 1989, he became Commissioner of Higher Education (1989–1995) and directed the staff of the Coordinating Board for Higher Education (CBHE) to begin to explore the concept of performance funding with all public institutions. Institutions were invited to work with CBHE staff in developing the guiding principles (Serban, 1997, p. 94; Stein, 2002, pp. 110–111; Stein & Fajen, 1995, p. 80). In 1991, McClain testified before the legislature, urging the importance of linking funding with results (Stein, 2002, p. 111). He also served on the Missouri Business and Education Partnership Commission, which in its 1991 report called for giving CBHE control over 2 percent of the state's higher education budget (about $12 million) for incentives to colleges and universities that showed improvement in, for example, graduating students with better writing skills. The MBEPC report also called for $10 million to increase the graduation rates of economically poor students, especially minority students (Aguillard, 1991a). And in 1992, McClain led the CBHE to form a Task Force on Critical Choices composed of chairs of all public college and university boards (Naughton, 2004, p. 65; Serban, 1997, pp. 83–84, 93–94, 115–116; Stein, 2002, p. 112; Stein & Fajen, 1995, p. 79). Among other things, its report called for:

> Financial incentives and rewards for performance as well as targeted funds to achieve focused institutional missions and improvements in institutional governance; such programs may include but are not limited to the following performance measures: implementing admission decisions appropriate to institutional missions; increasing student performance in general education and the major field of study; increasing participation and graduation of historically underserved populations, particularly minorities, as well as increasing the proportion of faculty and staff from historically underrepresented populations; increasing institutional graduation and time-to-completion rates, particularly in critical high-skill traces and disciplines; encouraging students to continue their formal education through transfer or post-baccalaureate study; developing distinctive programs and more focused missions; and achieving administrative efficiency goals. (Missouri Coordinating Board for Higher Education, 1992, p. 12)

Agenda Setting

The efforts of the advocates of performance funding were aided by two contextual developments. One was the failure of Proposition B in 1991 by a two-to-one margin. It had proposed to sharply increase spending on both higher education and K-12 education by raising taxes. In addition, in the case of higher education, the proposition mandated that: (1) each college develop a statement of purpose and a plan on how the statement would be put into action; (2) the Coordinating Board for Higher Education develop a “coordinated plan” specifying goals and objectives for the higher education system, a mission implementation plan for each higher education institutions, and accountability measures; (3) “incentive funding” be developed to improve undergraduate education; and (4) funding be provided for minority student completion of 60 credits and graduation (Aguillard, 1991b, 1991c, 1991d; Serban, 1997, pp. 82–83; Stein, 2002, p. 111; Stein & Fajen, 1995, p. 79).

The failure of Proposition B led state officials and many higher education officials to conclude that higher education could not expect to get additional state funding unless it could strikingly demonstrate that it was improving in its efficiency and effectiveness. For example, Lawrence K. Roos, interim chancellor of St. Louis Community College and a former Supervisor of St. Louis County, argued:

> Missouri citizens are convinced that they are not getting full value for their educational tax dollars; and until Missouri education gets its act together and our citizens become convinced that we are doing our job efficiently and effectively, we will not work our way out of our present predicament, as I see it. (as cited in Thomson, 1991)

The second contextual development was the 1992 election of Democrat Mel Carnahan to the governorship (1993–2000). His predecessor, Republican John Ashcroft, had been supportive of greater higher education funding and of performance funding. However, in 1991 he had not supported a budget allocation for performance funding for fiscal year 1993 (Naughton, 2004, p. 95; authors' interviews). In contrast, Carnahan, in his budget message for fiscal year 1994, called for the first state appropriation for performance funding, a request that the legislature accepted (Naughton, 2004, p. 68; Stein, 2002, p. 113; Stein & Fajen, 1995, pp. 82–83).

Summary of the Origins of Performance Funding in Missouri

The enactment of performance funding for higher education in Missouri in 1993 was the product of the joint efforts of the Coordinating Board for Higher Education, Governors Mel Carnahan and John Ashcroft, and Democratic legislative leaders. This coalition was united by certain beliefs. One was the importance of getting more state funds for higher education. The second was the importance of making the provision of higher education more efficient. In addition, the Coordinating Board was animated by the belief in the importance of improving the quality of higher education. In each case, performance funding was seen as a very useful way of securing these benefits.

Performance funding was not opposed by any organized group. Higher education institutions were not involved politically, although they were torn between those institutions that were mildly supportive and those that were decidedly negative toward performance funding.

Business was largely uninvolved directly. Though individual business leaders were supportive, the business associations were quiet. However, business did exert considerable indirect influence. Its attitude that any additional funds for higher education should be coupled with greater accountability demands gave further impetus to the push for performance funding.

Florida

Florida adopted two performance funding systems for higher education. Performance-Based Budgeting (PBB) was enacted in 1994 and continues to this day. The Workforce Development Education Fund (WDEF) was initiated in 1997, but ended after 2002 (Bell, 2005; Dougherty & Natow, 2009; Florida State Board for Community Colleges, 1998, 2000; Pfeiffer, 1998; Wright, Dallet, & Copa, 2002; Yancey, 2002). Both systems applied only to community colleges.

The Structure of Performance Funding in Florida

In 1994, Florida passed the Government Performance and Accountability Act, which was intended to move state funding of government agencies toward program outcomes rather than inputs. The state's community colleges were some of the first public organizations to come under the purview of PBB, which went into effect for them in 1996. The state's four-year colleges and universities were supposed to become subject to PBB some time later, but this has not happened (Bell, 2005, p. 42; Wright, Dallet, & Copa, 2002, pp. 144–145; Yancey, 2002, pp. 56–57).

When the 1994 Government Performance and Accountability Act was passed in 1994 (Laws of Florida ch. 94-249), it was envisioned as a form of performance budgeting in which the legislature would base its funding for higher education institutions on the performance they had already demonstrated and set performance targets for the future. However, there was no fixed formula tying funding to specific indicators and that displeased key senators, who wanted such a formula. They thus devised the Performance Incentive Funding program in 1996 (1996–97 General Appropriations Act, HB 2715, Specific Appropriation 172A). This program, which created a specific pot of money that would be allocated by formula to community colleges based on specific performance indicators, became a part of Performance-Based Budgeting.

Initially, \$12 million was appropriated for fiscal year 1996–1997. These funds were to be distributed to community colleges at the end of the fiscal year, depending on their individual performance on three sets of indicators: student completion of certificates and associate of arts and associate of science degrees (\$5 million); attainment of those credential by students who were economically disadvantaged, disabled, non-English speakers, participants in English as a Second Language (ESL) programs, passed state job licensure exams, or secured jobs in targeted occupations ($5 million); and associate of arts completers who graduated with less than 72 attempted credit hours ($2 million) (Wright et al., 2002, pp. 144–145).

Over the years, PBB funding has accounted for 1–2 percent of total state appropriations for the community colleges. While the performance indicators changed over time, they continued to focus on degree completion, transfer to the state university system, successful passage of licensure exams, and securing jobs paying more than $10 an hour (Bell, 2005, pp. 39–43, 53–54; Dougherty & Natow, 2010; Florida State Board for Community Colleges, 1998, 2000; Office of Program Policy Analysis and Government Accountability, 1997; Wright et al., 2002, pp. 148–149, 161, 163, 165, 250–252; Yancey, 2002, pp. 56–58).

Initiated in 1997, the Workforce Development Education Fund (WDEF) (Laws of Florida, ch. 93-307, SB1688) applied to the community colleges and area vocational centers operated by the K-12 districts.[9] The WDEF operated between 1997–1998 and 2000–2001 and then lapsed (Dougherty & Natow, 2009). At its peak, WDEF comprised nearly 6 percent of state funding for community colleges. WDEF held back 15 percent of an institution's state appropriation from the previous year for vocational and technical education. Institutions could then win this money back based on their performance on these measures: (1) number of adult basic education completions, vocational certificates, and vocational associates of science for students with certain characteristics (economically disadvantaged, recipients of welfare, disabled, dislocated, and ESL); and (2) job placement of students, with institutions getting more points for placement in higher paying jobs (Bell, 2005, pp. 47, 59–60, 175–176; Florida State Board for Community Colleges, 1998, 2000; Pfeiffer, 1998; Wright et al., 2002, p. 163; Yancey, 2002, pp. 59–61).

Patterns of Support and Opposition for Performance Funding

There emerged in Florida three distinct advocacy coalitions supporting performance funding for different reasons and one coalition opposing it. The supportive coalitions involved

[9] There was a short-lived precursor called Performance Based Incentive Funding (PBIF) (Florida Statutes § 239.249), which was enacted in 1994 and lasted until 1997. It allowed community colleges and public vocational technical centers to voluntarily take part in a program that pooled federal and state vocational education funds and held back 20 percent of those funds, with colleges and schools then betting that they could perform well enough to get back all those funds and even more, depending on their performance on various outcome measures (Bell, 2005, pp. 32, 41, 44–-45, 96; Pfeiffer, 1998, p. 23; Wright et al., 2002, p. 153; Yancey, 2002, pp. 55–-56).

the governor, legislators, business associations, and community college officials. The opposing coalition centered on the public universities.

Supporters. The supporters of performance funding were organized into three different coalitions. One was focused on the passage of the 1994 Government Performance and Accountability Act, while the other two were focused on the passage of the 1996 Performance Incentive Fund and the 1997 Workforce Development Education Act.

The first coalition, which was focused on the 1994 Government Performance and Accountability Act, was centered on the governor, legislators in the House, and business leaders. It favored performance budgeting, in which state appropriations would be informed by the performance of higher education systems but would not be dictated by a specific formula (authors' interviews; see also Berry & Flowers, 1999, pp. 585, 591, 594; Boyd & Calabro, 1996; Bradley & Flowers, 2001, p. 378; Florida State Board for Community Colleges, 1998, pp. 6–9; Tyree & Hellmich, 1995; Wright et al., 2002, pp. 142–144; Yancey, 2002, p. 56).

This first coalition was animated by a common belief in the importance of increasing the efficiency of government in order to allow it to meet increasing demands without having to also increase taxes (authors' interviews; see also Berry & Flowers, 1999, pp. 585, 587, 591, 594; Klas, 1994). Democratic Governor Lawton Chiles (1991–1998)[10] had pledged to not raise taxes until the state ran more efficiently (Klas, 1994). This concern with greater government efficiency was a longstanding concern of the governor, according to a key gubernatorial staffer:

> [When Chiles was in the U.S. Senate in the 1980s], he was looking at, especially with the Reagan folks there, what were then huge budget deficits. No attention to fiscal discipline…You had people like Chiles and some others who were interested in reforming the expenditure side…A piece of that was this belief that they were spending a lot of money and not getting a lot for it in a variety of areas.

Chiles was certainly concerned about keeping down taxes but he also thought that if there was more accountability then he could make the pitch for additional revenues, because greater perceived accountability of the government would create more trust in it and greater willingness to spend money on social and education programs (authors' interview).

The business supporters of the 1994 Act emphasized the connection between greater efficiency and keeping down taxes. Florida TaxWatch, Associated Industries of Florida, the

[10] We were unable to interview Chiles, who died in 1998.

Council of 100 (a business advisory group to the governor), and Partners in Productivity (a public/private initiative that included Florida TaxWatch, the Council of 100, and state officials) all advocated the introduction of performance budgeting, performance measurement, and incentive-based concepts because they believed state government—which increased taxes every year in the 1980s—was wasteful (Partners in Productivity, 1992, p. 8; see also Berry & Flowers, 1999, pp. 585, 590–591; Bradley & Flowers, 2001, p. 374). In 1992, the Partners in Productivity declared:

> Government in Florida is ineffective, inefficient, and increasingly expensive, and it suffers from a lack of citizen confidence. Over the past decade growth in the size and spending of Florida government has outstripped growth in the state's population and economic base…The State's budget law…should be amended to make performance and productivity measures an integral part of the state budgeting system. (Partners in Productivity, 1992, pp. 3, 7)

In 1994, Florida TaxWatch and the Council of 100 strongly pushed for accountability legislation (authors' interview; see also Berry & Flowers, 1999, p. 594; Bradley & Flowers, 2001, p. 378).

The second coalition agreed with the first coalition on the importance of greater government efficiency and accountability, but it differed on a key aspect: it favored performance funding, not simply performance budgeting. The coalition was largely comprised of senators, many of them Republican, who were more concerned with using performance data not just to orient state agency action and inform legislative budget decisions but actually to allocate funds through algorithms linking performance and funding (authors' interviews; see also Bradley & Flowers, 2001, pp. 377, 387; Easterling, 1999, p. 568; Wright et al., 2002, pp. 144–147; Yancey, 2002, p. 56).

The senators were motivated by the belief that market incentives were a very effective way of spurring desirable human action (authors' interviews). For example, George Kirkpatrick (D-Gainesville), the Senate's leading advocate of performance funding, was described as believing that "you could get performance altered by money. If you put a pot of money out there, people would change their behavior in order to chase that money."[11] In the case of higher education, Kirkpatrick and his allies believed—according to a staffer who worked closely with

[11] We were unable to interview Kirkpatrick, who died in 2003.

him—that colleges should put their money at risk and "if you performed well, you got your money back. If you didn't perform well, then you didn't get your money back and those who had performed better got your money."

The third coalition—centered on community college officials—joined the second coalition in favoring performance funding. However, the main reason these community college officials favored performance funding was not because of a fundamental belief that it was important to secure greater government efficiency and that performance incentives were a key way of doing so. To be sure, some members of the community college coalition did fully share the beliefs of the senators about the importance of government efficiency and market incentives, but this belief did not appear to be widely held by community college officials and faculty (authors' interviews). Rather, their main reason for supporting performance funding was a desire for additional funding and legitimacy for their institutions (authors' interviews; see also Holcombe, 1997, p. 360). A community college president who was very active in this coalition noted:

> We thought it would lead to an improved funding for the system. We thought it was a great opportunity to market the system in terms of what we do as a community college system in terms of outcomes…We thought it would be a great opportunity…to explain to legislators and policymakers what the role of the community college was all about in the state of Florida.

Moreover, the community college officials were not supportive—as the senators were—of having the performance incentive take the form of holding back funding and forcing colleges to earn it back through improved performance. Rather, as a state community college official noted, the community colleges favored performance funding that enabled the community colleges to receive "new" money, that is, funding over and above their current appropriation (authors' interview).

In sum, the third coalition of community college officials worked closely with the second coalition less because of shared beliefs in particular outcomes of performance funding and more because of shared belief that it was a desirable policy that would meet their separate interests. The community colleges were very aware that the universities were opposed to performance funding. Thus, by supporting performance funding, the community could win legislative favor and, it was hoped, higher appropriations. As a state community college official put it:

> Part of our…community college system strategy was to become more closely aligned with the legislature and to try and read their desires as it fit in with ours. How we could in fact do what we wanted to do and at the same time be serving our masters in a way that they would want to reward us for that.

Opponents. There was one coalition that opposed performance funding, centered on the state universities and the Board of Regents that headed them (authors' interviews). University opposition to performance funding was driven in great part by the belief that performance funding would result in not more funding but actually less (authors' interviews). As a state university official noted:

> So when you ask, "Were the universities looking forward to it?", the answer I think is no, because first of all the universities saw it as punitive in nature and as a mechanism whereby there would be excuses to take funding away rather than having funding added.

However, this opposition also stemmed from beliefs quite opposite to the basic premises of performance funding, at least as it was first being developed in Florida (authors' interviews). As a leading state university official noted:

> I have opposed [performance funding] for the 25 years that I have been a [state university official], because I don't think that there are accurate enough measurements. Every performance funding scheme I have ever seen, I didn't feel that it was worth a damn…Let's talk about value added. I always was an advocate, for instance, of Florida A&M University, which was the historically black institution in Florida. I felt that the value added to a student who entered as a freshman and graduated with a bachelor's degree was a hell of a lot more than at the University of Florida…These performance schemes didn't take that into [account]. I mean, they thought you know there was this level playing field out there and everybody started from the same spot.

In the end, the four-year institutions were never really subject to the Performance Based-Budgeting performance funding system. They did receive some lump sum payments of $3 million per year for three years (fiscal years 1998-2000) to be distributed primarily on the basis of institutional graduation rates, but they were never brought into the Performance-Based Budgeting program (authors' interviews; see also Wright et al., 2002, pp. 149–152).

The Process of Enacting Performance Funding in Florida

The principal policy entrepreneurs in the development of performance funding in Florida were Democratic Governor Lawton Chiles (1991–1998) and Senator George Kirkpatrick (D-Gainesville). They were assisted by key gubernatorial aides, leading members of the House of Representatives, and state and local community college leaders.

Gubernatorial and House leadership on the 1994 legislation. Governor Chiles was the prime mover of the effort to pass the 1994 Government Performance and Accountability Act, working in concert with leading House members and assisted by key gubernatorial aides. Leading up to the 1994 legislation, Chiles appointed in 1990 the Governor's Commission for Government by the People—headed by Orlando Mayor Bill Frederick—to recommend how to shift the state budget from an emphasis on inputs to one on outcomes. Chiles also appointed a Government Accountability to the People Commission to develop program and statewide benchmarks and to facilitate input into the policy creation process (Berry & Flowers, 1999, pp. 585–587; Bradley & Flowers, 2001, p. 374). Key staffers in the Chiles administration played important supporting roles in writing the 1994 legislation, including his budget director, the directors of the departments of Management Services and Revenue, and the executive director of the Government Accountability to the People Commission (authors' interviews; see also Berry & Flowers, 1999, pp. 586–588, 593).

Joining Chiles and his aides in the effort to enact the 1994 Government Performance and Accountability Act were several House members, particularly Representative Allen Boyd (chair of House Committee on Government Operations) and Representative Joe Tedder (Appropriations Committee). Boyd was particularly concerned with the need for the state to secure better data for decision making (authors' interview; see also Berry & Flowers, 1999, pp. 587, 593; Bradley & Flowers, 2001, p. 375; Easterling, 1999, p. 567).

Senate leadership on the 1996 and 1997 legislation. When it came to the 1996 Performance Incentive Funding legislation and the 1997 enactment of the Workforce Education Development Fund, policy leadership shifted to the Senate, particularly in the person of Senator George Kirkpatrick (D-Gainesville). Kirkpatrick drew together a group of legislative staffers and state and local community college officials to design performance indicators that would show up in the Performance Incentive Fund (1996) and Workforce Development Education Fund (authors' interviews; see also Holcombe, 1997, p. 360; Tyree & Hellmich, 1995, p. 18). As a veteran legislative staffer noted:

> It was probably '94, '95, in that period of time when we really sat down and started working with the community colleges on making this performance funding kind of thing something that will really work. And a fellow that was our senator, that was our chair at that time, a man named George Kirkpatrick…kind of got it going with our committee and the education subcommittee of our appropriations committee. The man who was the executive director of the community college system at that time was a former senator…And he worked with Kirkpatrick and we got a group of about five community college presidents to work with us. And we would meet periodically, once a month maybe once every two months. And we would sit down and hammer the process out and how we were going to do it and how it was going to work.

The efforts of this work group headed by Kirkpatrick resulted in the passage of the Performance Incentive Funding program in 1996 (1996-1997 General Appropriations Act, HB 2715, Specific Appropriation 182A), which created a fund of $12 million for community colleges, to be allocated on the basis of the number of degree and certificate completers, with extra weight for students who were economically disadvantaged, disabled, non-English speakers, passed state job licensure exams, were placed in jobs in targeted fields, or graduated with Associate of Arts degrees with fewer than 72 attempted credit hours (Wright et al., 2002, pp. 144–145). Kirkpatrick struck a compromise with Governor Chiles so that the Performance Incentive Fund established in 1996 was added to the existing Performance-Based Budgeting system, with the result that the PBB system included both performance budgeting and performance funding (Wright et al., 2002, p. 144; Yancey, 2002, p. 56).

Senator Kirkpatrick and his colleagues were also the key actors behind the passage in 1997 of the Workforce Development Education Fund (WDEF) (Laws of Florida ch. 97-307, SB1688). The WDEF held back 15 percent of a community college's or area vocational school's state appropriation for vocational and technical education and required the institution to win this money back based on the institution's performance on number of completions for adult basic education and vocational education and number of job placement of students (particularly in higher-paying jobs) (Bell, 2005, pp. 47, 59–60, 175–176; Florida State Board for Community Colleges, 1998, 2000; Pfeiffer, 1998; Wright et al., 2002, p. 163; Yancey, 2002, pp. 59–61).

State and local community college leaders initially favored this legislation as a way of getting new funds for their vocational efforts, which were not being rewarded by the Performance-Based Budgeting system (authors' interview). However, the community colleges greatly disliked the WDEF's provision of reserving 15 percent of their state workforce appropriations, to be won back by good performance (see Dougherty & Natow, 2009). In the end, the WDEF was hammered out by legislators and staff in the Senate with little input and support from the community colleges or from other legislators (authors' interviews; Wright et al., 2002, pp. 147, 152–153).

Policy development: The role of policy learning. The performance budgeting and funding legislation of 1994 through 1997 drew on a long history of policy development in Florida that nicely exemplifies the advocacy coalition framework's emphasis on policy learning (Sabatier & Weible, 2007). Over the course of three decades, advocates of greater educational accountability gradually moved from incentive programs to performance reporting and eventually to performance funding. This was part of a general movement in Florida government to increase accountability demands on government agencies (Berry & Flowers, 1999; Bradley & Flowers, 2001, p. 371; Easterling, 1999; Office of Program Policy Analysis and Government Accountability, 1997; Wright et al., 2002; Yancey, 2002).

In 1977, the legislature mandated (Ch. 77-352, § 4) that every budget request should include workload and other performance indicators (Easterling, 1999, p. 562). In 1985, the Florida Growth Management Act passed, establishing a framework for strategic planning. Governor Bob Graham submitted a State Comprehensive Plan that contained quantified performance measures and time frames for reaching a series of state goals (Berry & Flowers, 1999, p. 584; Bradley & Flowers, 2001, p. 371; Office of Program Policy Analysis and Government Accountability, 1997, pp. 6–7; Yancey, 2002, p. 50). Meanwhile, in the 1970s and 1980s, the state introduced incentive programs to encourage higher education institutions to develop high quality research programs, attract eminent scholars, and collaborate with high technology businesses (Bell, 2005; Wright et al., 2002; Yancey, 2002).

By the 1980s, Democratic Governor Bob Graham and other state officials started calling for public colleges and universities to publicly report their performance (authors' interview). Moreover, the state passed legislation in 1984 that established job placement requirements for vocational programs. Programs had to demonstrate a training-related placement rate of 70 percent in order to assure continued funding (Pfeiffer, 1998, p. 19). In the late 1980s, the State Community College Board began requiring mandatory program review and additional reporting (Yancey, 2002, p. 54).

By 1991, the state developed a performance reporting system (Florida Statutes, 1991, § 240.324). The law mandated certain specific indicators, which later became the core of the performance funding systems established in 1996 and 1997 (Bell, 2005, p. 39; Florida State Board for Community Colleges, 1998, p. 6; Wright et al., 2002, p. 141; Yancey, 2002, pp. 54–55).[12]

Outside sources played a role in stimulating these internal policy developments. Florida policy actors were aware of performance accountability efforts in Texas, Minnesota, and North Carolina in the early 1990s. Democratic Representative Allen Boyd and legislative and gubernatorial staffers attended a national performance measurement conference organized by the University of Texas's Lyndon B. Johnson School of Public Affairs in 1992 (Berry & Flowers, 1999, p. 590). In addition, state policy actors consulted with national education policy organizations such as the National Conference of State Legislatures, Education Commission of the States, State Higher Education Executive Officers, and the National Center for Higher Education Management Systems (authors' interview). Moreover, Governor Chiles and other actors were influenced by the work of David Osborne on re-inventing government (authors' interview; see also Berry & Flowers, 1999, pp. 586–587). Finally, state policy actors were influenced by the National Performance Review that President Bill Clinton and Vice President Al Gore unveiled in March 1993 (Berry & Flowers, 1999, p. 590).

Agenda Setting

Budgetary stringency and change of party control of the legislature were two "policy windows" or "external shocks" to the political subsystem that provided key openings for the development of performance funding in Florida.

Budgetary problems. Performance funding was made more attractive by the budget woes that the Florida government faced in the early 1990s. Due to the national recession, state

[12] These indicators included graduation rates for associate of arts and associate of science seekers; minority enrollment and retention rates; student performance (including ratesscores on the College Level Academic Skills Test, mean GPA for associate of arts transfers, and performance on licensing exams); job placement rates for vocational students; and student progress by admission status and program (Bell, 2005, p. 39; Florida State Board for Community Colleges, 1998, p. 6; Wright et al., 2002, p. 141; Yancey, 2002, pp. 54–-55).

revenues stagnated from 1990 to 1992, falling well below budget projections, at the same time as demand for state services (e.g., welfare, Medicaid, corrections, public education) escalated sharply (Berry & Flowers, 1999, p. 590; Bradley & Flowers, 2001, p. 373; Harper, 1995a; Sanchez-Penley, Martinez, & Nodine, 1997, pp. 107, 109). As a result, between fiscal year 1990 and fiscal year 1993, total state support for higher education (general revenue and lottery revenue) per full time equivalent (FTE) student dropped 11 percent and the community college share of state general revenues dropped from 4.7 percent to 3.7 percent (Holcombe, 1997, p. 354-356; see also Bergstrom, 1995; Horine, 1995a, 1995b; Sanchez-Penley et al., 1997, pp. 108, 112, 119).

At the same time, there was strong opposition to raising taxes and to establishing an income tax (Berry & Flowers, 1999, p. 590; Debenport, Hijek, & Wolfe, 1991). In fact, in 1992 voters passed a constitutional amendment limiting growth in the assessment of homestead property. And in 1997, a constitutional amendment was passed limiting growth in all state revenues to the average growth rate of personal income in Florida over the preceding five years (Richardson, Bracco, Callan, & Finney, 1999, p. 92; Sanchez-Penley et al., 1997, pp. 108–109, 113).

Higher education institutions found it difficult to resist these restrictions on funding because the colleges were widely seen as inefficient. Many state officials believed by the late 1980s that higher education institutions had not improved their performance despite special funding (Florida State Board for Community Colleges, 1998; Wright et al., 2002, p. 141). Legislators were criticizing the universities for having low graduation rates. Senators in particular were very concerned about why students were taking five years to graduate from university (Harper, 1995a, 1995b, 1996). And, while the community colleges were seen more favorably, they were also subject to criticism for their high remediation rates (Associated Press, 1996). Moreover, members of the Senate Higher Education Committee (particularly George Kirkpatrick) were accusing the community colleges of inefficiency in job training, citing high dropout rates and duplication of programs between community colleges and area vocational centers (Rado, 1996).

This combination of budget stress and the perceived inefficiency of higher education institutions created an opportunity for policy entrepreneurs to suggest performance funding. It promised increased funding by seemingly neutralizing criticisms that higher education institutions were insufficiently efficient.

Change in party control. The case for performance funding took on added interest when control of the state legislature shifted in 1994. Republicans gained a majority in the state Senate, and while the state House remained controlled by Democrats, it became more conservative (Metz & Bartlett, 1994). In 1992, the Senate had been equally divided between Republicans and Democrats and the Senate presidency rotated between the two parties. However, Republicans seized control in the 1994 election (with 22 out of 40 senators). While the House remained Democratic, Democrats lost eight seats, so that the GOP was only three seats short of control (Richardson et al., 1999, p. 91; Sanchez-Penley et al., 1997, p. 114).

The Republican takeover of the Senate was a significant shift because senators, particularly Republicans, were key supporters of performance funding (authors' interviews; see also Sanchez-Penley et al., 1997, pp. 114–115). As a leading community college official stated, "I do think that the Republican leadership was much more in tune to performance budgeting than what would be the Democrat leadership now."

Summary of the Origins of Performance Funding in Florida

The development of performance funding for higher education in Florida has been complicated, involving a number of different enactments that were preceded by a long line of policy precursors. The two key systems of performance funding have been Performance-Based Budgeting (PBB)—which was enacted in 1994 and continues to this day—and the Workforce Development Education Fund (WDEF), which was initiated in 1997 but disappeared after 2002.

Three different coalitions of actors—animated by different sets of beliefs and interests—were involved in the development of performance funding in Florida. One coalition, focused more on performance budgeting than on performance funding, involved the governor, key leaders in the House of Representatives, and business associations. The other two coalitions that focused on performance funding involved key state senators and, separately, key state and local community college officials. Opposing these three coalitions was a less mobilized coalition involving the public universities, which opposed performance funding in general.

South Carolina

In 1996, South Carolina dramatically restructured its funding for higher education. It passed legislation mandating that the Commission on Higher Education (CHE) develop a performance funding model that based state appropriations for state higher education institutions *entirely* on performance (Burke, 2002b; South Carolina General Assembly, 1996). Historically, institutions in South Carolina received state funding based on enrollment. However, Act 359 (§ 59-103-15(A) mandated that the state's Commission on Higher Education distribute all state dollars to the state's research universities, teaching institutions, two-year regional campuses, and technical colleges based on their performance on nine "success factors" (Burke, 2002b; South Carolina General Assembly, 1996). This legislation aroused tremendous interest across the country because it put a much greater share of state funding for higher education on a performance basis than any state had ever done before (or has ever been done since).[13]

Below we explore the forces that led to the development of South Carolina's performance funding program. We describe key legislative initiatives and analyze the actors and motives involved.

The Structure of Performance Funding in South Carolina

Act 359 in 1996 legislated that 100 percent of state funding of public higher education institutions be based on performance and, in addition, that each public higher education institution create mission statements with clear goals, improve faculty quality by establishing post-tenure review for professors and expanded training, and foster better cooperation among the business community, public education, and higher education. The performance funding was to be based on 37 indicators grouped into nine Critical Success Factors (in priority order): mission focus, quality of faculty, instructional quality, institutional cooperation and collaboration, administrative efficiency, entrance requirements, graduates' achievements, user-friendliness of institution, and research funding. Act 359 required each institution to submit performance data to the Commission on Higher Education (CHE). The CHE would then be responsible for deciding how to measure performance and for drawing up the funding formula. After a "hold harmless"

[13] Actually, South Carolina did not end up allocating all of its state appropriations for higher education on the basis of institutional performance, however. The highest share allocated on the basis of performance was 38 percent in fiscal year 1999 but then it dropped to 3 percent the next year (South Carolina Legislative Audit Council, 2003). Moreover, many of the indicators used were not actually outcomes indicators.

period in which state funding would not be based on performance indicators, 100 percent of each school's state funding would be tied to these indicators beginning in fiscal year 2000.

Patterns of Support and Opposition for Performance Funding

Performance funding was supported by a coalition of legislators and business leaders. Opposing the system was another coalition, centered on the leaders and faculty of the state higher education institutions.

Supporters. The supporters consisted of a coalition of legislators and a segment of the business community that was not affiliated with the state's research universities. The governor was supportive but not an active participant (authors' interview).

The performance funding legislation was sponsored by a bipartisan coalition of legislators, including Senators Nikki Setzler (D-Aiken-Lexington-Saluda Counties), McKinley Washington (D-Ravenel), and Holly Cork (R-Beaufort); and Representatives Ronald Townsend (D-Anderson), David Wright (R-Lexington), and Leon Howard (D-Columbia) (Burke, 2002b; Fix, 1996b). Senator Setzler was the key proponent.

Although many business leaders supported performance funding, they did not represent the whole of the business community. One faculty member commented, "I felt that there were a range of business leaders…around Nikki Setzler…I was never convinced that they represented directly any consistent thinking on the part of the Chamber of Commerce and others." The key business activists in favor of performance funding—most notably Roger Whaley, a banker, and Austin Gilbert, a construction contractor lacking a college degree—were not associated with the major research universities. In fact, the trustees of those universities, many of them prominent businesspeople, were often opposed to the performance funding legislation.

Members of the legislative and business coalition supporting performance funding shared a common conception that higher education was ineffective and inefficient, and that greater accountability was required. These policy positions reflected a fundamental belief that government strongly needed to become more efficient and that market-like incentives were a key way of doing so.

Many members of the advocacy coalition supporting performance funding felt that higher education was ineffective, that it was not producing graduates capable of meeting the needs of the economy, with the result that South Carolina was losing jobs (authors' interviews; see also

Trombley, 1998). One businessman who was a key supporter of the performance funding effort commented that higher education, especially the technical colleges, were not preparing future workers to meet the needs of the business community:

> Technical colleges were getting into the first two years of a baccalaureate degree when really we didn't need more baccalaureate degrees. What we needed were more people that were interested in what the technical college would teach…And what we were saying is you technical schools…needed to focus on technical education and leave the first two years of the baccalaureate degree to the other institutions which offer the baccalaureate degree.

Meanwhile, a technical college president recalled that another prominent business advocate of performance funding was angry with the research universities for not training graduates for his industry:

> [He] had it in for USC [University of South Carolina] because he was trying to get USC to develop a four-year degree that would serve his industry, and he couldn't get them to do it…So he had an ax to grind, because they felt they couldn't move their company to the next level because it didn't have the qualified workforce they needed.

Besides complaining that higher education was ineffective, advocates of performance funding also argued that South Carolina's higher education system was inefficient. As causes of the system's inefficiency, critics pointed to the rising cost of higher education, an excessive number of institutions in relation to the size of the state, and the close-knit relationships between the institutions and legislators that led to the passage of unnecessary line items or "pork" (authors' interviews). A business member who was a prime advocate of performance funding commented:

> We were concerned about the spiraling costs of higher education at that time…The ratio of students to faculty was steadily increasing. There was a huge increase in administration and staff as compared to the number of teachers…I remember they [the universities] talked about how they were short of funding, and I went to one institution and took a picture of gold flush valves on the toilets…It's a minor thing, but damn it put the money in the classrooms. The students needed computers. And the professors needed computers, and instead they were putting gold flush valves on the toilets.

Senator Glenn McConnell (R-Charleston) echoed this sentiment: "The idea is to get schools to look at the way they utilize their money…How much money do they spend on out-of-state travel? Do they use lavish offices? Do they have lavish entertainment accounts?" (as cited in Fix, 1996b).

Perhaps the most common example cited of higher education's inefficiency was the sheer number of institutions in the state. South Carolina's public higher education system is comprised of 3 research universities, 9 teaching institutions, 5 two-year regional campuses, and 16 two-year technical colleges.[14] Beginning in the early 1990s, there was growing concern among many legislators and state officials that the number of public institutions in South Carolina far exceeded demand in a state with a stable population and enrollments (authors' interviews; see also Burke, 2002b; Frazier & Meggett, 1996). A college administrator noted: "There was a notion that we have too many state-supported universities in South Carolina. The question is about quality and should the state continue to support that many universities and would it be better if funding related to how well you accomplished your mission."

Accompanying their beliefs about the ineffectiveness and inefficiency of higher education, the advocates of performance funding believed in a need for greater accountability in higher education (authors' interviews; see also Schmidt, 1997b). One college administrator said:

> If you asked them [the governor and legislature] what they were doing, they wanted accountability. They wanted to know how universities were spending their money and they wanted to reward the behavior, I mean that's the only way I can put it. In other words, you're doing your job, you're doing it well and you are going to be rewarded for that.

Indeed, Senator Setzler was quoted in the press as saying, "To make higher education more accountable, we must first define what we expect from the system…[The new system of financing] will bring us a system of excellence rather than a system that supports mediocrity" (as cited in Schmidt, 1997b).

Underlying the supportive coalition's policy core beliefs concerning higher education was a more fundamental belief about the importance of government efficiency and how it was best served. During the early 1990s there was a push to make state government become more

[14] Although they are coordinated by the state Commission on Higher Education (CHE), each public four-year college and university system is governed by its own board. The two-year technical colleges are governed by the State Board for Technical and Comprehensive Education (SBTCE) (McGuinness, 2003).

efficient by becoming more market-oriented (authors' interviews). A state university official noted how the state embraced the Baldrige Program in "an attempt to make government run like a business…'Let's embrace Baldrige. Let's do the whole Total Quality Movement concept and apply it to government.'" A consultant familiar with South Carolina echoed this assessment:

> I think that the people who thought it up, certainly [Senator] Nikki [Setzler], and the business community, and the business community was very, very heavily pushing for this. This was also very close to the days of TQM [Total Quality Management] and performance management, CQI [Continuous Quality Improvement], and they thought that this was really a step in the direction of modern management and would result in better data systems and more accountable management. So a lot of it was the business community pushing on that.

Governor Beasley: Interested but not active. Although Republican Governor David Beasley (1995–1999) signed the performance funding legislation and supported the program, he was not an active member of the coalition. A high-level state official noted: "[Governor Beasley] wasn't a leader in it. He didn't dream that up. He just signed the legislation...He wasn't the moving spirit behind it. He just signed it. The business community was the moving spirit behind it."

Opponents. The primary coalition opposing performance funding involved the higher education community. Our research suggests that although state higher education institutions publicly supported performance funding, they opposed it privately. Many respondents suggested that, due to political pressure and the national attitude favoring accountability, state higher education institutions felt that publicly supporting performance funding was the only viable option, despite their undisclosed opposition.[15]

The coalition opposing performance funding was comprised of the leaders of the state higher education institutions, particularly the research universities, the Commission on Higher Education (CHE), and the State Board for Technical and Comprehensive Education (SBTCE) (authors' interviews). Although the Commission on Higher Education remained publicly neutral

[15] In the press, the majority of higher education officials praised the initiative. For example, Ron Ingle, president of Coastal Carolina University and chairman of the South Carolina Council of College and University Presidents, publicly supported performance funding: "We need to focus more clearly on what our mission is and how it compares within the state system. This is a very positive thing, and I think all my colleagues applaud this effort to evaluate the system" (as cited in Meggett, 1996). However, Burke (2002b) concluded that, although the Council of Presidents publicly supported performance funding, privately they opposed it but feared that vocal opposition would be viewed as resistance to performance review.

on Act 359, it was privately opposed (authors' interview). Similarly, a former staff member of the SBTCE reflected, "Well not only our board, but all of the higher education community found the initial proposal, as in any public administration systemic move like this, they found it rather threatening."

The opposition coalition was united in its belief that the performance funding system did not address the chronic underfunding of the higher education system, had too many indicators, would lead to cost-cutting measures that would negatively affect academic quality, and might even lead to institutional closure (Fix, 1996c; Schmidt, 1997a). Prior to the enactment of performance funding, many higher education officials had argued that the legislature was not adequately funding the state's higher education institutions (authors' interview). Professor Jack Parsons, Chair of the South Carolina Faculty Chairs (an association of elected faculty leaders from the state's 18 public four-year colleges), stated: "My fear is that the move to performance-based funding will serve to mask the poor performance of the state legislature in funding higher education" (as cited in Schmidt, 1997a). One faculty member recalled, "We consistently were pointing out that in terms of tuition we were second high[est] only to Virginia, but in terms of state funding and formula funding we were at the bottom or very nearly at the bottom, and that the idea that we could do more with less didn't make much sense if you compared us to other institutions in the region."

A number of institutional leaders believed that performance funding could lead to institutional closures (authors' interviews). In fact, several newspaper articles reporting on the performance funding legislation suggested that the policy would allow the closing of institutions based on politically acceptable criteria (Associated Press, 2003; Fix, 1996b; Heilprin, 1996). Moreover, a report issued by South Carolina Legislative Audit Council (LAC) stated, "Officials stated that the original intent of performance funding was to take funding from weak institutions and lead to their closure" (South Carolina Legislative Audit Council, 2001).

The Process of Enacting Performance Funding in South Carolina in 1996

The leadership of one legislator. Performance funding in South Carolina could not have occurred without the leadership of Democratic Senator Nikki Setzler, chair of the Senate education committee and chair of the Senate appropriations sub-committee for education funding. As a result of his tenure in the state Senate, connections with the business community, and past political victories, Senator Setzler was a key leader of performance funding policy from its inception (authors' interviews; see also Burke, 2002b). A higher education insider described Senator Setzler's role: "I really viewed Senator Setzler as being more the catalyst for the performance part of it than any of the commissioners [of the Commission on Higher Education] …It was largely something that Senator Setzler believed in and wanted to get accomplished." Senator Setzler was the public face of the initiative. He was constantly quoted in the press and was considered the architect of the policy.

Due to his previous work on education legislation, many considered Senator Setzler to be a natural leader for higher education reform (authors' interviews). As a legislative staff member noted:

> One of his [Senator Setzler's] first hallmark pieces of legislation shortly after he was first elected, I think, in the late 1970s, was working with some senior senators on the K-12 Education Finance Act that is still in use today as a general distribution formula for states monies to go back to local school districts. So this was not out of character for him to take a lead on the legislative side.

In addition, Setzler had close ties to key businesspeople. A college president noted that Setzler "was very much a pusher of getting the business viewpoint into higher education. So that it would be run more like a business."

A former CHE staff member suggested that Senator Setzler had several motives for pushing performance funding in South Carolina:

> Senator Setzler saw a chance to say from a political perspective, "I can score some brownie points and try to get the institutions to behave. I can make them more accountable. I can sort of improve my political fortune and my legacy as an education legislator by doing something to improve higher education in the state." Now the institutions wanted more money and he said, "Well, okay here's what we can do. I will do everything I can to get you more money, but you've got to put something on the table. And what you're going to have to put on the table is performance funding."

Solution generation. Although there is a general consensus regarding Senator Setzler's role in the policy process, there are varying views on where the idea for performance funding came from. Our research suggests that the idea to institute performance funding may have come from different sources: policy learning based on the South Carolina experience and ideas from the business community, national organizations, and other states.

South Carolina had a history of higher education accountability legislation in the 1980s and early 1990s, before it took up performance funding in 1996. A consultant familiar with South Carolina emphasized the importance of policy learning in the state's development of performance funding:

> It goes back to the first days, essentially of state-mandated assessment which was in the late 80s and South Carolina was one of the early adopters. So they had something called Cutting Edge legislation back in 1988…And that first proposed performance indicators…It was succeeded by Act 255 in 1992, which put a little bit harder edge on the performance measures and defined them a little bit better… so by the time performance funding came out in 199[6] with Act 359, the state was pretty sophisticated with regard to the kinds of people that they had that knew what they were doing in this area.

In 1988, the General Assembly passed Act 629, referred to as "A Cutting Edge." According to a former Commission on Higher Education staffer, Act 629 "gave the Commission authority…to require certain reporting elements, which were to be reported to the state agency to the Commission and to the public" (authors' interview; see also Festa, 2004). In the years following, all South Carolina public institutions "adopted assessment programs and an assessment network was formed to share and review information being gathered" (Festa, 2004).

In 1992, Act 255 was passed, which required public higher education institutions to report annually to the General Assembly through the South Carolina Commission on Higher Education (Festa, 2004). The items to be addressed in the report included institutional performance related to specialized program accreditation; student degree completion; the type of faculty teaching lower division courses; enrollment and success of students in remedial courses; student participation in sponsored research; graduate placement data; minority enrollment; the state from which graduate students received undergraduate degrees; information on student transfers; student performance on professional examinations; information from alumni satisfaction surveys; and information from institutional assessment activities (Festa, 2004).

As we have noted, businesspeople were a key part of the coalition favoring performance funding, and they had long been arguing the value of importing business practices into higher education (authors' interviews). A technical college president commented:

> There were several businessmen on the Commission on Higher Education…and I think they borrowed the notion from some kind of corporate idea that they had about performance funding. And of course what they really wanted was the funding to be 100 percent driven by performance.

Other respondents suggested that the idea of performance funding may have come through the influence of national organization such as the National Governors' Association (NGA) or the National Conference of State Legislatures (NCSL) (authors' interview). At events sponsored by these organizations, representatives from various states come together and have the opportunity to share ideas and refine policy objectives. An outside consultant attributed Senator Setzler's interest in performance funding to the NCSL. "I think that [Senator] Nikki [Setzler] was at an NCSL meeting somewhere and he picked it up. I mean this was the period when we were coining the phrase 'legislation by fax'; you know, where people would send all these kinds of things back and forth."

South Carolina's geographic proximity to Tennessee, the first state in the United States to enact performance funding, may have also contributed to the idea gaining traction (authors' interviews). In addition, the Southern Regional Education Board in March 1996 had held a conference on performance budgeting (Schmidt, 1996). As a university president remarked: "I believe this came about largely as a result of Senator Setzler looking at some comparative practices in other states, some of the readings he did, and essentially decided that he'd like to see this, at least some variation of this, underway in South Carolina."

Agenda Setting

The efforts of the advocates of performance funding were aided by two key political developments in the mid-1990s: the 1994 election of a Republican governor and the Republican takeover of the state House of Representatives and the consequent passage in 1995 of legislation (Act 137) restructuring the Commission of Higher Education (CHE). This restructuring of the CHE removed it as an effective impediment to the passage of performance funding. Moreover, a corollary of the restructuring was the creation of a Joint Legislative Committee that provided the arena within which Senator Setzler drew up and mobilized support for Act 359 establishing performance funding.

Act 137 (1995) restructured the Commission of Higher Education and created a Joint Legislative Committee to study higher education. Act 137 diminished the role of the Commission by changing the title of the CHE chief executive from commissioner to executive director, declared the new position as not subject to the state's civil service act (allowing dismissal without cause), and severely restricted the appointive power of the executive director. In addition, it delayed the convening of the reconstituted CHE until July 1996, turning the existing Commission and its commissioner, Fred Sheheen, into lame ducks for over a year (Burke, 2002b). These changes rendered the Commission unable to effectively oppose the performance funding proposal.

The evisceration of the Commission was facilitated by the 1994 election. When Democrats lost control of the state House of Representatives, Speaker Robert Sheheen (D-Kershaw), who had served as Speaker of the House since 1986, lost his leadership position and therefore his capacity to protect his brother, Fred Sheheen, the Commissioner of Higher Education (Burke, 2002b). In addition, the diminution of the power of the Commission on Higher Education owed its origins to the growing dissatisfaction on the part of many college presidents and business members serving on boards of trustees of the major research institutions regarding the growing political power of the CHE (authors' interview; see also Burke, 2002b; Fix, 1996a). Traditionally, South Carolina had had one of the most decentralized systems of higher education governance in the United States. This decentralized system created an environment where university presidents dominated policymaking, at both their institutions and in the state capital. Beginning in the late 1980s, however, the CHE gained political power under the leadership of Commissioner Fred R. Sheheen. With strong political connections, Sheheen had become a significant political force in the state's politics of higher education, much to the distress of the state universities (Burke, 2002b; Fix 1996a, 1996b).

Besides reducing greatly the power of the Commission of Higher Education, Act 137 also established a Joint Legislative Committee (JLC) to conduct a comprehensive review of public higher education. The JLC thus became the staging ground for the development of a plan for performance funding. The Committee was comprised of four senators, four members of the House of Representatives, and four business leaders. It selected Senator Setzler as chair.

Members of the higher education community were not allowed to formally participate; they could attend meetings of the JLC but could not speak unless called on (authors' interviews; see also Trombley, 1998). The change in policymaking venue from the Commission of Higher Education to the Joint Legislative Committee helped to establish performance funding in South Carolina. The state higher education institutions were shut out of the political process and therefore had to reconcile their private dislike of the legislation with the political reality of the situation. A consultant who worked with the state noted:

> People, at least at the state level, felt positively about this [performance funding]. That was not the case when you got out to the institutions, though I would say there wasn't any overt opposition to this. Primarily because I think there were concerns of political backlash against them if they were too vocally opposed to it, especially when they hadn't even implemented it yet.

On February 7, 1996, the Joint Legislative Committee published its final report outlining a process "to reward successful higher education programs and penalize those programs that fail to achieve certain goals" (Gaulden, 1996). The committee proposed performance funding based on nine "success factors" comprised of 36 indicators. It also advocated a hold-harmless provision, preventing any institution from losing funding due to the proposed formula until its full implementation in the 2000 fiscal year (Burke, 2002b).

The Joint Legislative Committee had not explicitly recommended that 100 percent of state appropriations to public institutions should be put on a performance basis. However, those knowledgeable about the period felt that the concept of 100 percent performance funding was assumed by all members of the Committee. In any case, all members of the committee approved the text of Act 359 before it was presented to the General Assembly (authors' interview).

Summary of the Origins of Performance Funding in South Carolina

The origins of South Carolina's performance funding initiative involved an astute policy entrepreneur, Senator Nikki Setzler, who was able to assemble an effective coalition of legislators and businesspeople to support the program. Moreover, he was adept at seizing the political opening created by the 1994 Republican takeover of the state House of Representatives to open up a new policy venue—the Joint Legislative Committee to investigate higher education—in which a performance funding plan could be developed, opposition from the state colleges and universities could be stifled, and new supporters for performance funding be recruited. As a result, South Carolina became the first state in the nation to legislate that 100 percent of state appropriations for public higher education be based on the performance of its institutions.

Illinois

In 1998, the Illinois Community College Board (ICCB) approved the formation of a performance funding system—the Performance-Based Incentive System (PBIS)—and the General Assembly voted $1 million to begin the program in fiscal year 1999 (Illinois Community College Board, 1998b). Below we describe the PBIS system and analyze its origins.

The Structure of the Illinois Performance-Based Incentive System

Although the advisory committee that designed the structure of the PBIS had recommended that at least 2 percent of the state's appropriation to community colleges be based on performance, the amount of funding involved was much smaller. Funding allocations for the PBIS were $1 million in fiscal year 1999, $1.5 million in fiscal year 2000, and $1.9 million in fiscal year 2001 (Illinois Community College Board, ICCB, 1998b, 2000, p. 3). These funds amounted to only 0.4 percent of state appropriations to the community colleges in fiscal year 2001 (ICCB, 2002, Tables IV-5 and IV-14).[16]

The PBIS consisted of six statewide goals, accounting for 60 percent of the PBIS money, and one district goal, which accounted for 40 percent. The six statewide goals were the following (ICCB, 1998b, 2000, 2003a):

- *Student satisfaction* (12 percent of total weight): Percentage of students who are somewhat or very satisfied with courses in their major, courses outside their major, and student support programs (the only students surveyed were occupational completers).
- *Student educational advancement* (12 percent): Among first-time college students who earned at least 12 credits within first four years of enrolling, the number who earned a degree or certificate, transferred to a two-year or four-year institution, or who were still enrolled in their college of origin after five years.

[16] In fiscal year 2001, state funds for performance funding amounted to $1.9 million, total state funding for community colleges amounted to $468 million, and total community college current fund revenues from all sources amounted to $1.7 billion (ICCB, 2002, pp. IV-5, IV-14).

- *Student success in employment/continued pursuit of education* (12 percent): The number of graduates who were employed or currently enrolled in college.
- *Student transfers* (8 percent): The number who transferred to a four-year institution within five years of college entrance, among students who completed a minimum of 12 college-level credits in a BA/transfer program at a single community college within four years of entering that college.
- *Population served* (8 percent): Average credit enrollments over three years divided by a district's population.
- *Academically disadvantaged students' success* (8 percent): Percentage of remedial courses completed of total remedial courses attempted for the fiscal year.

For the one local goal (worth 40 percent), each community college district selected one area of focus from the following three (ICCB, 2000, p. 3):

- *Workforce preparation*: Chosen by 8 community college districts.
- *Technology*: Chosen by 21 districts.
- *Responsiveness to local need*: Chosen by 10 districts.

The determination of how well the local goal was met was done by three panels (one for each goal) appointed by the Presidents Council (ICCB, 1998b). During the first year (fiscal year 1999), the panels reviewed the community colleges' proposed goals, plans, and benchmarks and decided which ones would be funded. During fiscal years 2000–2002, the colleges funded were reviewed for evidence of how well they implemented their plans and addressed the comments of the review panels (ICCB, 2000, pp. 3–4).

Patterns of Support and Opposition for Performance Funding

The supporters of performance funding for community colleges comprised a coalition of state and local community college officials. There was no opposing group. The state universities would have opposed the application of performance funding to them, but this was not proposed. Meanwhile, the business community was uninvolved.

Supporters. The effort to establish a Performance-Based Incentive System was led by a coalition centered on officials of the ICCB and the Illinois Council of Community College Presidents. The Presidents Council had suggested performance funding as a means of increasing state aid for community colleges (Illinois Council of Community College Presidents, 1995). This suggestion was accepted by the ICCB in 1998 (described below), which then made a successful budget request to fund performance funding beginning in fiscal year 1999 (ICCB, 1996, 1998a, 1998b; authors' interviews).

The governor, legislature, and Board of Higher Education supported performance funding to the degree that they supported the ICCB request for funding and they were receptive to the idea of greater higher education accountability. However, they did not initiate or demand performance funding.

The coalition of state and local community college officials who favored performance funding was united by the beliefs that community colleges needed new sources of revenue that were not enrollment based and that performance funding would be a viable source of that revenue, that performance funding provided a means to improve the quality of community college teaching and learning, and that a performance funding system should be designed by the community college system and not by external forces (authors' interviews).

The primary belief of the supporters of performance funding was the importance of securing additional funding for community colleges that was not based primarily on enrollments (ICCB, 1996, pp. 3, 8, 17; 1998a, p. 3; authors' interviews). As a leading state-level advocate of community colleges noted:

> Toward the end of the '90s we were running out of ideas about how to get additional dollars. We knew there were dollars out there; the question was how do we justify it. At that point, the state was coming close to fully funding the enrollment-based funding formula for the community colleges. The universities in Illinois are incrementally funded. That is to say, it doesn't make any difference whether their enrollment goes up or down.

Many of the supporters of non-enrollment based funding for community college believed performance funding would provide a useful way of doing this, because it resonated with legislative and gubernatorial concerns about making higher education more efficient (authors' interviews; see also ICCB, 1998a, pp. 3, 16). As a state-level higher education advocate noted:

> We basically needed, if we were going to get more of the money on the table, which would otherwise go to other sectors such as universities or K-12 or mental health or any of our competitors, we had to figure out other nifty new claims on the state dollar and this performance-based funding program that you are talking about was one of the ideas put on the table and adopted.

Further, many of the advocates of performance funding saw it as a means to improve the quality of community college teaching and learning. The Advisory Committee on a Performance-Based Incentive System stated:

> The primary goal of any community college is to provide the highest quality educational services possible. A practical, effective way of assuring continuing improvement of Illinois community colleges is to tie demonstrated quality to some funds received. A performance-based incentive system for Illinois community colleges should focus on teaching and learning. The system should reward institutions for high performance and/or significant improvement, establish state and district goals and priorities, provide consequential information for institutions to use in improving performance, provide accountability information to state policy makers, and build credibility and support for community colleges. (ICCB, 1998a, p. 4)

Finally, the community college advocates of performance funding believed that any performance funding system for community colleges should be designed by the community college system itself. They were leery of having a performance funding system designed by others and imposed on the community college system (authors' interviews). In the words of a state community college official:

> The Illinois Community College Board…really attempted to get out in front of the discussion…[R]ather than being force-fed…community colleges attempted to get out in front of it…We could jointly go to the Illinois legislature, we could jointly go to…[Governor] Jim Edgar, and we could talk about this particular initiative that community colleges were advocating. So what happened was, granted the seed was sown by the governor and to some degree by the GA [General Assembly], but [we]…claimed ownership on that, and presented it to them. So rather than them force-feeding us, it almost became an initiative we were suggesting to them.

Opponents. There was no organized opposition to performance funding for community colleges. There is evidence, however, that some local community college officials had reservations about performance funding (authors' interviews; ICCB, 1998a, pp. 16, 25). When hearings were held by the ICCB Advisory Committee on a Performance-Based Incentive System, some local community college officials expressed a fear that the performance funding would constitute not new money, over and above the regular enrollment-based funding colleges received, but rather existing funding that was now tied to performance measures. Concerns were also raised that the performance funding proposal would discriminate against small colleges that lacked resources (ICCB, 1998a, pp. 16, 25). However, these reservations did not eventuate in any major opposition or concerted action against the idea of performance funding, which in fact had the endorsement of the Illinois Council of Community College Presidents (1995).

Uninvolved but potentially opposed. An uninvolved, but potentially opposed group, consisted of the public universities, particularly the University of Illinois. These universities did not oppose the proposal for performance funding for community colleges, since it did not apply to the four-year colleges and universities. However, it is clear that if an effort had been made to expand performance funding to the universities, they would have strongly opposed it (authors' interviews). University officials—particularly those associated with the University of Illinois[17]—strongly questioned the applicability of the business model of organization to higher education. A leading university official stated forcefully:

> I don't think business models work in higher education…How do you set up any kind of outcomes when you are trying to evaluate engineering versus the fine arts versus business school?…How do you do that so that's within the University of Illinois? If you look across the state of Illinois, then you've got two Research One institutions, two Research Two institutions, and then you have a number of teaching institutions, again with different missions and having a different mix of students and having much different missions. So how do you set up any kind of outcome measures…that you tie your budget to that are equitable under those kinds of diverse conditions? I just don't see how you can do it.

Uninvolved. The business community might seem to be a natural proponent of performance funding. However, business in Illinois did not evidence much interest in performance funding, according to a wide variety of observers (authors' interviews). A top state public official noted:

> I don't remember the business community getting real involved in this…I never remember a lot of complaints about higher education coming from the business community…There are organizations like the Business Roundtable in the state or we have something in

[17] It appears that Southern Illinois University was somewhat intrigued by the idea of performance funding and was watching what the community colleges were doing. However, this interest never took the form of advocacy and it was coupled with awareness that SIU faculty were quite nervous about performance funding (authors' interview).

> Illinois called the Civic Committee, which is [comprised of] the major CEOs in Chicago. I just don't remember them spending a lot of time talking about higher education.

The Process of Enacting Performance Funding in Illinois

The idea of performance funding arose as the Illinois community colleges sought new ways to increase their state funding after encountering limits to using enrollments as a basis of funding increases (Illinois Council of Community College Presidents, 1995; authors' interviews). In 1995, the Presidents Council proposed several ways of changing the funding formula for Illinois community colleges. One proposal was to include "performance-based funding" with an eye to "encourage and recognize quality, efficiency, and productivity level and to raise the level of accountability" (Illinois Council of Community College Presidents, 1995, pp. 17, 25). The Presidents Council had gotten this idea from the experience of Tennessee, Missouri, Florida, and Ohio with performance funding.

The Presidents Council report was taken up by the Illinois Community College Board, which established a task force on system funding in 1996. The Task Force included representatives from the Presidents Council and organizations representing community college trustees, chief financial officers, college administrators, faculty, and students, as well as staff from the Illinois Community College Board and the Illinois Board of Higher Education (ICCB, 1996, p. iii). The Task Force recommended implementation in fiscal year 1999 of a performance funding system (ICCB, 1996, p. 17). It is clear that one of the reasons why performance funding was chosen was that it was likely to appeal to state policymakers interested in greater accountability for higher education (authors' interviews).

This recommendation of performance funding was then energetically pursued by Joseph Cipfl when he became Chief Executive Officer of the ICCB in 1997 (authors' interviews). A key vehicle to bring together various constituencies was the Advisory Committee on a Performance-Based Incentive System, which was established in 1997 with funds appropriated by the legislature. The committee was composed of local community college officials (presidents and other administrators, faculty members, and students) and several staff members of the ICCB (including two vice presidents). It was advised by a prominent out-of-state higher education consultant (ICCB, 1998a).

In 1997, the Committee held three hearings across the state and received feedback from community college presidents on its draft report. Its final report in May 1998 detailed what form a performance-based funding system should take, including what performance indicators should be used, how they should be measured, and what weights should be attached to each (ICCB, 1998a). The Illinois Community College Board formally accepted the Advisory Committee's final report in May 1998 (ICCB, 1998b). However, the ICCB had already requested funds—on the basis of an interim report in fall 1997—to begin performance funding in fiscal year 1999 (ICCB, 1998b). The ICCB asked for $5.4 million. Its request was cut to $1 million by the Board of Higher Education, and this was the amount eventually appropriated by the General Assembly (ICCB, 1998b, p. 45).

Agenda Setting

Two external political developments shaped how community college officials pursued performance funding. One was an increasing concern about higher education accountability and efficiency on the part of state elected officials. The second was the enactment of performance funding in South Carolina in 1996.

Through the 1990s, there was an increasing belief among state elected officials that higher education was not sufficiently efficient or accountable (authors' interviews).[18] A leading state elected official noted:

> There is this perception, I think, among the public and government that higher education is pretty fat and sassy and in some ways is not a necessity…I think our thinking was, yeah, higher education really hasn't changed and you know there are places there they can squeeze a little bit and reorganize and become a little bit more up-to-date, like the rest of government has had to do.

This concern about higher education accountability intensified after the 1994 election. The Republicans gained control of both branches of government, adding the House of Representatives to their existing control of the governor's office and the Senate. This greatly

[18] We found little evidence that the concern of state elected officials about higher education efficiency and accountability was due to public pressure. A search of Illinois newspapers in Lexis-Nexis for 1994–1998 identified a few articles discussing the fact that tuition was rapidly rising (Dodge, 1997; Drell & Golab, 1998; Pokorski, 1996). Indeed, the average in-state public tuition in 1994–1995 at Illinois four-year colleges was high: it stood at $3,352, 118 percent of the national average of $2,848 (National Center for Education Statistics, 1996, p. 322). However, none of the articles discussed any public protest, particularly in any organized form, or calls for greater higher education accountability. Moreover, our interviewees did not mention any public protest of higher education costs and any demands for greater efficiency.

increased Republican strength and, in turn, general sentiment in favor of higher education accountability (authors' interview).

A state community college official noted how community college advocates of performance funding made sure to couple their policy proposal to the accountability concerns of state elected officials:

> In the late '90s there was a feeling that higher education was not necessarily as accountable as it should be in the state of Illinois…And so it [the request for performance funding] was to a certain degree political in the standpoint of, well, if we can garner some more funding for the system, if we have to call it performance based because that's what is selling, then let's do it…I think they [community college presidents] looked at it ultimately from the standpoint of, well if it's an effort to get additional money into the system, if that's what we have to do, that's what we have to call it, so be it. Because money is money no matter what you call it.

A second policy window that aided the advocates of performance funding to secure support within the community college community was the enactment by South Carolina in 1996 of a performance funding system that tied 100 percent of state appropriations to public higher education to performance (Burke, 2002b). This caught the notice of Illinois community college officials who were concerned that Illinois elected officials might be tempted by this precedent (authors' interviews). As a leading state community college official noted:

> South Carolina stands out because [performance funding] was enacted there by their legislature, and they had, I don't remember 26, or 56 [laughter] or so…indicators, and you know, many of them, particularly at that time, were just impossible. Many of them were determined, as I recall, by the legislature itself, rather than by the educational system. And so, I think that was one of the driving forces: that we felt that if we stepped forward with it, then we were able to determine what those measures were going to be, and that they were ones that we felt comfortable with having the data, or being able to eventually have the data to be able to support it.

Summary of the Origins of Performance Funding in Illinois

The origins of the Performance-Based Incentive System for Illinois community colleges lay mainly with state and local leaders of the community colleges, particularly the Illinois Community College Board and the Illinois Council of Community College Presidents. They championed performance funding primarily as a politically attractive device to secure additional funds for community colleges and to head off the possibility of a form of performance funding that would be unpalatable to community colleges.

The governor, legislators, and the Board of Higher Education did not initiate or call for performance funding themselves. However, they supported the idea of greater accountability for higher education and were supportive of the Illinois Community College Board's proposal for performance funding. Business was uninvolved.

There was no opposition. However, the state universities would have been opposed if an effort had been made to apply performance funding to them as well.

Washington

Washington State established performance funding at two different points in time. The first performance funding program, which affected all higher education institutions, was adopted by the state legislature via budgetary proviso in 1997 and was discontinued in 1999 (Dougherty & Natow, 2009). The second program, adopted in 2007, applies only to the state's community colleges.

The 1997–1999 Performance Funding Program

In 1997 Washington enacted a performance funding system of accountability for public institutions of higher education as a proviso in its appropriations bill for the 1997–1999 biennium. During the first year that the proviso was in effect (1997 to 1998), institutions were required only to develop "implementation plan[s]" for achieving improvement on specified performance indicators. However, in the following year, a small percentage of institutions' state appropriations was held back and colleges and universities were required to meet or exceed certain levels on those performance indicators in order to receive full appropriations (Washington State Legislature, 1997; see also Nisson, 2003; Washington State Higher Education Coordinating Board, 1998).

The performance measures that were adopted for four-year institutions differed from those for two-year institutions. For public four-year colleges, the performance measures related to: persistence and completion rates, "faculty productivity," time-to-degree efficiency,[19] and "[a]n additional measure and goal to be selected by the higher education coordinating board…in consultation with each institution" (Washington State Legislature, 1997; see also Sanchez, 1998; Washington State Higher Education Coordinating Board, 1998, p. 2). The performance of public two-year colleges was measured based on transfer rates, "[c]ore course completion rates," the hourly earnings of institutions' occupational program alumni, and time-to-degree efficiency (Washington State Legislature, 1997; see also Nisson, 2003).

Supporters. Washington's first performance funding program was supported by a coalition of legislators (particularly Republicans) and the business community (authors' interviews; see also Nisson, 2003). In addition, the Democratic governor was a supporter of accountability for higher education and ultimately signed the budget bill that brought performance funding into being.

One business actor recalled that "there was a lot of support in the legislature" for performance funding, particularly from the then-House Appropriations Chairman, a Republican (authors' interviews; see also Nisson, 2003). Lawmakers' support of the performance funding proviso was largely motivated by a belief that private sector market principles may be effectively applied to public sector institutions. One state-level higher education official noted that the legislators who were the main proponents of performance funding were Republicans who believed in "smaller government and fiscal restraint." The same official noted that they also believed "in the notion that we tend to get more of what the funding structure responds to, so what is incentivized and measured and funded, we tend to get more of and less of other things."

Another state government insider described the legislature's general belief that colleges and universities were inefficient and often unproductive:

> At the time, I think the legislature was perceiving higher ed as somewhat wasteful, and not being demanding enough of students. The publicly funded, supported students were marking time in higher ed and graduating with degrees that didn't match the needs of the economy.

Also evident is the fact that legislators believed performance funding accountability would serve the interests of the business community (authors' interview). A state government

[19] This was labeled the "graduation efficiency index" in the legislation (1997 Wa. ALS 454, § 601, 1997 Wa. Ch. 454; 1997 Wa. HB 2259; see also Washington State Higher Education Coordinating Board, 1998, p. 2).

insider said the legislative proponents of the 1997–1999 proviso were motivated by the desire "to get a better value for the taxpayer dollar that was subsidizing activities on higher ed campuses. And they wanted higher ed to pay attention more to the needs of the business community and the economy."

The state's governor was also supportive of higher education performance accountability (authors' interviews; Paulson, 1997). A state community and technical college board staffer explained:

> the governor wanted performance measures put into the budget…He wanted to figure out how to measure outcomes or results for higher education. So he put some language in the budget that called for measures to be developed…When it got to the legislature, they—the chair of the House Appropriations Committee—decided to ratchet it up a level by putting specific measures in and by attaching funding to it.

The Washington business community also supported performance funding for higher education (authors' interviews). One leading business organization created a task force to study performance funding initiatives in other states and developed a policy statement supporting performance funding that was submitted to the legislature (authors' interview). Moreover, a former legislator recalled: "They [business representatives] came to the higher education committees and spoke in support of performance criteria at our public hearings on bills, both in the budget as well as higher education accountability legislation." Despite this evidence of the business sector's strong support for performance funding accountability, our interviews revealed no clear evidence that it was the state's business community that originally developed the idea to fund institutions based on performance.

Involved but not clearly supportive: The state higher education boards. The Higher Education Coordinating Board could have been a supporter of performance funding. It was interested in holding state colleges and universities accountable for their outcomes (authors' interviews). The Board and its staff held meetings across the state to discuss the concept of higher education accountability (authors' interview). Moreover, the legislature asked both the Higher Education Coordinating Board and the State Board for Community and Technical Colleges for input into the performance measures that were to be used (authors' interviews; see also Jenkins, Ellwein, & Boswell, 2009; Nisson, 2003).

However, neither board was on record as clearly supporting performance funding. Moreover, both the Higher Education Coordinating Board and the State Board for Community and Technical Colleges did not approve of the type of performance funding system that appeared in the 1997–1999 budget proviso, which was based on holding back a certain portion of funding and requiring institutions to win it back (authors' interviews). In fact, both boards later recommended that the performance funding system be discontinued after the 1997–1999 biennium (authors' interview).

Opponents. A coalition opposed to performance funding for higher education was also present in Washington. This coalition was mostly made up of the presidents and faculty of the state universities (authors' interviews).[20] We found no evidence that this coalition actively mobilized against the adoption of the 1997 budget proviso—in part because it had been added to the budget with little warning—but its negative attitude about performance funding was palpable. One legislator told us that higher education institutions "tended to hate" the state's original performance funding program. An executive branch official reiterated this point, stating that the institutions were "absolutely" opposed to performance funding, arguing that the program largely duplicated the institutional accreditation process. This executive official said that institutions' "principal argument was that we go through an accreditation process. What more do you need?" Institutions also opposed performance funding because it sought to apply standardized performance metrics to many different kinds of organizations. According to a former higher education official:

> Institutions were very diverse, very different, had different missions, for example. Our community college system versus the four-year system, and inside the four-year system, there are the research universities and the state universities. So they didn't see that being a very fair comparison. And that internally, it would not be really of much use for them in helping to manage the institution. So there was much resistance to it.

More generally, higher education institutions highly valued their own autonomy (authors' interview). As one higher education insider explained, "The institutions collectively want more

[20] The public two-year colleges were not as opposed as the state universities. While the universities argued for throwing out the entire system, the State Board for Community and Technical Colleges argued that the performance indicators should be more closely aligned with the missions of the community and technical colleges and that the money should take the form of new funding rather than a holdback of a portion of the existing state appropriation (authors' interviews).

autonomy from the state, not more control, and so I mean, I think the notion was 'We know best how to run our institutions.'" Accordingly, institutions believed that they should have a say in the performance measures by which they would be judged and have sufficient resources to adequately fund their operations.

Not involved: The general public. Our research revealed no strong demand on the part of the general public for performance funding in Washington. According to one of our respondents, Washington had experienced a general public discussion during the 1990s "about the appropriate level of funding and restricting the growth of government revenue" (authors' interview). And in 1993 Washington voters passed a limit on government expenditures (authors' interviews; see also Lefberg, 1999; *Seattle Post-Intelligencer*, 1993). Yet, despite these general public attitudes toward government and efficiency, there had been no strong public demand to hold higher education institutions accountable through performance funding (authors' interviews). Indeed, according to one higher education insider, the general public's concerns about higher education at that time related largely to student access to higher education:

> I think that there was more interest in the general public about making sure that their son or daughter had an opportunity to go to college. And at that time…some of our institutions were talking about limiting the freshman class, and you know, we have to close our doors.

The process of enacting performance funding in 1997. The main driving force behind the 1997–1999 performance funding proviso was the chair of the Appropriations Committee of the Washington House of Representatives (authors' interviews; see also Nisson, 2003). According to a state government insider, the chair:

> …had a real bee in his bonnet about performance funding, and used his position to require that in the budget there were for the institutions indicators that were sort of performance indicators…He chaired the Appropriations Committee. That's a very powerful position in our state, and he was a strong person…He was a real…leader in thinking about performance funding, and it was just literally his stubbornness that made it happen.

The Appropriations Committee chair was a businessman who strongly favored the application of business practices to government (authors' interviews; see also Shukovsky, 1997).

As an insider with varied experience in state government noted, the chair "had a business background and was in management…and…business practices [were] something that he wanted to see adopted in public activities including education and higher education." A former state legislative staff member described how the chair drove the passage of the budget proviso:

> When it came to higher education, at least during that session, he expressed a strong desire to have some kind of outcome-based, performance-based piece for higher education…I really don't remember anyone particularly having a whole lot of interest in it except for him and obviously some members of his committee. So the initiation really came out of the House of Representatives Appropriations Committee chair. It was not something that was discussed as a major priority for the Senate. It was definitely a House initiative.

Agenda setting. Washington State's economic and political circumstances provided two key openings that made it more likely that performance funding would get on the state government's agenda for an authoritative decision. First, although state revenues had risen sharply, thus moving the state away from the economic difficulties of the early 1990s, the state government was facing increased spending demands for K-12 education and corrections. Moreover, in 1993, voters had passed Initiative 601, which restricted the growth of state spending (authors' interview; see also Ammons, 1997; Shukovsky, 1997). These circumstances made lawmakers look to higher education as a natural place to keep spending down (authors' interviews; see also Shukovsky, 1997). A higher education official told us:

> Higher education is typically an area where lawmakers find the capacity to bring the budget into balance, because it's…a discretionary spending item, in contrast to so many other things in the budget. So there was not…any sense of a particular crisis in higher education, that Washington institutions were not working in an efficient manner, but there was some concern that improvements could and should be made in efficiency in higher education…There was some data available that probably struck at least some members of the legislature as areas where there could be some improvements in efficiency, and by doing that, either provide some relief for the budget or for some more capacity in the system to provide additional access.

Second, the 1997–1999 budget was passed on the heels of an election that gave Washington Republicans control over both branches of the state legislature (authors' interviews;

see also Modie, 1996). Republican control contributed to the proviso's adoption. As one higher education insider remarked:

> [I]t was the first time in a long time that a Republican majority wrote the budget for the state in 1997…At least one could make the argument that the political climate and specifically, the majority control of the legislature, may have had something to do with both the adoption of this policy framework, as well as its short life.

The then-Republican majority in the state legislature (like the Republican majority in Congress that came to power around the same time) favored less government spending and greater government accountability (authors' interviews; see also Shukovsky, 1997). A higher education insider explained:

> [N]ationally the Republicans had taken control of Congress in 1994, after having not been in power for you know several years. And then, and that happened at the state level here as well. In fact, the lower chamber, House of Representatives, went—tilted very far to the Republican side, after having not been in power for more than a decade. And so there was a lot of the whole philosophy of their "Contract with America" [which] was reducing taxes, reducing the burden on taxpayers…reducing budget expenditures as much as possible.

The 2007 Community College Student Achievement Initiative

While Washington's first performance funding program ended in 1999, the state reintroduced another program eight years later. In 2007, the State Board for Community and Technical Colleges established the Student Achievement Initiative (SAI) for Washington's two-year colleges (authors' interviews; see also Jenkins, Ellwein, & Boswell, 2009; Washington State Board for Community and Technical Colleges [WSBCTC], 2007).

Unlike the 1997–1999 performance funding proviso, the State Board's new performance funding system was designed not to withhold any money from institutions, but instead to reward technical and community colleges with a small amount of new money when their students reached certain outcomes thresholds.[21] Performance indicators included competency in basic

[21] Although this program was designed to reward institutions for meeting certain performance levels, whether funding appropriations were considered to be a "bonus" or funding that would have been part of the base if not for the performance requirement is largely a matter of perception.became an issue when general funding for higher education dropped sharply in 2009 and 2010 (authors' interviews).

skills; pass rates for postsecondary-level mathematics and developmental coursework; and the number of degrees, certificates, and college credits granted. Under the funding formula, colleges received "achievement points" when their students reached certain levels on these indicators. The 2008 fiscal year was a "learning year," during which involved community and technical colleges examined their performance on these measures and developed plans to improve. During the 2009 fiscal year, institutions began to be rewarded for their performance on the measures (authors' interviews; see also Jenkins et al., 2009; WSBCTC, 2007).

Supporters. The coalition supporting this new type of performance funding for community colleges was comprised primarily of board members and administrators of the WSBCTC along with local community and technical college officials (authors' interviews; see also Jenkins et al., 2009, p. 14). In the words of one State Board staffer: "The…plan is [from] our own State Board for Community and Technical Colleges. The Board itself has asked for this plan or approach." While local community and technical college officials were not the primary instigators of the Student Achievement Initiative, they did seem to be willing members of the coalition. College trustees, administrators, and professors were part of the Board's task force that helped to create the system (authors' interviews; see also Jenkins et al., 2009, pp. 24–25; WSBCTC, 2007).[22] As a result, there was a feeling among practitioners that there was greater consultation in planning the SAI than was the case with the development of the 1997–1999 performance funding system. Moreover, local community college officials believed that the Student Achievement Initiative was founded on solid research (authors' interview; see also Jenkins et al., 2009, pp. 24–25). As a community college president noted:

> [The system has] heavily analyzed the research and…know[s] how our system in this state performs. And we know how we do on those things, and that those things are related to achieving some of the outcomes. They're really related to getting people through a system and through a process and getting into important outcome points…It will make us more efficient as a system in handling these folks.

Even though the Student Achievement Initiative was the creation of the state two-year college system, other public officials in the state, including the governor, were supportive of the program (authors' interviews; see also Jenkins et al., 2009, pp. 42–43). According to a state-level

[22] There is evidence, however, that community college trustees and top administrators were more supportive of the Student Achievement Initiative than were community college faculty (Jenkins et al., 2009, p. 24).

higher education official, "[B]oth the governor and the legislature, I think, viewed it as a very positive development and a model for how we go forward."

The Washington coalition supporting the community and technical colleges' Student Achievement Initiative appeared to hold beliefs similar to those of the coalition that supported the state's original performance funding program: that market incentives can influence behavior, and that tying funding to institutional performance can improve colleges' outcomes (authors' interview; see also Jenkins et al., 2009; Rolph, 2007). A member of the state board noted: "We did the debate of whether or not it's best to reward process or to reward outcome. We landed on rewarding outcome" (as cited in Rolph, 2007). In the words of a State Board administrator, there was "a belief on the part of the Board…based on experience in their work world, in other parts of government…that performance funding can actually provide an incentive for improvement."

Based on this belief, the State Board believed that funding for outcomes could be used to improve student success in the public two-year colleges (authors' interviews). According to a State Board staffer:

> [O]ur Board [was] really aware that there are retention issues in the community and technical college sector. We're not unlike community colleges in other states, where there are a lot of students that come, and not an awful lot that finish. And so our Board has been aware of that for a number of years, and so…the Board wanted to figure out a way of providing some incentives for colleges to improve student persistence.

Another belief supporting the Student Achievement Initiative was focused more on maintaining the autonomy of the state's community college system (authors' interviews). There was growing interest in performance funding on the part of the governor and the legislature. Recognizing that this interest was unlikely to slacken, the Board believed that it would be best if the board acted in advance, designing itself the performance funding system (authors' interviews; see also Jenkins et al., 2009, p. 24). As one State Board administrator explained, there had been:

> A lot of focus on accountability in education and higher education this past year-and-a-half, under the Governor's Washington Learns Initiative…[Also] our Governor has formed a P-20 Council…And one of the goals of that P-20 Council is to identify some indicators for education and higher education…So we were trying to be proactive about identifying results measurements for the colleges ourselves before somebody else starts saying, what about this? Or

what about that?

To this end, the Board directed its own resources toward developing a non-punitive performance funding system.

The process of enacting 2007 Student Achievement Initiative. As was the case with the 1997–1999 proviso, the State Board's new performance funding system was not initiated at the behest of the general public, and it was not the invention of the business community (authors' interviews).[23] But unlike the prior system, the Student Achievement Initiative did not originate in the Washington State legislature. Rather, the SAI was spearheaded by the State Board for Community and Technical Colleges (authors' interviews). In the words of a state-level higher education official, this program "was initiated by and led by the community and technical college system. They developed it internally, and they've done a terrific job of selling it to a broader community." The main impetus to this initiative was a turnover in the State Board, which brought in several new members who were in business and who had a strong interest in performance accountability (Jenkins et al., 2009, p. 23).

To develop this program, the State Board convened a task force and advisory committee—which included not only State Board personnel but also community college presidents, trustees, and other institutional personnel—to help design the performance funding system (authors' interviews; see also Jenkins et al., 2009; WSBCTC, 2007). The task force developed the principles, goals, and design of the policy, soliciting advice from college personnel at the state's community and technical colleges as well as from national higher education experts. A system-wide advisory committee comprised of representatives from all interested colleague groups in the college system (such as institutional researchers and student support professionals) helped design the performance indicators and measures. These task force's recommendations were then forwarded to the State Board for approval (authors' interviews; see also Jenkins et al., 2009, p. 9).

Policy learning. The reemergence of performance funding in Washington can be seen as evidence of policy learning. To begin with, the Washington State Board for Community and Technical Colleges had moved to a position of supporting performance funding in 2007, whereas

[23] However, business people on the board of the State Board for Community and Technical Colleges played an important role in generating the Student Achievement Initiative.

it was at best neutral in 1997. Moreover, it developed the Student Achievement Initiative based on research and advice from its staffers, local community college officials, and outside experts (authors' interviews; see also Achieving the Dream, 2007; Jenkins et al., 2009, p. 9; WSBCTC, 2007). A state community and technical college official explained that the program was designed with careful consideration of relevant research:

> [W]e asked three national experts to give us advice…And amongst the things they said to us, is be focused…Keep it really simple so that you can communicate it…They also said reward people for evidence of improvement. Don't reward them for processes, which is always the conversation that you get into with college people. Isn't it good to have faculty better engaged with students, for example? This is a common conversation…But the advice was, provide a reward for evidence of improvement. So these are things that we have done in the system.

In addition, having learned from Washington's prior experience with performance funding that the *process* of developing a performance funding program is important in itself, the State Board kept the process of the state's earlier performance funding system in mind when designing its new plan (authors' interview). A community and technical college board official told us:

> [For] the previous proposal [in 1997] basically the three indicators were developed in three days, literally in three days. And they were sprung upon us. The legislature said you're going to have three, you're going to have to have indicators, and you're going to have to have them in three days.

But this would not be the case with the new program, as the same official explained:

> People have had basically one academic year to think it through…That time frame to engage people, of course there's a lot of complaining time as well, but I think it's better. If you really truly want your performance funding to be for improvement, then you've got to have people very engaged, and you have to have time for systems, large systems to have people engaged. Even to know, let alone get engaged, that certainly wasn't the case the first time around.

Agenda setting. Washington State's culture and economic circumstances around the time that the Student Achievement Initiative was developed were conducive to major government attention to performance funding as designed by the State Board for Community and

Technical Colleges. First, the state's economy was doing relatively well at the time, making it easier to countenance providing new performance-based funding for higher education. In the words of a State Board administrator, Washington State had "lots of money" when the Student Achievement Initiative began (authors' interview). Indeed, this same respondent speculated that it may be difficult for the State Board to maintain funding for this program in the future if the economy were to shift for the worse (authors' interview).

Second, in the years leading up to the adoption of the Student Achievement Initiative, state accountability programs had been discussed and implemented in other governmental sectors. One such accountability initiative—the Government Management, Accountability and Performance (GMAP) program—had come into being in the years before the Student Achievement Initiative was conceptualized (authors' interviews; see also Jenkins et al., 2009, p. 14; Van Lare, 2006). The purpose of GMAP was "to hold state agencies directly accountable for achieving results and focusing on priorities important to citizens" (Van Lare, 2006, p. 5).

In addition to the GMAP, the state had begun to focus on accountability in the education sector. The governor and legislature had coordinated a task force known as Washington Learns to examine K-12 and higher education and to make recommendations for improving public education in the state (authors' interview; see also Washington Learns, 2006). Also in the years preceding the adoption of the Student Achievement Initiative, the legislature had seriously discussed the possibility of adopting performance agreements for higher education institutions, under which the state legislature would provide funding to institutions up-front; in exchange, colleges and universities would agree to produce specific minimum outcomes, such as a certain number of degrees in "high demand" subjects (authors' interviews).[24] It was within this policy environment of accountability that the Student Achievement Initiative was conceived. Indeed, a state legislator speculated that the State Board of Community and Technical Colleges may have decided to pursue the Student Achievement Initiative because it was aware that the legislature was interested in accountability around that time (authors' interview).

Summary of the Origins of Performance Funding in Washington

Washington established performance funding programs at two different times: 1997 and 2007. The two programs differed in substance, who supported and opposed them, and the

[24] Washington Statestate did adopt performance agreements for higher education in 2008 (authors' interviews). However, as of this writing, the extent to which this policy has been implemented is unclear.

circumstances that existed at the time of the adoption of each. The state's first performance funding program, which applied to all public higher education institutions, was developed by the legislature and was cheered on by the governor and the business community, while the affected institutions were largely uninvolved in its development and disliked the concept behind the program. The more recent Student Achievement Initiative, which applies only to the public two-year colleges, was developed by the State Board for Community and Technical Colleges and did not face opposition from the institutions themselves. The 1997–1999 program was created at a time of fiscal uncertainty when Republicans controlled the state legislature. However, the Student Achievement Initiative was developed in a political environment in which the state budget was healthy and Democrats controlled the legislature.

California: A State without Performance Funding

California has never developed a performance funding system for higher education, unlike half the other states in the United States. This absence of performance funding is curious, considering the state's budget crisis and strong business community (with its seeming affinity for performance funding).

Efforts to Establish Performance Funding

California has made two notable efforts that could have led to the development of performance funding. One was the Partnership for Excellence (1998-2004), a funding structure for community colleges that carried an option of creating performance funding that was not exercised. The second was SB 1134, a bill introduced in 2010 to establish performance funding for community colleges on the basis of course completions. The legislature passed the bill but the performance funding elements were stripped out.

Partnership for Excellence. In 1998, California enacted a Partnership for Excellence (Senate Bill 1564, Chapter 330, Statutes of 1998). The PFE committed the state to providing the community college system with a guaranteed increase in funding in return for achieving certain performance goals by 2005. The goals included an increase in students who transferred, completed certificates and associate degrees, or finished workforce development programs; a higher course completion rate; and an increase in students who progressed in adult basic education (California Community Colleges, 2000). This was not a performance funding system,[25] but the PFE had the possibility of becoming one. The legislation enacting the PFE mandated that if data from the 1999-2000 academic year indicated that there had been little or no progress towards the performance goals, then the Board of Governors (BOG) of the state community college system had the authority to establish a performance funding system (a "contingent district specific funding plan") to provide direct financial incentives for meeting the goals (California Community Colleges, 1999, p. 2, 2000, p. 3).

As it happened, the BOG decided in spring 2001 and in the succeeding three years that there had been reasonable improvement and performance funding was not needed. Hence, the PFE system retained the performance indicators but did not attach monetary consequences to them (California Community Colleges, 2004, p. 81; Shulock & Moore, 2002, p. 36). In 2004, the Partnership for Excellence gave way to a new performance reporting system, Accountability Reporting for the Community Colleges.

SB 1143. In 2010 SB 1143, a bill to establish performance funding for community colleges on the basis of course completions, was introduced in the California Senate.[26] It was eventually passed, but the performance funding provisions were removed (California Legislative Council, 2010). The bill had both active proponents and opponents.

Proponents. The main proponents of SB 1143 were several regional chambers of commerce (particularly the Los Angeles Chamber of Commerce), The Campaign for College Opportunity,[27] Long Beach City College (particularly its president, Eloy Oakley), and Senator Carol Liu, who championed and introduced the bill in the legislature (authors' interviews). These supporters were drawing on policy reports by the Institute for Higher Education Leadership & Policy (IHELP) at Sacramento State University and other national higher education policy experts who called attention to the weaknesses of the current enrollment-driven funding model (authors' interviews). In addition, interest in performance funding was stimulated by the support of the Hewlett Foundation for the idea (authors' interviews).

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[25] PFE funding was allocated to local districts (and not individual community colleges) according to their FTE enrollments and not their performance outcomes (California Community Colleges, 2004: 81; Shulock & Moore, 2002, p. 36).

[26] SB 1143 was not calling for the typical form of performance funding, in which higher education institutions are rewarded for their performance on indicators such as retention, graduation, and job placement (Burke, 2002a; Dougherty & Hong, 2006). Rather, it aimed to reward community colleges on a new basis—course completions—an approach being pioneered by Ohio.

[27] Based in Los Angeles, The Campaign for College Opportunity was co-founded by the Mexican American Legal Defense and Educational Fund, the California Business Roundtable, and the Community College League of California.

The leader of the effort to enact SB 1143 was David Rattray, senior vice president of Education & Workforce Development for the LA Chamber of Commerce. Rattray had been studying the issue of performance funding for several years and watching for opportunities to raise it. He believed that a "business" approach was needed to make the higher education system more efficient and accountable to California students and taxpayers. He further thought that the graduation and transfer rates in California were far too low and posed a serious problem for the future of higher education and workforce development in the state. He focused SB 1143 on community colleges because they were a less formidable opponent than the University of California and California State University systems.

Key beliefs of proponents. The proponents of SB 1143 were unified by beliefs about the importance of improving the effectiveness and efficiency of the community college system and the usefulness of performance funding as a way of ensuring them. There was a great deal of concern about the amount of time and resources being spent on student recruitment and support with little focus on student outcomes. Several of our interviewees argued that while the community college system had succeeded in increasing access, there was little focus on graduating students and doing so efficiently. A legislative aide observed, "We have dreadfully low completion rates and to the extent that people are completing, it's taking them a lot of time, and therefore [it] costs them and the state and the taxpayer more money."

The concern about effectiveness and efficiency was connected with a particular concern about the current and future workforce needs of the state. Some interviewees cited the growing population, especially of Latinos, who were underprepared to enter the workforce, and the devastating effects that underpreparation could have on the economy.

The proponents of SB 1143 believed that performance funding was necessary because the community college system lacked any strong incentive to focus more attention on student outcomes rather than on access (authors' interviews). Attaching funding to outcome indicators such as course completion was a good start towards increasing retention and, eventually, graduation rates and encouraging community colleges to better address business workforce training needs (authors' interview*)*. A higher education activist stated, "The main goal is to change the incentive structure…at the end of the day we do believe that, unless the finance incentive has changed, we will continue to see poor outcomes."

Actions taken by the proponents. Proponents advanced SB 1143 by engaging in active networking and coalition building, introducing the bill quietly, adding performance funding language late in the process so as to forestall opposition, and negotiating changes when strong opposition arose. They actively reached out to those who might be interested in greater accountability and recognized the importance of winning support from undecided legislators by not blaming the community colleges but rather by framing the argument in terms of what the colleges could be doing better (authors' interviews).

To forestall mobilized opposition, the bill was heard in committee meetings with no public invitation for community colleges officials to present testimony (authors' interviews). Also, language describing performance funding was not added until the last minute, right before the bill was up for a vote by the Senate Appropriations Committee (authors' interview). A local community college leader who supported SB 1143 explained, "The language initially was very vague, and in some ways on purpose. There was a feeling that the more detail was in the bill early on, the easier it would be to pick it apart." [28]

Once opposition arose, however, the sponsor of the bill, Senator Carol Liu, engaged in a series of negotiations with the most visible leader of the opposition, Chancellor Jack Scott of the California Community College System (authors' interviews). Senator Liu was able to keep the bill alive by making concessions, including adjusting course completions to take into account the number of minorities in the college's population, holding colleges harmless with regard to reductions of funding in the first year, and special allowances for particular courses (California Legislative Counsel, 2010). However, in the end, the bill's opponents moved to strip the bill of its performance funding provisions.

Opponents. In the beginning, the opposition to SB 1143 seemed unified, but over time two different coalitions emerged. The first group of opponents included the community college faculty union (primarily the California Federation of Teachers) and the community college academic senate, both of which had a long and consistent history of opposing performance funding (authors' interviews). The second opposing coalition consisted of the state community

[28] As originally introduced, the bill only stated: "It is the intent of the Legislature to enact legislation to establish a framework for allocating state funds to community colleges in a manner that provides incentives for community colleges to assist students in completing coursework in which they enroll and coursework that is required to earn a certificate or degree." The term performance funding was not used. Later on, the bill was amended to drop the passage above and add the following provision for basing state allocations partly on course completion: "The rules and regulations prescribed pursuant to Section 84500 shall calculate full-time equivalent student enrollment using the average active enrollment in a course as of the census date at the one-fifth point and at course completion."

college Chancellor, Jack Scott, and the Community College League, led by Scott Lay. Chancellor Scott was identified by a number of interviewees as the most visible leader of the opposition (authors' interviews). Scott Lay and the Community College League were less visible, but made a strong impression on those supporting the bill (authors' interviews).

Key beliefs of opponents. At the beginning, both coalitions had similar reasons for opposing SB 1143. They believed that the performance funding system proposed in SB 1143 was punitive and failed to pay enough attention to the complexities of the community college system. These two features were seen as stemming from a lack of consultation with the community colleges.

SB 1143 was viewed as punitive because of a pervading perception that it would greatly reduce funding for the community colleges. While proponents denied that claim, several opponents argued that the bill would reduce funding by as much as 20 percent (authors' interviews). A state community college official argued for a lesser but still very large loss:

> Our simulations showed we'd probably lose about $419 million each year. That's huge. That's more than eight and half percent cut to our base budget; that on top of all the other cuts we've taken…This isn't incentive funding; this was our base funding on one hundred percent completion. That's a higher completion rate expectation rate than Harvard. Not even Harvard has a hundred percent completion in all their courses. So for every incomplete, we would get [dinged on] funding.

The strong difference of opinion about the fiscal consequences of SB 1143 might have been due in large part to the way the bill was worded. One proponent argued that the bill was not worded carefully enough to make clear that total funding for the community college system as a whole would not be changed, though funding would be distributed differently across the colleges (authors' interview).

The second major criticism of the bill was that the performance funding model it proposed did not take into consideration the unique missions and populations of the community colleges, with the result that it could create potentially unfavorable results (authors' interviews). For example, a community college official argued that SB 1143 in its original form would adversely impact community colleges that catered to mostly minority populations because these populations had more challenges in terms of remediation, retention, and graduation. Performance funding could lead those colleges to take actions that would be inimical to the interests of minority students (authors' interviews). A state community college officials noted:

> We know that institutions could…if their funding was based on the completion, it could drive certain patterns that we don't think are necessarily conducive to students' success. For example, you could be creating incentives to not serve at-risk students, and there were no provisions to really assure that wouldn't happen.

In fact, several of the opponents expressed concern that SB 1143 would lead to a "creaming" of students and courses in that institutions or programs would become more selective in order to ensure favorable course completion rates (authors' interviews). A state community college leader argued that colleges would increase course offerings with a record of high retention and cut difficult courses with a lower retention rate: "You know colleges would schedule more courses that had a statistically higher retention rate, success rate, like PE [and] some arts, and less math and science courses."

The opponents of SB 1143 were unified in their beliefs about the impacts SB1143, but they differed on whether performance funding should be countenanced at all. In interviews, it became clear that, unlike the faculty, the state Chancellor of Community Colleges and the Community College League were not opposed entirely to the idea of performance based funding (authors' interviews). The two stated an openness to a performance funding plan that was more nuanced than the one originally proposed in SB 1143 and that would not threaten the core budget of community colleges (Community College League of California, 2010). As a member of the second coalition stated:

> The basis of the opposition was not just against performance based funding, it was against that particular measure…It was felt like this was a raw, not carefully thought through measure, and so it was not that everybody said we are against performance base funding.

Actions taken by the opponents. Initially both opposing coalitions mobilized to fight the development of SB 1143. However, while the faculty unions and academic senate made public declarations about why the bill was ill-suited for the community college system, Chancellor Scott became heavily engaged in negotiations with the bill's sponsor, Senator Liu, to amend the bill. During these negotiations, Chancellor Scott and Scott Lay of the Community College League apparently were discussing between themselves alternative forms of performance funding that could be proposed in the future (authors' interview).

Final disposition of SB 1143. The version of the bill that finally passed did not have any provisions for performance funding and only called for the Board of Governors of the California Community Colleges to "adopt a plan for promoting and improving student success within the California Community Colleges and…establish a taskforce to examine best practices within the community colleges and effective models throughout the nation for accomplishing student success."[29]

It is noteworthy that performance funding was heavily opposed by the community colleges, which have been major supporters of performance funding in states such as Florida and Illinois. It is also notable that SB 1143 failed to attract the support of other typical supporters of performance funding, including state higher education boards and the business community (Dougherty et al., 2010). In order to understand these patterns of opposition and abstention, we need to delve deeper into the nature of the California higher education system.

Systemic Causes of the Lack of Performance Funding in California

Several important features of the California higher education system explain why performance funding was so lacking in vigorous support. They include the state's strong tri-partite system of public higher education, the unique position of the University of California as a constitutionally autonomous institution, and the state's celebrated Master Plan for Higher Education.

A lack of champions. Several interviewees noted that that there was a general lack of interest in performance funding as a strategy for higher education regulation in California (authors' interviews). As a faculty member explained:

> There is nobody in charge of our higher education system. There is no governor's higher ed policy advisor…Our coordinating body does nothing in the policy world really that anybody pays attention to. So I just don't think the leadership existed to put anything like that forward.

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[29] The task force was enjoined to examine: "(1) Multiple measures and effective programs for assessing student success and completion…(2) Statutory and regulatory barriers to student success and completion. (3) Best practices for promoting student success and completion, including, but not limited to, the acquisition of basic skills. (4) Alternative funding options for providing necessary services to students and promoting best practices for student success and completion. (5) Alternative funding options instituted in other states for improving student success and completion." The fourth and fifth points seemingly provided an opening for considering performance funding, but this opening was carefully controlled, for the task force and the Board of Governors were also ordered to "facilitate discussions with key community college stakeholders and other appropriate parties to provide input on the findings and recommendations of the taskforce."

Why did various actors who supported performance funding in other states (Dougherty et al., 2010) not champion this policy in the state of California?

Governors. As many of our interviewees said, to be successful, a measure such as performance funding typically requires gubernatorial support. However, such support for performance funding was lacking in California. While the Partnership for Excellence received support from Republican Governor Pete Wilson (1991–1999), for the most part, California governors over the past 30 years largely stayed away from performance funding (authors' interviews). A state higher education official noted:

> My guess is that in some of the states [performance funding] was a governor-driven thing because governors' leadership seems to be a real important cohesive mechanism if you're going to have higher ed policies…People will tell you that the last governor of California who made higher education a real high priority was Pat Brown [Democrat, 1959–1967].

Governor Wilson supported the Partnership for Excellence (Woolfork, 2001; authors' interviews), but he did not push for performance funding specifically. He was interested in running for the presidency and it would not have suited his goals to take on a potentially unsuccessful issue such as performance funding for higher education (authors' interview).

Democratic Governor Gray Davis (1999–2003) focused his education agenda on K-12 issues. To the degree that he was interested in higher education accountability, he pushed for funding compacts with the University of California and California State University systems rather than performance funding (authors' interviews).[30]

Republican Governor Arnold Schwarzenegger (2003–2011) has been described as a potential supporter of performance funding and he vetoed a proposal because he did not think that it had concrete enough accountability measures (authors' interview). However, our interviewees noted Governor Schwarzenegger's lack of leadership in driving the performance funding effort. In fact, he did not come out in support of SB 1143 (authors' interviews).

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[30] Governor Davis established performance contracts with the University of California and California State University systems, where they promised certain performance outcomes in return for budgetary guarantees. However, these contracts did not constitute performance funding because the funding was not based on past performance but rather on promises of future performance, and there were no penalties if the performance targets were not met.

Legislators. California legislators, like the governors, have been largely silent on performance funding, unlike other states where legislators (particularly Republicans) have often promoted performance funding (Dougherty et al., 2010). Three factors seem to explain this legislative silence: term limits, fear of local college opposition, and the strong Democratic Party presence in the state legislature over the past 50 years.

Legislative efforts to champion performance funding may have been constrained by term limits. Term limits encourage elected government officials to pick initiatives that will "leave their mark" in a short time and are not conceptually difficult (authors' interviews). A community college president commented:

> It's very difficult to have leadership in the legislature on issues that are as complex as this because of the nature of the legislature and term limits and the turnover that we experience in the legislature. It's very difficult for somebody to have enough knowledge and understanding of how this works to be able to persist in moving something like this to the legislature.

Some interviewees also attributed the inaction of legislators to a fear of antagonizing the community colleges and their local supporters (authors' interviews). As locally controlled institutions, community colleges had many local ties (authors' interviews). If performance funding were viewed as punitive by those colleges, legislators who supported it might be branded as unsupportive or even disloyal by the community colleges and their many local supporters (authors' interviews).

A final reason for a lack of legislative champions for performance funding may have been the strong Democratic presence in both the California Senate and House for the past 50 years. With the exception of Senator Carol Liu, there had been little effort on the part of Democratic legislators in California to propose solutions that would significantly alter the funding formulas for higher education in the direction of performance funding. Across the states, Democratic legislators are typically less supportive of performance funding than Republicans (Dougherty et al., 2010; McLendon et al., 2006). They are more likely than Republicans to be repelled by the association of performance funding with business strategies, in part because Democrats tend to have closer ties with unions, including the teachers unions that vehemently oppose performance funding. Also, Democrats are typically more concerned about the possible negative impacts of performance funding on disadvantaged populations.

Business. One of the more curious aspects of the politics of performance funding in California has been the weak support of business. While some regional chambers of commerce supported SB 1143, the state Chamber of Commerce and the state Business Roundtable were not involved (authors' interviews). This is surprising because performance funding resonates well with the free market values that business espouses and because business has been a major supporter in several states that adopted performance funding (Dougherty et al., 2010). A higher education researcher noted the California difference:

> What is kind of surprising and frustrating here is that we don't have a very active business community when it comes to paying attention to higher education policy…We have argued that we have got to mobilize the business community. I mean they are the ones that should be in the capitol screaming, "We've got to get better outcomes out of our higher education system. We can't hire people; the people we hire aren't qualified."

A prominent former state official with long experience in state government echoed this observation, noting that "most of the concerns that I saw expressed in the business community as it related to education in California focused on elementary and secondary education."

The main reason for business's lack of involvement seems to be its general satisfaction with the higher education system and its strong ties to the colleges (authors' interviews). A prominent former legislator explained:

> Because California has had a strong economy, I think there is a belief [that] things like Silicon Valley are a creation, in part, of our higher education system in places like Berkeley and Stanford. I think that there is a general sense that the digital revolution and some of the other things that are part of the 21st century economy come out of California higher education, and therefore it's something that should be nurtured, should be treasured and should not be messed with.

The California Postsecondary Education Commission. In several states, state higher education coordinating boards have been leaders in efforts to establish performance funding (Dougherty et al., 2010). However, that has not been the case in California, in large part due to the weakness of the California Postsecondary Education Commission (CPEC). The CPEC is the state's planning and coordinating body for higher education, responsible for providing the legislative and executive branches of government with advice and information about major policy and planning issues concerning postsecondary education. However, the CPEC has always been weak in comparison with the university and community college system boards (see below). As a close outside observer of California higher education noted, "It has been a long time since they've had enough strength in the Coordinating Board to really put a reform agenda on the table." In fact, the CPEC was nearly eliminated during the last round of budget cuts (authors' interview).

The strength of university opposition to performance funding. In many states, state universities have been among the most important opponents of performance funding (Dougherty et al., 2010). This has been the case as well in California, but with the added emphasis that the universities are particularly powerful.

Both the University of California (UC) and California State University (CSU) boards and high level administration have expressed a general suspicion and skepticism about any type of performance funding initiative. Each university system is very protective of its mission and skeptical of how performance funding would be helpful (authors' interviews). A high level university administrator stated:

> I believe that [performance funding] can be manipulated and provides false information rather than real information, and it provides the wrong incentives for motivation…it never catches up to reality. You know you're either way behind on your funding or you're trying to produce results to get rewarded after the fact of what you're delivering.

A legislative staffer noted how this university attitude affected the policymaking for performance funding:

> [Senator Carol Liu] has authored legislation for both the community colleges and the higher education's institutions of CSU and UC to have accountability measures based on performance measures that will ultimately be tied to funding levels…none of those bills moved. And the reason that the public institution bills didn't move was because the institutions opposed them.

This stance by the university boards had particular force because the university systems, especially the University of California, have a unique history and standing in California that affect their perspectives and political influence.

Features of California higher education governance and politics. When we probed why California had never adopted a performance funding measure for higher education, many interviewees pointed to the particulars of California's higher educational system and its governance structure. Three features stand out: the presence of three large and separate public higher education sectors, two of which are headed by powerful boards; the constitutional autonomy of the University of California system; and the high prestige and high degree of institutionalization of the state's widely lauded Master Plan for Higher Education.

The three sectors. California's higher education system consists of three large and separate systems, each headed by its own board: the University of California system, the California State University system, and the community college system. Their size gives them greater power and makes it hard for elected officials to interfere with their operations (Trow, 1998). It is clear from our interviewees that the complex structure of the state's higher education system was perceived as a barrier to any dramatic changes in funding formulas.

The constitutional and reputational autonomy of UC system. Amplifying the autonomy of the higher education system produced by the state's tripartite system structure is the constitutional autonomy of the University of California. This structure can be traced back to the state constitution's designation of the University of California (UC) as a "public trust" that is free in many areas from regulation by the state (Horowitz, 1977–1978; Trow, 1998). Because of its constitutional designation, the UC system has a long legacy of resistance to the political influence of the state (Horowitz, 1977–1978; Trow, 1998). Though the majority of the UC Board of Regents is appointed by the governor, even the appointed members are highly independent: a Regent's term length extends well beyond the term length of the governor and a Regent is protected from dismissal for reasons other than criminal behavior (authors' interviews; Trow, 1998). As a result, although the governor and the legislature do influence the UC through their role in deciding on its budget requests, the system's constitutional autonomy makes elected officials reluctant to dictate to the UC. As a UC staffer explained:

> Under the California Constitution, the University of California has autonomy, which means that legislators, the state legislature, cannot tell us to do something. They can request us to do something and they frequently pass legislation that applies to the other segments of public higher education at the California State University System and the community college system. They can be prescriptive up to a point for those institutions but they cannot tell the University of California to do something because we are actually an arm of the state…we're an independent body from the legislature, although we depend upon them for part of our budget.

State elected officials have also been loath to intervene in the affairs of the University of California because of its social importance, high prestige, and elite connections (authors' interviews). The University of California has nearly a million living alumni; they include nearly a third of the state's legislators, a quarter of the state's federal senators and representatives, and many top business leaders (Trow, 1998, p. 10). An outside observer very familiar with California notes the power of the University:

> Many of the legislators love to hate it [the University of California], but they can't take it on. It's such an important institution in the state…It has such cachet in the state that what it wants to do more or less it gets away with…The University [has] a constitutional autonomy and [has a] worldwide reputation. You look at the number of [UC] campuses in the Shanghai Jiao Tong university ratings for the…top 25 in the world…What are you going to do? Are you going to take that on? Gosh, you'd be ruining the state if you took on the University of California.

The Master Plan for Higher Education**.** A final key element of the California higher education governance system that empowers the system and deters involvement by state officials is the California Master Plan for Higher Education. The University of California played a large role in constructing the Master Plan in 1960. UC's president at the time, Clark Kerr, orchestrated the development of the Plan, which delineated separate roles for the state's three higher education systems (Douglass, 2010; Richardson et al., 1998). Under the Master Plan, the UC would accept the top 12.5 percent of high school graduates and serve as the state's main research and doctoral granting institution. The California State University system would admit the top 33 percent of high school graduates and would offer master's degrees but no independent doctorates (until a very recent change authorizing the independent doctorate in education). Meanwhile, the community colleges would provide access for the rest of high school graduates, offering opportunities for remedial skill development, subbaccalaureate vocational training, and prebaccalaureate preparation for students transferring to the CSU and UC or other universities (Richardson et al., 1998). Because of the Master Plan and the lack of a powerful state board presiding over all three tiers, each tier has come to regard its system as a separate and largely autonomous entity unto itself (authors' interviews).

It is clear that the constitutional autonomy of the UC system and the state's Master Plan of higher education have together laid the foundation for legislative and gubernatorial reluctance to intervene in higher education affairs. The UC's constitutional autonomy was broadened by the Master Plan to the point where each tier of public higher education ended up with its own board and internally autonomous budgeting process. This lack of a centralized governance continues to serve as a major barrier for any governor or state legislator taking up the idea of performance funding for higher education (Douglass, 2010).

Summary of the Reasons Why California Lacks Performance Funding

California has entertained the idea of performance funding for higher education but never adopted it. The Partnership for Excellence for community colleges (1998–2004) allowed the development of performance funding but that possibility was not taken up. Meanwhile, SB 1143, a 2010 bill to establish performance funding for community colleges on the basis of course completions was passed, but the performance funding provisions were removed.

SB 1143 received support from a loose coalition of local chambers of commerce, some community colleges, and the Campaign for College Opportunity. However, SB 1143 also sparked the opposition of a wide range of community college groups, ranging from the state Community College Chancellor's Office and the Community College League of California to community college faculty unions and individual community colleges. They criticized the bill as excluding community college input, failing to consider consequences for different kinds of colleges, and being punitive in nature. Two opposing coalitions emerged during the bill's development. While one coalition remains unalterably opposed to performance funding, the second coalition is more open to incentive-based performance funding models.

The failure of California to establish performance funding for higher education is rooted in fundamental characteristics of the state's higher education system and governance processes. This socio-political structure kept typical advocates of performance funding—such as state legislators and governors, state higher education coordinating boards, and state business organizations (Dougherty et al., 2010)—largely uninvolved in supporting performance funding. Much of this lack of involvement can be attributed to the state's strong tri-partite system of public higher education, the unique position of the University of California as a constitutionally autonomous institution, and the state's celebrated Master Plan. All three make state officials loath to intervene deeply in the operations of the state's higher education systems. Meanwhile, business has also been silent on the issue of performance funding, part of a larger pattern of being largely uninvolved in issues of higher education policymaking, except when it touches on very specific interests of business, such as addressing the research needs of the California agribusiness and information technology industries.

Nevada: Another State Without Performance Funding

In 1999 the Nevada legislature approved Senate Bill 443, which called for the creation of an interim legislative Committee to Study the Funding of Higher Education (2001). The purpose of this committee was to "compare the existing method of funding higher education in Nevada with the methods used in other states and determine whether the other methods would be appropriate and useful in Nevada" (Nevada Committee to Study the Funding of Higher Education, 2001). The Committee included six state legislators, three members of the Board of Regents, six college and university representatives (presidents, other administrators, and faculty), and the director of the Department of Administration. In January 2001 the Committee recommended unanimously that a performance funding pool be created for the state higher education system, amounting to as much as 2 percent of the regular state appropriation in additional funding (Nevada Committee to Study the Funding of Higher Education, 2000b, 2001, p. 40; authors' interviews). The governor endorsed this recommendation and submitted a request for $3 million in FY 2002–03 for performance funding (Nevada Legislative Counsel Bureau, 2001, p. 67). Nevertheless, the budget proposal for performance funding got little attention from the legislature and was not enacted (authors' interview).

In 2004, the subject of performance funding was raised again. Through AB 203, the state legislature created the an interim legislative Commission to Evaluate Higher Education Programs. The Commission contracted with a consortium of the National Center for Higher Education Management Systems, the Western Interstate Commission for Higher Education, and the State Higher Education Executive Officers to examine the state's higher education needs, how well the state higher education system was meeting them, and what changes were in order. The consultants recommended, among other things, the creation of "a performance funding pool from existing formula funding to improve educational output and to address the leaky K-16 pipeline" (National Center for Higher Education Management Systems, the Western Interstate Commission for Higher Education, and the State Higher Education Executive Officers, 2004, p.

42). However, this recommendation was never accepted by the legislature (Nevada Legislative Committee to Evaluate Higher Education Programs, 2004; authors' interview).

Proponents

The main proponent of the 2001 performance funding recommendation was the staff of the Board of Regents, particularly Dr. Jane Nichols, chancellor of the Nevada System of Higher Education (authors' interview).[31] Dr. Nichols urged the Nevada Committee to Study the Funding of Higher Education to endorse performance funding for higher education because it would be a means of ensuring that Nevada institutions were held accountable for meeting state goals (Nevada Committee to Study the Funding of Higher Education, 2000a; authors' interviews). A second reason why proponents backed performance funding was its value as a means of securing extra funds for higher education. As a state higher education official noted, "Initially, it wasn't to change the formula. It was to get money for performance funding in addition to the base amount generated by the formula." Proponents felt this was more likely if they could address the legislature's desire for a business-like approach to accountability. As a university official explained:

> Of course, legislators and external people always want to do it that way because frankly they have a simple-minded [idea] of what higher education does. Most of them are in business and they want to say "how many widgets did you produce?"

Opponents and Would-Be Opponents

Because performance funding never rose to the level of a formal legislative vote, there was no clear opposition to it. However, some interviewees indicated that there were substantial reservations in various quarters. One group identified by one of our interviewees as a potential opponent consisted of the presidents of the state universities (authors' interviews). A university official noted:

> I think presidents are always a bit resistant, not because they don't agree [but] because they know that it's going to be imposed in some simplistic way…There's a little pushback there unless you get involved with the right people on the campuses.

[31] Although Republican Governor Kenneth Guinn (1999–-2007) supported the recommendation to add the measure to his budget, he did not go out of his way to advocate it (authors' interviews).

There was some hesitation about endorsing performance funding even on the Nevada Committee to Study the Funding of Higher Education. Concern was expressed that performance funding could be applied in a way that failed to take into consideration the complexities of the institutions covered and would disadvantage one school compared with another (Nevada Committee to Study Funding for Higher Education, 2000a, b; author's interview). A higher education official who served on the Committee stated that that legislators had to consider "how you carve it out and make it legitimate and have it not disproportionately favor or disfavor one or another of the institutions in the system and that includes the community colleges as well."

Explanations for the Lack of Champions for Performance Funding

It is striking how little backing performance funding has had in Nevada. Unlike other states, the governors (except one), state legislators, business, and higher education institutions (notably the community colleges) did not support performance funding with any force. How do we explain this lack of support?

The weak action of the Board of Regents. The Board of Regents was the strongest advocate of performance funding, but its support was less vigorous than in most states where performance funding was established. Part of this lack of vigor was due to the lack of support from other quarters (see below). However, another factor appears to be the fact that the Board—though a consolidated board governing all of higher education (McGuinness, 2003)—is not that strong (authors' interview; National Center for Higher Education Management Systems et al., 2004, p. 34). A well placed outside observer of Nevada higher education policymaking noted:

> The governing board is an elected governing board. It is not an appointed governing board…and it's also a springboard to other political activities in the state. It is a political board. And they, as a result, are fairly risk averse in many respects…The state funding formula is not managed by the governing board but is, in fact, in the statute. So while they have a single governing board the money is allocated by the legislature.

In addition, there is evidence that the Board of Regents did not push for performance funding really strongly for fear that the process of designing and implementing a performance funding system would exacerbate the longstanding contention between the University of Nevada, Reno and University of Nevada, Las Vegas (see below).

The equivocation of the universities. The main state universities—the University of Nevada, Reno (UNR) and the University of Nevada, Las Vegas (UNLV)—were somewhat leery of performance funding. While they thought it might bring them new money, they also feared that it might be based on indicators that would favor one of the universities at the expense of the other. A university official noted:

> Performance funding…has hidden implications for different institutions. So, for example, if you were to measure the percentage of state dollars in each of the major functions, UNLV would look a whole lot better simply because it has a larger percentage of their dollars in academic functions than UNR does…[UNR has] a higher graduation rate than UNLV. UNLV has many more Hispanic students, for example, whose first language isn't English.

The University of Nevada Reno and University of Nevada, Las Vegas, have long been at loggerheads over how much state funding each should be getting (authors' interviews). This issue emerged in the Nevada Committee to Study the Funding of Higher Education, according to a member:

> They [UNR] get about two thousand per student more than UNLV does, which is about sixty million bucks a year more funding, and they always have a reason why they do, but there's a fight internally and [it] has been historically forever about that balance with funding. So a lot of things that are discussed here in apparently other contexts somehow relate back to the politics of the state and the two major universities.

The laissez-faire position of elected officials. A major reason why the state legislature and the governors did not champion performance funding was their relatively hands-off relationship with higher education. The state's consolidated governing board has a fair degree of autonomy from the rest of state government (authors' interviews). A former state executive branch official noted:

> You've got to remember the University System is not part of the executive branch of government except that are included in our budgeting process and they fight like hell for their piece of the pie just like everybody else does. The chancellor is hired by the Board of Regents; the Board of Regents[members] are elected by the public. They can basically tell a governor to pound sand if that's what they intend to do. Now that's not smart because the governor at least makes the initial funding recommendations for the

> University System just like he does for everybody else. But generally, there was almost an adversarial relationship between the administration and the system of higher education.

One of the primary reasons for this hands-off approach may be the fact that higher education has not been a major priority in a state where the main industries (mining and gaming) historically have not depended on higher education to supply much of their workforce (authors' interviews). A well placed observer of the state's higher education policymaking noted:

> If you look at where it [Nevada] ranks on education, its way down in terms of the share of its population with a college education…So on all of the indices you don't have a culture of higher education even in the citizenry or the business community. They're much more interested in whether they can get production workers. [I was] working on a project a couple of years ago, and we were saying "Well don't you feel badly that all the good jobs in this state go to people who come in from out of state?" And the senator said to us, "No, if we can get good people from somewhere else, why would we waste money educating them here."

As a result of the above view, state elected officials have not felt it important to press higher education for higher performance. The economy has not seemed to require it and, in any case, business has not pushed for it.

Another reason that state elected officials may have been uninterested in taking up performance funding was possible opposition from the two main state universities if they believed that the performance funding formula treated them inequitably.

In addition, there is evidence that the main architect of the state's funding formula for higher education, Senator William Raggio (R-Reno) was not interested (authors' interview). A leading observer of the state's higher education policymaking process noted:

> Without doubt this lack of stomach for big change within the legislature was almost certainly affected by Senator William Raggio's disinterest in substantially changing the higher education funding formula. Senator Raggio who was perhaps the most powerful, effective, and highly regarded member of the Nevada legislature during the last decade was also considered the father of the existing funding formula and remained steadfastly committed to its sustainability.

Senator Raggio's lack of interest in performance funding was particularly important, because it was unlikely that any other legislator would step into the breach. The Nevada legislature is not highly professionalized: its members do not have long legislative sessions, good pay, and ample staff (authors' interviews). As a result, there may have been little capacity and appetite to take on issues that are analytically complex and politically difficult and therefore require a lot of staff support and legislative time. A university official observed:

> What that really translates to, I think, is a lack of interest on the part of the legislature. It's a really difficult undertaking of the legislative session because it is every two years. And a state that has grown like Topsy and has all kinds of problems that need addressing and there has been a constitutional amendment limiting the length of the biennial session to 120 days, actual days, start to finish…It's a citizen's legislature, so it's not like New York or California where the folks are there practically year-round and it's their life and their job. These are all people who, when the legislative session is over, go back to work wherever they are and get together in committees in the interim.

Business's lack of interest in higher education. Until recently, the business community had very little interest in higher education (author's interviews). In fact, the Las Vegas Chamber of Commerce, the state's biggest business group, only got around to establishing an education committee in the last couple of years (authors' interview). The business community's lack of interest in higher education and silence on performance funding seemed to stem from the fact that it did not rely on higher education for producing any substantial portion of their workforce (authors' interviews). As a university official noted, "The biggest industries in the state being gaming and mining…those are sort of industries that don't require an educated labor force."

Summary of the Reasons Why Nevada Lacks Performance Funding

Nevada has never seriously considered performance funding for higher education. The only known attempt at a serious discussion of it took place in 2001 when the Nevada Committee to Study the Funding of Higher Education proposed performance funding. There was discussion again in 2004, but it also went nowhere.

The inaction on performance funding in Nevada stems from an absence of champions, which in turn reflects the leeriness of the state universities, the disinterest of the business community, and the lack of enthusiasm of state elected officials. The lack of enthusiasm on the part of state officials stems from the lack of interest by powerful interest groups, the absence of economic demands for a highly educated workforce, the limited professionalization of the legislature, and the substantial autonomy of the higher education system. To the degree that this autonomy has been tied to the presence of a consolidated governing board, the Nevada situation may be an example of how our findings resonate with those of McLendon et al. (2006) regarding the negative impact of the presence of a consolidated governing board on the emergence of performance funding.

Performance funding may emerge in Nevada in the next several years, as the state tries to move beyond an economy based on gaming, mining, and ranching and turns to higher education to assist the economic transition (authors' interview). However, the advent of performance funding will not be soon. It is clear that the state's terrible budget deficit makes state officials and university leaders unwilling to contemplate performance funding when regular funding for higher education is well below the level suggested by the funding formula and is being substantially cut (authors' interviews).

Summary of Findings

Here we summarize our findings for six states that adopted performance funding for higher education and for two states without performance funding.

Findings for Six Performance Funding States

The processes by which performance funding has been established exhibit considerable variation across Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington. At the same time, there are striking similarities among these six states, particularly in terms of the categories of main supporters and opponents, the beliefs that animated them, and the political openings that allowed political entrepreneurs to put performance funding on the decision-making agendas of state governments. Table 2.1 presents the findings in tabular form.

Table 2.1.
Performance Funding Origins: Findings across Six States

Actors and Contexts	TN	MO	FL	SC	IL	WA*
Supporters						
Legislators		X	X	X		X 1997
Governor		X	X	X		X 1997
State higher education board officials	X	X	X		X	X 2007
Local (institutional) officials	X		X		X	X 2007
Business (direct)**			X	X		X 1997
Business (indirect)**		X	X	X		X 1997
Supporters' Beliefs and Motives						
Need to Increase higher education efficiency		X	X	X		X 1997
Need to increase government efficiency			X	X		X 1997
Need to meet labor training needs of business				X		X 1997
Need to secure more funds for higher education	X	X	X		X	
Need to increase quality of higher education		X			X	X 2007
Need to increase accountability				X	X	
Need to increase legitimacy of higher education	X		X		X	
Need to preempt passage of unwelcome form of performance funding	X				X	X 2007
Political Openings						
Change in party control of legislature			X GOP	X GOP	X GOP	X 1997 GOP
Change in party control of governorship		X Dem		X GOP		
Economic recession			X			
Economic prosperity						X 2007
Anti-tax mood	X	X	X			X 1997
Spillover from other policy subsystems	X				X	X 2007

Actors and Contexts	TN	MO	FL	SC	IL	WA*
Sources of Ideas for Performance Funding						
Policy learning	X		X	X		X 2007
External state policy organizations			X	X		
Other states			X	X	X	
Outside experts	X	X	X		X	X 2007
Opponents						
State universities		X Inactive	X	X Inactive		X 1997
Community colleges				X Inactive		
State coordinating board				X Inactive		
Opponents' Beliefs and Motives						
PF system does not distinguish enough among institutions		X				X 1997
PF is an excuse to cut regular funding for higher education		X	X	X		
PF will lead to closing institutions				X		
PF undercuts higher education autonomy		X				X 1997
PF raises institutional costs		X				
PF does not work well			X	X		
PF duplicates accreditation system						X 1997

* Washington established performance funding systems at two different times: 1997 and 2007.
** See text for the distinction between direct and indirect business power.

Supporters. In all six states, the main proponents of performance funding were state officials. In Florida, South Carolina, and Washington (in 1997), state legislators, particularly Republicans, played the leading role. Meanwhile, state higher education board officials played the leading role in Illinois, Missouri, Tennessee, and Washington (in 2007).[32] Governors were openly supportive in four states—Florida, Missouri, South Carolina, and Washington—but played a significant role in only the first two.

These leading state officials were joined in supporting performance funding by local community college officials and business. Officials of individual public colleges were openly supportive of performance funding in Florida, Illinois, Tennessee, and Washington (in 2007). In

[32] As we note below, the state universities were considerably less favorable and even opposed to performance funding.

fact, in all four states, college and university officials were directly involved in designing the performance funding system.

Meanwhile, business supported performance funding in a direct and organized fashion in South Carolina, Washington, and Florida. In South Carolina, a group of business leaders pushed hard for performance funding for higher education, working closely with legislative activists to secure and then design the performance funding system. In Washington, business openly favored performance funding. In Florida, though business did not endorse performance funding specifically, it strongly endorsed the 1994 Government Performance and Accountability Act that gave rise to performance funding.

In addition to its direct participation, business also played an important indirect role. In South Carolina, Washington, Florida, and also Missouri, business concerns about government efficiency strongly shaped the politics of performance funding insofar as state officials supported performance funding because they believed it would resonate with business beliefs and therefore attract business support.[33]

Florida had the broadest advocacy coalition in favor of performance funding, consisting of the governor, legislators, state higher education board officials, business, and community college presidents. Narrower coalitions were present in Missouri, South Carolina, and Washington in 1997: legislators, the governor (weakly), and either the state coordinating board or business. The narrowest coalitions were present in Illinois, Tennessee, and Washington in 2007: a state higher education board and the heads of individual colleges.

Popular pressure was not a factor. Popular concern about rapidly rising tuitions and insufficient room at public colleges and universities may have played a role in putting the issue of higher education effectiveness, efficiency, and accountability on the issue attention agenda in Washington, but we have no evidence that it played such a role in the other states. Even in Washington, popular pressure did not focus at all on performance funding as a specific solution to this concern about accountability.

Supporters' beliefs and motives. The main beliefs uniting the supporters of performance funding concerned the importance of finding new means to secure additional funds for higher education at a time of fiscal stringency and of increasing the efficiency of government generally and higher education specifically. In addition, there was more scattered belief in the

[33] For more information on this indirect, non-participatory form of business power, see Dougherty (1994).

importance of increasing the quality and accountability of higher education, meeting the workforce needs of business, and preventing performance funding from being imposed on higher education without higher education institutions having a hand in designing it.

For legislators, governors, and business, the main belief was in the importance of increasing the efficiency of government and higher education and in the utility of market or business-oriented methods such as performance funding. This belief can be clearly seen in Florida, Missouri, South Carolina, and Washington. However, for state and local higher education officials in all the states except South Carolina, the driving motive was the importance of finding new means of securing additional funds for higher education institutions in a time of fiscal stringency. Performance funding particularly recommended itself as a means of securing new funds because it couched requests for new funding in terms that resonated with current concerns about limited government revenues and the utility of business-like methods in government.

Opponents. There was discernible opposition to performance funding in four of the six states (Florida, Missouri, South Carolina, and Washington) coming from public institutions, particularly the state universities. However, this opposition was not mobilized, except to a degree in Florida and Washington. Institutional opposition was expressed primarily by lack of enthusiasm and foot dragging, rather than by any sharp attack on performance funding or on the issue of higher education accountability.

Opponents' beliefs and motives. The main beliefs driving opponents were that performance funding was an excuse to keep down the regular state funding for higher education, that it undercut the autonomy of higher education institutions, and that the performance funding programs proposed did not sufficiently recognize different institutional missions. The first belief was evident in Florida, Missouri, and South Carolina, where institutions expressed a fear that performance funding would provide state officials with an excuse to cut back on the regular state funding of higher education. The belief that performance funding intruded on the autonomy of higher education institutions was evident in Missouri and Washington. Institutions believed that they knew how best to run themselves and resented performance indicators that were perceived as affecting what courses should be offered and how they should be taught. Finally, higher education institutions in Missouri and Washington criticized the performance funding programs in those states as failing to tailor performance indicators to different institutional missions.

Indicators were perceived as not making sufficient distinctions among research universities, other state four-year institutions, and community colleges.[34]

Sources of ideas about performance funding. It is not always easy to determine the source for the idea of performance funding in a given state. Sabatier and Jenkins-Smith have argued that a potent path to policy change opens when an advocacy coalition encounters new data that question its policy core or secondary beliefs about the severity of a public problem and the best ways to address it (Jenkins-Smith & Sabatier, 1993; Sabatier & Weible, 2007). In fact, we found evidence of such policy learning in three states. Florida and South Carolina had been experimenting with performance accountability policies for a long period of time. They moved to performance funding as they perceived limitations to the effectiveness of less intrusive forms of performance accountability, such as performance reporting and incentive funding. Meanwhile, in Washington in 2007, the advocates of performance funding were influenced by the state's previous experience with performance funding, where a legislatively mandated system had been turned on by the higher education institutions, which felt they had not been consulted enough.

In addition, the experiences of other states and advice from outside organizations and experts can play an important role in the development of performance funding (McLendon, Heller, & Young, 2005). Observers in three states (Florida, Illinois, and South Carolina) noted how performance funding activists there were influenced by the examples and experiences of other states, particularly Tennessee (as the first state) and South Carolina (as the most radical state).[35] Regional and national policy organizations played a role as well. Interviewees in two states (Florida and South Carolina) mentioned that activists were influenced by personal contact with, and publications produced by, organizations such as the Southern Regional Education Board and the National Conference of State Legislatures that held discussions about performance funding and even recommended it. Finally, outside experts—such as consultants—were sources of ideas in all six states. Fairly frequently these consultants were associated with the National Center for Higher Education Management Systems.

Political openings. Relatively transitory political events played an important role in our six states by providing political openings for advocates of performance funding to advance their

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[34] Some of these concerns were also present in Illinois but they were more muted because the performance funding system proposed applied only to community colleges and their presidents had endorsed performance funding.
[35] The lessons learned may be not just about what to do but also about what not to do. Performance funding advocates in Illinois treated the experience of South Carolina as a cautionary tale.

position. As Kingdon (1995) and Sabatier and Weible (2007) have pointed out, "policy windows" or "external shocks" provide an opportunity for policy proposals to get a hearing that they might not earlier get. The most important political opening—present in all but Tennessee—was a change in party control of either the legislature or the governorship. Particularly important was Republican capture of a new house of the legislature, which greatly increased the number and power of legislators who were predisposed to favor market-like incentives as a way of securing desirable government outcomes. This central role of Republican state legislators fits the finding by McLendon et al. (2006, p. 11) that the probability of a state's adoption of performance funding legislation is significantly associated with a higher percentage of Republican legislators.

Another important political opening was a growing anti-tax mood among the electorate and politically influential interest groups. The mood provided an opening to promote performance funding in the name of securing both greater efficiencies from higher education and new higher education funding that was not based on rising enrollments.

Finally, the advent of performance accountability in a related policy subsystem created a political opening for advancing the idea of performance funding. In Tennessee and Washington (in 2007), increasing state interest in performance accountability for K-12 schooling led higher education officials to develop a performance funding plan of their own, rather than risk the imposition of a plan that they did not find palatable. Similarly, the advent of the radical South Carolina plan led Illinois community college officials to move proactively to develop a form of performance planning that was less radical.

Summary of Findings for Two States That Did Not Developing Performance Funding

Both California and Nevada have not developed performance funding for higher education, though efforts to do so were made. The primary reason was the absence of the champions that played important roles in the development of performance funding in the other states that we examined: legislators (especially Republicans), the governor, the state higher education coordinating or governing board (absent as a supporter in California, though not Nevada), and state higher education institutions (particularly the community colleges).

In explaining the absence of the usual supporters of performance funding, we found some commonality between California and Nevada. Both states had a state political culture of higher education autonomy from strong intervention by state elected officials. This culture was in turn related to the presence of a consolidated governing board in Nevada and the presence in California of the University of California's constitutional autonomy from much state supervision, the state's celebrated Master Plan, and the presence of powerful governing boards for the University of California and the California State University. We did not see a similar complex of factors in the states that developed performance funding.[36]

Idiosyncratic factors also played a role in the case of Nevada. One was an economy that was not high skills based and therefore did not demand that higher education play a crucial role in job preparation and technological innovation. Another was the limited professionalization of the legislature, which restricted its capacity to develop complex new policies. Nevada has a less professionalized legislature than four of the six states that developed performance funding (see Table 1.1).

Conclusions

Our explanation of the origins of performance funding in six states both converges and diverges with the prevailing perspective on the rise of performance funding. The existing research literature highlights the following conditions as playing a role in adoption of performance funding: the coincidence of a revenue/cost squeeze on elected government officials, business demand for greater higher education efficiency and lower costs, public unhappiness with rising higher education costs, a strong Republican presence in the state legislature, the greater vulnerability of higher education to government cutbacks, the rising capacity of state governments to collect detailed information on colleges, a growing belief in the inadequacy of traditional mechanisms of quality evaluation, and the absence of a consolidated governing board (Alexander, 2000; Burke, 2002a; McLendon et al., 2006; Rhoades & Sporn, 2002; Ruppert, 1995; Zumeta, 2001).

Our research found that the prevailing perspective is correct on a number of points, but that it also misses several important elements. Our analysis of the origins of performance funding in six states indicated that the following factors posited by the prevailing perspective were at work: the revenue/cost squeeze on elected government officials, business demand for greater higher education efficiency and lower costs, and a rising Republican presence in state

[36] None of the six states in which we examined the enactment of performance funding had a consolidated governing board such as Nevada's or a university system that was given as much deference as was the case in California.

legislatures. Moreover, while we did not find evidence that the increasing capacity of state governments to collect detailed information on colleges was an obvious factor in the adoption of performance funding, it is still a plausible factor, since virtually all the states we analyzed were improving their data gathering capacities at the time they adopted performance funding.

However, we saw little evidence that public unhappiness with rising higher education costs and growing belief in the inadequacy of traditional mechanisms of quality evaluation were significant factors in the origins of performance funding in our six states. More importantly, we identified a variety of actors and beliefs and motives that the prevailing perspective did not address. The most important missing factors were the champions of performance funding from within higher education itself. It was not just legislators, governors, and business that pushed for performance funding. State higher education coordinating boards in five of our six states, and community colleges in three of them, pushed strongly for performance funding. They viewed performance funding systems that higher education itself designed as a way to secure new funds and increased legitimacy for higher education and to forestall the possibility of the imposition of unwelcome forms of performance funding by state elected officials.

We also part company with the prevailing perspective by calling attention to the opponents of performance funding. The primary opponents were state universities, animated principally by beliefs that performance funding provided state elected officials with an excuse to cut or keep down regular state appropriations for higher education, undercut the autonomy of higher education institutions, and failed to make necessary distinctions among higher education institutions according to their different missions. While they did not stop performance funding in six states, their opposition restricted performance funding to the community colleges in two of those states (Florida and Illinois) and played an important role in the cessation of performance funding in Missouri and Washington (Dougherty & Natow, 2009; Dougherty et al., in press). In addition, in California, the opposition of the community colleges was the key factor preventing the enactment of performance funding in 2010.

Finally, our research points to the importance of policy learning—changes in views occasioned by experience with previous policy—and political opportunities in fostering the adoption of performance funding, factors that are not discussed in sufficient detail by the prevailing perspective. With regard to policy learning, we found evidence in three of our six states that actors moved to advocate performance funding as they encountered limitations to the effectiveness of less intrusive forms of performance accountability, such as performance reporting and incentive funding.

With regard to political opportunities, the advocates of performance funding were aided in putting this policy on the decision agenda of state governments by what the policy entrepreneurship perspective calls “policy windows” and the advocacy coalition framework calls “external shocks.” One such opportunity has been identified by the existing literature on the politics of performance funding: a rising proportion of Republicans in the legislature (McLendon et al., 2006). However, other important political openings were a change in the party controlling the governorship, a growing anti-tax mood among the electorate, and spillover from other policy subsystems in the form of proposals for performance funding in the K-12 policy arena in a state.

Chapter 3

The Demise of Higher Education Performance Funding Systems in Three States

In the nearly three decades since 1979, when Tennessee first adopted performance funding for its higher education institutions, half the states in the U.S. enacted performance funding (Burke & Minassians, 2003; Dougherty & Reid, 2007; McLendon, Hearn, & Deaton, 2006). At the same time, half of those states later abandoned their performance funding systems (Burke, 2002c,d; Burke & Minassians, 2003; Dougherty & Reid, 2007). Why has this happened? To answer this question we analyzed the design features, political forces, and socio-political contexts behind the demise of state performance funding in three states: Washington, Illinois, and Florida.

Washington established performance funding in 1997 for both its public universities and two-year colleges via a proviso in the state budget for the 1998 and 1999 fiscal years. This budget proviso was not renewed in 1999.[37] Illinois relinquished performance funding in 2002, after establishing it in 1997. The state's short-lived performance funding system—known as the Performance-Based Incentive System (PBIS)—was created by the Illinois Community College Board in 1997 through a budget proviso. Florida established two performance funding systems that ran concurrently for several years: Performance-Based Budgeting (PBB), established in 1994, and the Workforce Development Education Fund (WDEF), established in 1997. The WDEF was abandoned after 2002.

These three states allowed us to examine cases from the 1990s and 2000s, before and during the recession of the early 2000s. Hence, our examination contrasts with previous analyses of performance funding demise, which dealt only with cases from the 1990s (Burke, 2002c,d; Burke & Modarresi, 2000). In addition, our examination of Florida allowed us to examine both performance funding termination and continuation within the same state.

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[37] Washington reestablished performance funding for community colleges in 2007 (Dougherty, Natow, Hare, & Vega, 2010; Jenkins, Ellwein, & Boswell, 2009) and began exploring the possibility of using "performance agreements" with the state universities in which the state would guarantee certain levels of funding in return for certain levels of performance (Zumeta & Kinne, 2009).

For our analysis of the factors leading these three states to abandon performance funding systems, we drew upon interviews and documentary analyses that we conducted in the states. We interviewed state and local higher education officials, legislators and staff, governors and their advisors, and business leaders. The documents analyzed included state government legislation, policy declarations and reports, newspaper accounts, and analyses by other investigators. (For more details on the categories of individuals interviewed, see Table 1.2 in Chapter 1.)

We concur with Burke and Modarresi (Burke, 2002c,d; Burke & Modarresi, 2000) that higher education opposition and waning support on the part of governors played a key role in the demise of performance funding. However, our analysis also found that the demise of performance funding was due as well to waning support in the legislature, the state higher education boards, and the business community. Moreover, we found causes of higher education opposition to performance funding not mentioned by Burke and Modarresi: the downturn in state finances in the early 2000s and higher education anger with the practice of financing performance funding by holding back a portion of the state appropriation to higher education and requiring institutions to earn it back through improved performance in the ensuing year.

Washington

In 1997, Washington adopted performance funding for its public institutions as a provision in the state's higher education appropriation for the 1997–1999 biennium (Washington State Appropriations Legislation [WSAL], 1997; see also Nisson, 2003; Washington State Higher Education Coordinating Board [WSHECB], 1998). Under this program, the state withheld a small portion of appropriations and required institutions to achieve specified performance levels to recover the full amount of withheld funding. The withheld amount consisted of $10.7 million for four-year colleges and $6.8 million for two-year colleges, amounting to 0.8 percent of the state's total appropriations for higher education (WSHECB, 2000, 2001, p 75; WSHECB, 2006, App. 1, p. 1; Washington State Board for Community and Technical Colleges [WSBCTC], 1999a, 1999b). In the first year of performance funding in Washington, all that was required to receive performance funds was the creation of an "implementation plan" for how to achieve performance requirements; during the following year, institutions had to meet certain performance levels in order to receive back withheld funds (authors' interviews; WASL, 1997; WSHECB, 1998).

Performance measures in Washington varied depending on whether an institution was a four-year or a two-year college. The universities were required to meet standards relating to persistence, completion, "faculty productivity," graduation efficiency (proportion of credits taken to credits needed to graduate), and one measure that would be unique for each university (WASL, 1997; see also Sanchez, 1998; WSHECB, 1998, p. 2; WSHECB, 2000, pp. 2–3). Two-year colleges were required to meet standards relating to transfer rates, course completions, wages of occupational graduates, and graduation efficiency (WASL, 1997; see also Nisson, 2003; WSBCTC, 1999a, p. 7).

In 1999, it came time for the Washington legislature to adopt a new budget for the following biennium. But rather than renew the higher education performance funding proviso, the legislature kept a performance reporting system but removed the tie between outcomes and funding for the 1999-2001 biennium (authors' interviews; see also WASL, 1999).

Our findings suggest that a number of factors contributed to the demise of performance funding in Washington in 1999.[38] They included the Republicans' loss of control of the state legislature, and frustration and even hostility on the part of the higher education community to the particular form of the performance funding system adopted in 1997.

Loss of Champions: GOP Loss of Control of the Senate and Split Control of the House

Our analysis demonstrates that the Republicans' loss of party control in the state legislature played a role in the discontinuation of Washington's performance funding. After the 1998 election, Democrats were once again the dominant political party of the Washington Senate, and Democrats and Republicans had equal representation—49 seats each—in the House of Representatives (Ammons, 1998; Nisson, 2003). According to our respondents, these changes in party control helped to bring about the demise of the 1997–1999 performance funding system (authors' interviews). A well-placed observer noted, "The Democrats took control of the legislature and they didn't have any investment in" the performance funding proviso. Democrats

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[38] Performance funding reappeared in Washington with the establishment of the Student Achievement Initiative for community colleges in 2007 (WSBCTC, 2007). Moreover, in 2008, the legislature approved the exploration of "performance agreements" with the public universities (Washington State General Assembly, 2008; Zumeta & Kinne, 2009).

in the state legislature were more sympathetic to the preferences of institutions than were Republicans. According to one state higher education insider:

> [Democrats] were more inclined to be more trusting of the institutions, and to take what the institutions were saying, that we have a continuous kind of improvement as part of our administration. And over time, they gave a convincing story.

A former legislator agreed:

> Democrats were more willing to agree with their institutional representatives that it would be a penalty to the least able and first-time college students, that the institutions were already doing the best they could, and [that] in the long run there were relatively few students who like to stay on in higher education and be professional students.

In addition, the shift in party control created a political environment that made it difficult to sustain the performance funding program, which did not have a great deal of popular support. An illustration of the political environment at the time may be seen in the dispute that occurred between Democrats and Republicans—and among Republicans themselves—over the passage of the 1999-2001 budget (see Postman, Searcey, & Lynch, 1999). The budget passed the House by a narrow margin, and then only after certain Republicans decided to vote with Democrats on the bill (Postman et al., 1999). Thus, the shift of party control in the state capital made quite a bit of difference as to which party's budget would be sent to the governor.[39] In such a conflict-laden political environment, it is no surprise that a contentious program like the performance funding proviso was discontinued (Nisson, 2003; Zumeta, 2001). As a staff member at the Higher Education Coordinating Board explained:

> We had an interesting election that year, 1998. We ended up with a tied House, so we had co-speakers, co-committee chairs, and nothing was done but by full consensus of the House of Representatives in the ensuing legislature. So this issue not having that kind of very broad base of support in terms of wide consensus about its effectiveness, that probably had a lot to do with why a controversial policy was not renewed that year.

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[39] The version of the appropriations bill that did pass the legislature changed Washington's higher education accountability system from performance funding to performance reporting that did not directly affect institutional funding (authors' interviews; see also WASL, 1999).

Higher Education Institutions' Lack of Support for the 1997–1999 System

Another reason for the elimination of the 1997–1999 performance funding system was a lack of widespread support for the program. There was opposition to performance funding on the part of higher education institutions, and frustration on the part of the state coordinating boards with the way the system was developed.

Our data overwhelmingly suggest that the state's colleges and universities disliked the 1997–1999 performance funding system and did not keep their aversion a secret (Sanchez, 1998; authors' interviews). A former state higher education official remarked:

> [T]he institutions were never particularly, I think, comfortable with the whole idea of performance measurements. They were very good in the subsequent years, of lobbying the members of the legislature, and administration, about their resistance to this, and why it wasn't really major to what was important in education.…I think the institutions did a pretty good job of making a case.

Unhappiness with the holdback formula. One reason behind the higher education community's frustration with performance funding was the system's holdback funding formula, which was viewed by some as punitive (Sanchez, 1998; authors' interviews). Washington's first performance funding system withheld a fraction of higher education appropriations; institutions would receive these monies only by meeting performance outcomes criteria (Sanchez, 1998; WASL, 1997; WSHECB, 1998; authors' interviews). The holdback provision troubled the institutions and their boards (Sanchez, 1998; authors' interviews). In the words of a former state-level higher education official, colleges and universities believed:

> …that performance measurements ought not be a punishment, that there ought to be incentives, not punishments…And the HEC [Higher Education Coordinating] Board felt that way too…[The board] felt there ought not to be any withholding of money. But there should…an incentive pool of money out there for institutions to get additional allocations, rather than having some held back or denied.

Another state higher education official informed us that:

> [O]ne of the things that made it a difficult sell for the higher education system and community initially was that there wasn't any positive incentive included in the policy. In other words, it was all in the domain of negative reinforcement…So the most that institutions could do would be to win back the funds that they currently have in their budget, if you understand what I am saying.

> There was no additional money put on the table as an incentive to improve performance. There was only the prospect of punishment there…

Difficulty in meeting performance criteria. The holdback formula was particularly troublesome to some institutions because they had difficulty meeting the performance criteria (authors' interviews). As one former legislator observed, institutions "had to show improvement to get their full allocation. That proved to be fairly challenging for the institutions…" A staffer at the State Board for Community and Technical Colleges agreed:

> [B]y the end of the year we had to give people their money back, and several colleges didn't get their money back. And some of them were counterintuitive—institutions which everybody perceived as always doing the right thing, and they didn't get the points.

Insufficient attention to institutional diversity. Another objection by higher education institutions against the 1997–1999 system was that it did not sufficiently account for institutional diversity—that is, the indicators did not leave room for differences based on the unique institutional missions of different types of public higher education in the state (authors' interviews). A business leader described the problem as follows:

> [T]he institutions were different enough that while you could have some common performance measures, their missions were not the same…You want to develop measures that are actually aligned with the mission of the entity. And it wasn't clear that the generic ones in the budget about time-to-degree…really capture the mission of the individual institutions.

According to a current community college leader, institutions felt the same way today:

> The amazing thing is that the legislature is not aware of how individual institutions operate. And that's the unfortunate thing—they just think that we're all trying to be evasive about accountability when we don't adopt one-size-fits-all, or we're not anxious about adopting a one-size-fits-all, or just down to 2 or 3 performance measures.

Incongruity in goals. Along similar lines, there seemed to be an incongruity between the performance indicators adopted by the legislature and the performance goals that institutions believed to be important. As a state government insider observed:

> [W]hat's important to an institution may not be important to the public or may not be important to the legislature…[Institutions]

> don't like the big, aggregated numbers about what percentage of your students are going to graduate on time, within four years—things like that. Well, those are the types of measurements that legislators and, we found out, that the public like to see. I mean, they want to know those things.

There was also a concern that the legislature's performance indicators would cause colleges to focus their energy and resources on programs that were more likely to enhance institutional performance on the indicators, while neglecting or even abandoning programs that are less likely to do so (authors' interviews).[40] For example, a state higher education official noted:

> [O]ne [measure] was [that] the median wage of graduates leaving our technical program will be increased to $12/hour, and I presume our median at that time was about $10/hour… people said does this mean you really want us to stop offering our lowest wage workforce programs, such as early childhood education or such as secretary…Is that what the legislature really wants? They only want us to offer training if it's going to be higher wage? So it got into a whole conversation about the social value of training for jobs where the labor market has low economic rewards for them.

Thus, some of the performance indicators that were important to the legislature were not necessarily compatible with the goals of the higher education community.

Duplication of other mandates. The final reason why higher education institutions in Washington disfavored the 1997–1999 system was because they felt that the system was duplicative of other mandates to which colleges and universities in the state were already subject (authors' interviews). As one state executive branch staffer told us, institutions' "principal argument" against performance funding "was that, 'We go through an accreditation process. What more do you need?'" A former state higher education official reiterated that institutions measure performance "internally, and that's something that they ought to be able to continue to do, rather than have oversight from a separate board, like, the Higher Education Coordinating Board or any other organization."

Higher Education Boards' Frustration with the 1997–1999 System

Connected with the opposition to performance funding on the part of higher education institutions was the frustration of the state coordinating boards—the Higher Education

[40] See a similar discussion on "mission restriction" in Dougherty and Hong (2006, p. 76).

Coordinating Board (HEC Board) and the State Board for Community and Technical Colleges (SBCTC)—with the way the performance funding system was developed (authors' interviews). The legislature had taken the lead in adopting performance funding in Washington State, and the Higher Education Coordinating Board and the State Board for Community and Technical Colleges were given little time to propose performance funding indicators and measures (authors' interviews; see also Nisson, 2003). Indeed, the State Board for Community and Technical Colleges was given only a few days to develop indicators for two-year colleges (authors' interviews; see also Nisson, 2003). One SBCTC staff member told us: "[T]hey were sprung upon us. The legislature said you're going to have…to have indicators, and you're going to have to have them in three days." According to a state higher education official at the time, the HEC Board had more time to devise performance measures for the four-year institutions (in conjunction with the legislature and the institutions themselves) than the State Board for Community and Technical Colleges had. But according to our respondent, even the HEC Board was not given "very much time." In this respondent's words: "Once we found out that the legislature was serious in doing it, the legislative session at that time was probably about up, you know—about three or four months total."

In the end, the HEC Board did not endorse that the 1997–1999 performance funding system be continued. As a state higher education official observed:

> [T]here were recommendations made that this policy not be continued, and I know [the HEC Board] made such a recommendation. I am quite sure that all of the institutions recommended that that particular approach to performance funding not be continued. And so it seems like, looking back on it, it didn't have the kind of broad and deep support and momentum needed to sustain, you know, a razor thin sort of balancing act, that any measure would have to have trying to get through a legislative chamber that's tied 49-49.

The Budget Proviso Was Relatively Easy To Eliminate

Another factor contributing to the demise of Washington's 1997–1999 performance funding system was the fact that as a budget proviso, it was relatively easy to eliminate. Because the state budget must be renewed every biennium, provisos can be eliminated simply by removing them prior to renewal; there is no need to go through a legislative repeal process, as would be the case with a statute (authors' interviews). The fact that the 1997–1999 system was enacted by proviso rather than by statute contributed to the ease with which the legislature was able to discontinue the system after one biennium (authors' interviews). As one higher education official told us:

> [T]here wasn't a law passed in 1997, and so it was just part of the budget. Those provisions were only there, and so the legislature didn't have to actually eliminate it. They just didn't—they chose not to renew it, and what they did was they required continued performance reporting, but they no longer placed any contingent status on or hold any of the funds provided to institutions.

A legislative staffer—who was not personally involved with the 1997–1999 system but who has detailed knowledge of the legislative system and is familiar with the culture of higher education in the state—indicated a performance funding system enacted via budget proviso is not likely to be stable and long term:

> The problems with these budget provisos is that they only go for two years. They can only commit for two years at a time so everything becomes so temporary. In the world of higher education, two years is nothing. I mean you can't hire a faculty for two years. You know? Just the faculty search takes a year.

Summary of Reasons Why Washington's 1997–1999 System Ceased

In sum, several factors played a role in the rapid demise of the 1997–1999 performance funding system. First, control of the state senate switched from the Republican to the Democratic party, and the Democrats were not as supportive of tying funding to institutional performance as Republicans had been. Second, higher education institutions—a somewhat powerful political force in Washington—were displeased with the 1997–1999 performance funding system. Reasons for institutional opposition included the perceived punitive nature of the holdback funding system, the difficulty that some institutions had in meeting performance criteria, differences between institutions and the legislature as to how to measure outcomes for higher education, institutions' belief that the 1997–1999 system did not take sufficient account of institutional diversity, and their belief that performance funding was duplicative of existing accountability mandates. Third, the State Board for Community and Technical Colleges and the Higher Education Coordinating Board were frustrated by the fact they had not been given much time to deliberate on performance funding measures (see Nisson, 2003). And finally, the fact that the 1997–1999 performance funding system was enacted by budget proviso rather than by statute made it relatively easy to eliminate the following biennium.

Illinois

Illinois terminated its performance funding system in 2002, during a period of economic recession. As we will see, this proved to be an important cause.

The Illinois Community College Board (ICCB) established the Performance-Based Incentive System (PBIS) in 1997 by means of a proviso in its budget accepted by the state legislature. PBIS operated for four years (1998–99 through 2001-02) before being allowed to lapse in 2002. The money allocated to colleges was in addition to the main enrollment-based state funding; the PBIS did not involve a holding back of funds, as in the case of Washington and Florida.

The amount of funding involved was small. Funding allocations for PBIS were $1 million in fiscal year 1998–99, $1.5 million in fiscal year 1999–2000, and $1.9 million in fiscal year 2000–01 (ICCB, 1998a; 2000, p. 3; 2002, Tables IV-5, IV-14). In fiscal year 2000–01, these funds amounted to only 0.4 percent of state appropriations to the community colleges and 0.1 percent of total community college revenues from all sources (including tuition, local tax revenues, and other sources) (ICCB, 2002, Tables IV-5, IV-14).[41] Appropriation requests for performance funding were made for the fiscal year 2002–03 and 2003–04 budgets, but were not granted, and further requests stopped after that.

PBIS sought to promote six statewide goals, for which 60 percent of the PBIS funding would be allocated, and one district goal for which 40 percent of the PBIS funding would be allocated. The six statewide goals were the following: (1) student satisfaction; (2) student educational advancement (number who earned a degree or certificate, transferred to a two-year or four-year institution, or were still enrolled at the end of a five-year period); (3) student success in employment/continued pursuit of education (number of graduates employed or currently enrolled in college); (4) student transfers (number who transferred to a four-year institution within five years of college entrance); (5) proportion of population served; and (6) the success of

[41] In fiscal year 2001, state funds for performance funding amounted to $1.9 million, total state funding for community colleges amounted to $468 million, and total community college current fund revenues from all sources amounted to $1.7 billion (ICCB, 2002, Tables IV-5, IV-14).

academically disadvantaged students (percentage of remedial hours earned compared with total remedial hours attempted for the fiscal year). With respect to the one district-level goal, each community college district was to select one of the following areas on which to focus: workforce preparation; technology; or responsiveness to local need (ICCB, 1998a, 2000, 2003b).

The primary cause of the demise of performance funding was the state's dire fiscal crisis. But other factors played a role as well in determining why PBIS was not saved and, as the state's funding improved, resuscitated. They included the loss of key champions in the state community college board staff, the lack of strong support from community colleges, and the lack of much support by other key actors such as the legislature and business.

Fiscal Stringency

Entering the new millennium, state revenues in Illinois dropped sharply: from $47.3 billion in fiscal year 2000-01 to $41.1 billion in fiscal year 2001–02—a drop of 13 percent in only one year (United States Census Bureau, 2004, Table 441, 2006, Table 439). As a result, the state dramatically reduced appropriations for higher education. State funding for community colleges decreased from about $324 million in fiscal year 2001–02 to $289 million in fiscal year 2003–04 and, by fiscal year 2007–08, funding had only gotten back to $298 million (ICCB, 2008, Tables IV-2, IV-7).

In the face of this drop, the state community college board instituted reductions in restricted, categorical funding (such as performance funding) for the purpose of protecting as much as possible the primary method for funding community colleges, which is based on enrollments (authors' interviews). As a state higher education official noted:

> The economy was tanking at that point…When base budgets start to contract…those programs on the margin are the first things to be given up…Institutions or sectors were looking at things that they could give up in the face of required budget reductions that cause the least amount of pain to the system…It [PBIS] was a priority when there was money there to fund it, as well as, you know, just necessary increases in base budget operations, but when it contracted it was seen as not necessary.

A state community college official amplified the point that the fiscal troubles led community colleges to focus on their base funding:

> There was also the argument that if you're not going to fully fund the base operating grant, why are you going to put money into

> PBIS?…When we would meet with the [community college] council presidents or with the trustees association, they said when all else fails preserve base operating grants, preserve equalization [funding]. That was always the top priority because it was (a) the largest pot and (b) it was unrestricted funds.

Loss of Political Champions

This cutback was made easier by the fact that when the fiscal crunch really hit, the governor was no longer Republicans James Edgar or George Ryan, who had supported higher education accountability, but rather Democrat Rod Blagojevich, who seemed less interested in performance budgeting (authors' interviews). As a well-respected college president noted:

> If you go back to [former governor] Jim Edgar, for example, you had then a governor that was very much interested in performance budgeting and better public policy in making decisions on state budgeting. But I just think that the current climate is such there is not an interest in that. There is no consumer for performance budgeting…I think nobody's necessarily anti-higher education but…the finer points of performance and quality and priority setting and access and affordability, you know, are concepts that, by and large, I don't think enter their thought processes.

Meanwhile, many of the key proponents of performance funding at the Illinois Community College Board were no longer there (authors' interviews). The heads of ICCB had played a key role in the origins of the Performance-Based Incentive System (Dougherty et al., 2010), but had since stepped down. As a state community college official noted:

> [PBIS] was still in place, but what happened was, to be quite honest with you, no longer is [Governor] George Ryan there, no longer is Hazel Louckes [Ryan's education advisor] there, no longer is Joe Cipfl [the executive director of the Illinois Community College Board] there. No longer is Virginia McMillan [the ICCB deputy director] there… Those individuals at the ICCB who were key players; the real individuals that were emphasizing that, just simply aren't there anymore.

Weak Community College Support of the Performance-Based Incentive System

By the time the PBIS system was discontinued, it no longer had much support from the community colleges (authors' interview). As a community college president noted, PBIS brought little money:

> It didn't last long because there was, you know, no money attached to it. So it really wasn't worth it…We asked for 10 million the first year, and got 2, and the next year it was cut to 1, you know. The numbers were just nowhere near anything of any significance. I can't tell you how many actual fiscal years we got any funding at all through the performance based system. Obviously it was so relatively little, that I can't even remember when it disappeared.

In addition, PBIS reporting requirements imposed a fairly significant administrative burden on the colleges (authors' interviews). As a well-respected community college institutional researcher noted, "The PBIS issue is just doing the damn report every year. And frankly, it is just more of a burden than I think it ought to be, for the system, for the goals, and for the amount of money…It's a pain in the neck."

The community colleges have not been interested in restoring performance funding because the state's fiscal situation has been so bleak that either they would be turned down or, more problematic, performance funding would come at the expense of regular funding (authors' interview). As a state-level community college advocate noted, this was an unpalatable choice:

> If we were to go to the General Assembly and ask for $2 million in performance-based funding…they would probably give us that $2 million, but they would take it out of our funding formula grants, so we didn't win anything. Because the bottom line is, they're only going to give us this many dollars…Then you get a funding formula that's underfunded…And our funding formula has thresholds in it…If you reduce the number of dollars going in…there are some colleges that are going to drop off because they didn't meet a threshold…So, you suddenly see some of your colleges that, you take $2 million out of the funding formula, and they turn around and they lose $4 million at one college because they no longer met these thresholds… So, we could probably get…the performance-based initiative funded, but it would play havoc.

Failure to Develop Strong Outside Support

Performance funding also lacked any deep political roots outside of the state community college board. It was adopted in 1998 not through state statute but as a proviso in the ICCB's budget request for that year. This adoption was not the result of the mobilization of the general public, the business community, or top governmental officials. Rather, it was initiated by the state community college system to secure new funding for the community colleges and to forestall the possibility of more radical forms of performance funding. Hence, performance funding had little support of any depth in the legislature or business community (Dougherty et al., 2010).

The legislature had not paid much attention to performance funding when it was first adopted (authors' interviews). As a key legislative insider noted:

> Truthfully, performance at institutions didn't much come up. It was a case of, you know, the Board of Higher Education made a recommendation, and you tried to fill their bank…Honestly, performance, frankly, I'm embarrassed to say, didn't come up that I recall.

The business community was also not strongly supportive, as a leading state higher education official noted:

> There are sizable and significant business interests and support of K-12 education in the state both in Chicago and statewide…But you don't find like in other states kind of a business roundtable that says, "We think higher education is significant asset for the state and as such, you know, we want to support it but, you know, demand X, Y, and Z in terms of accountability from the system if we're going to keep seeking to put all of that enhanced funding into the system…" When the budget starts to go in the tank and you're looking for support, or you're looking for sizable increases for higher education, you don't have that constituency to rely on here.

Summary of the Reasons Why Illinois' Performance Funding System Ceased

The primary reason that the Performance-Based Incentive System for community colleges ceased to exist after 2002 was the state's dire fiscal crisis. But other factors played a role as well in determining why PBIS was not saved and, as the state's funding improved, resuscitated. The leaders of the Illinois Community College Board who had championed PBIS were no longer in office, and the new governor had little interest in performance accountability in higher education. This evaporation of leadership was not counterbalanced by strong support from other quarters. The community colleges were not strongly supportive, largely because PBIS brought them little money but significant administrative burdens. And PBIS had never attracted broad and deep support either in the legislature or the business community.

Florida

Florida's performance funding system, which has consisted of two distinct programs, was first enacted in 1994. At that time, the state's Performance-Based Budgeting (PBB) system, which still exists today, was created, and took effect two years later. Florida's second performance funding program, the Workforce Development Education Fund (WDEF), was enacted in 1997 and took effect the following year.[42] Only the community colleges (along with the vocational-technical institutes run by the K-12 districts) were subject to PBB and to the much larger WDEF program (authors' interviews; Bell, 2005; Pfeiffer, 1998; Wright, Dallet, & Copa, 2002; Yancey, 2002).[43] PBB typically has amounted to about 1-2 percent of total state appropriations for the community colleges, while the WDEF accounted for as much as 5.6 percent of state community college appropriations (Wright et al., 2002, p. 163).[44]

Unlike PBB, the WDEF did not provide institutions with additional incentive funding over and above regular state appropriations. Instead, the state withheld 15 percent of the prior year's workforce appropriations, and the colleges and vocational institutes were required to earn those monies back based on their performance on designated indicators in the ensuing year (Bell, 2005, pp. 48–56; Pfeiffer, 1998; Wright et al., 2002; Yancey, 2002, pp. 58–60).

While PBB continues to this day, the WDEF ceased after 2002 (Bell, 2005, pp. 41–50, 54–56; Pfeiffer, 1998; Wright et al., 2002; Yancey, 2002, pp. 58–63). Why did it fail while PBB survived?

The demise of the WDEF was due to a confluence of several forces. The governor was not allowing state appropriations for higher education to keep pace with rising enrollments. Faced with decreasing appropriations per FTE, the community colleges preferred to take cuts in their performance funding—particularly in the WDEF—rather than in their main enrollment-

[42] WDEF originated in 1994 as an experimental Performance-Based Incentive Fund, which was voluntary and open only to community colleges and K-12 technical institutes (Dougherty et al., 2010; Wright et al., 2002).
[43] The state universities did get some performance funding but it consisted of only three one-time yearly payments over the past 14 years, with each of those payments amounting to only $3-4 million each year, and the payments were not made as part of the PBB system (authors' interviews).
[44] In fiscal year 2001, Florida's performance funding levels for community colleges reached $55.2 million: $8.3 million through PBB and $46.9 million through the WDEF (Wright et al., 2002, p. 163; Yancey, 2002, pp. 57–-62). The WDEF figure is based on the 15 percent withheld from community college workforce funding. In that same year, state appropriations for community colleges (based on general revenues and lottery proceeds) were $842.3 million. Revenues for community colleges from all sources— including state appropriations, student fees, sales/services, other receipts, and federal funding—totaled $1.1 billion (Florida State Board for Community Colleges, 2002, pp. 77, 80).

based state funding. They regarded the enrollment-based funding as more likely to grow and be more stable than performance funding, particularly the WDEF, about which they had many criticisms. The K-12 districts, which were also subject to the WDEF, had their own criticisms of it. Finally, the legislators who had championed the WDEF were no longer around to defend it because they had been driven out of office by term limits.

Fiscal Shifts

Florida government revenues decreased in the early part of this millennium, with total revenues dropping from $49.2 billion in fiscal year 1998–1999 to $46.4 billion in fiscal year 2000–2001 (United States Census Bureau, 2001, Table 510, 2003, Table 453). Moreover, soon after his election, Republican Governor Jeb Bush (who held office from 1999 to 2007) moved to cut spending or keep down increases in many areas of the state budget in order to meet increasing Medicaid costs, fund some new initiatives of particular interest to him, and allow large cuts in taxes (Dyckman, 2001; Pendleton & Saunders, 2001). Consequently, as can be seen in Table 3.1, state spending on higher education per FTE (full time equivalent) student dropped sharply during the Jeb Bush administration (Florida State Department of Education, 2009, Table 19; Florida State University System, 2008, Tables 10, 40).

Table 3.1.
State Revenues for Higher Education in Florida

Year	Community College System*		State University System**	
	State Revenues	State revenues per FTE	State Revenues	State revenues per FTE
1999–2000	$798,840,132	$3,392	$2,244,556,128	$15,449
2000–01	$842,345,123	$3,444	$2,491,593,100	$16,379
2001–02	$820,100,788	$3,066	$2,410,567,381	$15,023
2002–03	$884,317,527	$3,102	$2,549,039,410	$15,309
2003–04	$885,127,338	$2,972	$2,654,244,798	$15,265
2004–05	$948,099,957	$3,216	$3,029,268,942	$16,874
2005–06	$990,110,022	$3,441		

* State appropriations in form of general revenues and lottery funds. Source: Florida State Department of Education (2009, Table 19).
** State appropriations in form of general revenues and trust funds. Auxiliary enterprises, contracts & grants, local funds, and fixed capital outlay are excluded. Source: Florida State University System (2008, Tables 40, 10).

Faced with these per FTE budget cuts, the community colleges wanted the cuts to be made first in the performance funding area rather than their main operating funding categories (authors' interviews). As a leading state community college official noted:

> They [community college's] had not gotten any additional money in a long time, yet they had an open door policy, and so they were taking more and more enrollments. So they wanted to go back on more of an enrollment basis and de-emphasize performance…They wanted the focus to be on enrollment, because they had been, you know, pulling in more and more students every year, and particularly as the budget got tight and universities were capping, they were getting the spillover on it. So all of a sudden enrollment became a more salable argument for funding than did performance. They got very active on that tack, and I remember strategy meetings where community colleges had assignments to go back, and these were their talking points, with legislators and that type of thing.

But if cuts were to be made in performance funding, why did they occur in the WDEF program and not the PBB? Other factors besides fiscal strain help explain this.

Community College Criticisms of WDEF

The community colleges wanted to be out from under the Workforce Development Education Fund because they had become quite unhappy with several of its features: the program's use of a holdback feature to reward community colleges; lack of increases in funding for the WDEF as time passed; measurement of institutional performance against the average for other colleges rather than against a college's own past history; the opaqueness and perceived political nature of how the WDEF funding formula was applied; the use of a questionable means to calculate a college's workforce funding baseline; and a lack of sufficient consultation with the colleges in designing the WDEF to begin with. We discuss each of these criticisms in turn.

The use of a holdback formula. Unlike the Performance-Based Budgeting program, the Workforce Development Education Fund program involved a holdback feature. Community colleges and school district area vocational-technical centers received 85 percent of their prior year's state workforce related appropriation up front. The remaining 15 percent was held back, to be returned to the colleges and vocational-technical centers according to how well they performed in the subsequent year on a variety of workforce preparation measures, such as vocational graduation rates and placements in high-wage/high-demand jobs. The baseline allocation was first made in 1998–1999, and the formula was first applied in 1999–2000 (Pfeiffer, 1998, p. 24; Wright et al., 2002, p. 153; Yancey, 2002, p. 59-61).

From the very beginning, the community colleges and vocational-technical centers were nervous about the prospect that they might not fully recapture the funds held back (authors' interviews). As a top state community college official noted:

> I don't think any of the colleges were sad to see it go, because it was an 85 percent, and then you earned back your other 15 percent, [system]. In reality, I don't think anybody or certainly very few [colleges] ever lost money, but the prospect was there to lose money. And as you can imagine, a community college president is not real excited about that. With our PB Squared [the Performance-Based Budgeting system], it's split the pot. You may not get what you got before, but it's not a base kind of thing. It's just an add-on and you will get something. And just because of what's involved, you will get very close to what you got the year before.

A dean of vocational education at a local community college expanded on the uncertainties posed by the WDEF holdback feature for their vocational education program:

> At one point in time [before the WDEF] we could really know if the program was cost effective. We could plan and we could say, if we have this many students we could be able to generate new equipment, we could generate salary for instructors. With the new formula it's very difficult. We still have those up front costs. We're still going to have to pay the instructors. We're still going to have to have the same equipment in the classroom and all the other fixed expenses. Now the mystery is, well, what if they don't finish, what if they don't outplace, well then our funding could change. So our expenses haven't changed but our funding resources have.

The lack of an increase in WDEF funding. The colleges' uncertainty was further exacerbated by the fact that the state legislature did not increase funding for the WDEF, even as the colleges improved their performance. The result was that colleges could improve their performance but still not receive any additional money (authors' interviews; Dougherty & Hong, 2006). As a leading state workforce training official noted:

> We had some people that were increasing their performance 5 or 6 percent and losing dollars, and so that was probably a flaw in the design that you don't think about until you get away from it…Because they [the colleges] were recruiting primarily poor folks and target groups much more aggressively, their point production went up significantly in the beginning, and with that

> nobody should have lost money. But when you don't have any additional money in the pot somebody has to lose. [Interviewer: What was the reason for no additional money?] Well because workforce was fourth on the list behind K-12, universities, and community colleges, and you weren't going to put money into workforce if those other ones were screaming.

A local community college president noted how dismaying it was to have improved performance not result in more money and even result in loss of a portion of the held-back funds:

> We have had no increase in that pot of money for four to five years, and it's very, very discouraging to all of us who have worked hard retraining faculty. We've gotten them excited. We've redone all of our testing and our computer tracking systems. We've spent enormous energy and funds to do what we thought the legislature was asking us. In fact, it got so discouraging the second year because some of us that had done a lot better actually lost money—because with a finite pot of money and more people learning how to do the reporting better, they had more points every year and they divided the points into the same finite number of dollars to figure out how much the points would get.

As this community college president noted in passing, colleges were being hurt not only by the fact that the "pot of money" for WDEF was not increasing, but also because their performance was being assessed relative to that of other colleges. This practice leads to the next point.

Measurement of institutional performance in relative terms. In gauging how well colleges were performing, the WDEF system measured colleges not against their past performance but against the performance of other colleges. As a result, a college could increase its workforce training output and yet still lose a portion of the held-back funds if other colleges increased their output even more (authors' interviews; see also Dougherty & Hong, 2006).[45] As a leading state workforce training official noted in an interview, "You could perform better than you did last year, but if it wasn't relatively as good as your colleagues in the other colleges you could still lose money." A vocational education dean at a community college amplified on this point:

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[45] The Performance-Based Budgeting funds were distributed similarly in that a college's share was also dependent on how well other colleges performed. However, the PBB funding did not take the form of a holdback, so colleges did not feel that they were losing funding based on a relative performance measure. The PBB funding was new money, over and above their regular enrollment-based appropriation, so that the relative measure of performance did not bother the colleges anywhere near as much.

> If you improve more and there's not any new money in that pot, guess where your more improvement comes from. From my pot of money. Because if…every one of us improved, but these two here improved even more, part of my money is gone that I operated on last year.

Opaqueness of the WDEF formula. The formula connecting college performance to funding outcomes was very unclear to colleges. This was partly because, as we have noted, funding outcomes were dependent not just on a college's own performance but also on that of other colleges and on how much money was allocated to WDEF that year. But the problem was compounded by the fact that funding allocations were made at the end of the year by a very small number of state legislative staff members, who were responding to legislative pressures (authors' interviews). As a state community college official noted, while the PBB formula for determining colleges' funding shares was viewed as straightforward, that was not the case with the WDEF:

> The other problem we had with [the WDEF], to be honest with you, [was that] it was a black box. In other words, two people ran the model…No one knew how they came up with the points…They give you a whole bunch of information after the appropriation was done. But in terms of giving you the ability to plan, look ahead, it was awful. So a lot of mistrust was created by a black box approach…In the case of PBB] it's all in the open. People can have [the] program…We meet in the open and it's all decided. In other words, it's a collaborative effort as opposed to a top-down approach. For PBB to be successful, people have to understand it. They have to be able to replicate the results. And they couldn't do that with the Workforce Development Funding.

A local community college official agreed with this assessment of the opaqueness and politically based variability of the process by which the held-back WDEF funding was allocated:

> They're [legislators] making the rules as they're going along and it's hard to plan for something that you don't have rules for…We don't know how much an activity is worth until the legislators battle [it] out. So we only know after we've done everything, how much we're going to get paid. And funding in Florida, most of it is political and if one college seems to be getting hurt by the funding formula, they will modify the formula to maybe have that college do better. They may put emphasis on different set of criteria, a larger rate, so it's pretty much after the fact…So one time it's enrollment, one time they put the weights in completion or placement, so they adjust the rates depending on what they want.

Disagreements over how a college's initial baseline funding should be set. At the very beginning of the WDEF program, the state had to determine what proportion of a college's state appropriation had been going to workforce training in order to set the college's baseline for the WDEF. However, there was great disagreement over what precisely constituted workforce training and therefore what proportion of a college's state appropriation was going to it and thus should be subject to the 15 percent holdback (authors' interviews). A state workforce training official noted:

> There were those like Miami Dade and like Florida Community College at Jacksonville that were never really fully in support of the program and felt that when the program started, the way that the 15 percent was carved out of their budget disadvantaged them from the beginning. And so they constantly made an argument to their legislators that, number one, we need to recover those lost funds…There is a separation in the community college program fund between what are basically academic programs and what are vocational programs. And so if you have a course that is made up partially of academic programs and partially of vocational programs, how do you divide it? And so, I think that there was a perception that some of their academic programs were included in the vocational side because of how we pulled the course information together.

Lack of sufficient consultation with the community colleges. When the Workforce Development Education Fund was enacted in 1997 as SB 1688 (Laws of Florida, 1997, Chap. 97-307), it was very much a product of the state Senate. In contrast with the development of the Performance-Based Budgeting system, which involved broad and deep participation by the community colleges, the development of the WDEF was a much more closely held initiative. A handful of state senators and their staff designed the program, with little consultation with the community colleges. The community colleges were consulted after the fact in designing how the law would be implemented, but they had little to do with working out the basic framework, particularly the holdback portion, which they roundly disliked (Dougherty et al., 2010). A state official noted this limited involvement by community colleges and the unhappy feelings it bred:

> The president and superintendents were briefed on this stuff and they were aware of it, but they didn't come to the meetings and contribute ideas. [Interviewer: WDEF had this take-back or holdback mode, let's say. How did the community college presidents feel about that?] They hated it, absolutely…You were competing against everyone else in the system on a relative basis.

> [Interviewer: Now did they try to really strongly push back on the legislature to try to get the take-back provision dropped?] Yes, but the chancellor back then as well as the workforce dean…they did not want to be in opposition to Senator Kirkpatrick.

K-12 Criticisms of the Workforce Development Education Fund

The vocational-technical centers run by local school districts were also subject to the WDEF, and they too were critical of it. They found themselves competing against the community colleges for funding and often losing in that competition (authors' interviews). As a leading state workforce training official noted:

> Florida has had a system where the workforce programs are vested both in school districts and community colleges. Generally speaking, community colleges outperform school districts, and so there was kind of a sector shift as well. And so…school districts were very disturbed by this, and of course it was a performance issue…In fact there always has been a tension in Florida between the postsecondary operations and school districts…And that tension has manifested itself at various times as fairly bloody battles between community college presidents and school superintendents, and this kind of exacerbated that tendency.

At one point the community college system tried to take over all postsecondary vocational education by absorbing the vocational-technical centers (authors' interview). This was bitterly fought by the K-12 districts and became another reason for repudiating the WDEF.

All of these objections that the community colleges and the K-12 districts had to that WDEF might not have been enough to kill the program if it had been counterbalanced by business enthusiasm or championing by its original legislative advocates. However, neither was operative.

Lack of Business Interest

In the face of dissatisfaction on the part of community colleges and K-12 districts with WDEF, one might think that the Florida business community would have stepped in to save it, given the resonance of performance funding with business notions of efficiency and the primacy of market forces. In fact, business had played a role in the establishment of performance funding in the 1990s (Dougherty et al., 2010). However, business did not display much concern about performance funding in the early years of this millennium (authors' interviews). As a leading state workforce development official noted:

> The businesses were pleased about the focus on certain occupations because we did make a lot of changes in the program…[But] I think performance-based funding was just so much academic jargon to them. And if the programs improved, they were happy with that. But they might not do a cause and effect with performance-based funding. [Interviewer: Was the Chamber of Commerce saying much of anything in 2002? You know, let's not de-fund the WDEF?] Well, yes and no…They were more interested in there being funding particularly in K-12…workforce did not get, and probably doesn't today, get a lot of attention when you stack it up against universities, K-12, and even the transfer programs within the community college system.

Loss of Legislative Champions

The main supporters of the WDEF in 1997 were members of the state Senate, particularly Senators George Kirkpatrick (D-Gainesville) and Jim Horne (R-Jacksonville). But by the new millennium many of these supporters had left the Senate. By 2002, Senator Kirkpatrick was no longer in office (having run into a term limit in 2000), and he died suddenly in 2003 (Associated Press, 2003). Meanwhile, Senator Horne—facing a term limit in 2002—accepted the position of Commissioner of Education in 2001 (Saunders, 2001).

These Senate advocates of the WDEF program were replaced by new members who had less allegiance to it. Many had been in the House at the time WDEF was enacted, but this bred little allegiance to it, because WDEF had been incubated in the Senate with very little involvement by the House (Dougherty et al., 2010). As a state community college official noted, the new senators did not feel bound by the past decision to enact performance funding and wanted to use the funds involved for projects of their own (authors' interviews):

> Because we have term limits here in Florida, probably some of the champions of [performance funding] got term-limited out. And other people said, "This doesn't make sense, we're going to use those monies in different ways." Because different people are always looking for different pots of money. [Because of term limits] you only have eight years, so you have to do something.

In addition, the new legislators were hearing many complaints from the higher education institutions that performance funding was not working well (authors' interview). As a state higher education official who worked closely with the legislature noted:

> Part of why [the WDEF] might have gone away is that those senators eventually left and the House members became the leaders in the Senate. They were told by their colleges and their school districts that Workforce was not working and they were losing money.

Summary of the Reasons Why Florida's WDEF Ceased

The demise of the Workforce Development Education Fund is attributable to the joint effect of several forces. State appropriations for higher education were not keeping pace with enrollments because Governor Jeb Bush wanted to free up monies to pay for increasing Medicaid costs, fund new initiatives he favored, and allow tax cuts. Faced with these changes in state spending, the community colleges preferred to have the WDEF eliminated if they were going to be taking deep cuts in their main enrollment-based state funding. Moreover, they had very substantial criticisms of how the WDEF worked, particularly the way it left colleges very uncertain about their funding because of its holdback feature, the lack of increases in state funding despite improvements in community college performance, and the fact that it measured a college's performance improvement against that of other colleges rather than against a college's past performance. The community colleges were joined in their lack of enthusiasm for the WDEF by the K-12 districts, which were also subject to the WDEF and had their own criticisms of it. This dissatisfaction on the part of community colleges and K-12 districts was not counterbalanced by strong enthusiasm on the part of the business community or strong efforts by the legislative champions of performance funding. The senators who had championed WDEF were no longer in office and able to defend it.

While the Workforce Development Education Fund disappeared, the Performance Based Budgeting program survived. Certainly it was imperiled by some of the same factors that sank the WDEF, but PBB had the decisive advantage of not being roundly disliked by the community colleges and the K-12 system (which was not affected by PBB). The community colleges liked PBB because it did not hold back state funds but rather took the form of new money over and above their regular enrollment-based appropriation. Moreover, PBB funds were distributed on the basis of a clear formula that the colleges had a major hand in creating and in later modifying as they saw fit (authors' interviews).

Summary of Findings

One of the great puzzles about performance funding is that it has been both popular and unstable. Half the states in the U.S. enacted performance funding for higher education at some time but half of those states later dropped it (though two recently reestablished it). To shed light on the causes of this unstable institutionalization of performance funding we examined three states—Washington, Illinois, and Florida—that have experienced different forms of program cessation. Washington established performance funding for its public universities and two-year colleges in 1997 and eliminated it in 1999 (though a new system reappeared in 2007). Illinois established performance funding for its community colleges in 1998 but relinquished it in 2002, during the economic recession of the early 2000s. Florida, meanwhile, established two performance funding systems in the mid-1990s but then abandoned one of them (the Workforce Development Education Fund) after 2002.

As we analyzed the demise of performance funding in Florida, Illinois, and Washington, we found factors specific to one or another state. Nonetheless, the demise of performance funding in these three states also exhibits important commonalities:

- **A sharp drop in higher education funding** (present in Florida and Illinois). In Florida, the decrease was due both to a decline in state revenues per FTE and the governor's push to cut taxes and fund other initiatives of particular interest to him. In Illinois, the decrease was due to a sharp drop in state revenues and gubernatorial disinterest in higher education. Faced with decreases in state funding, higher education institutions in both Florida and Illinois preferred to cut out performance funding in order to protect their traditional enrollment-based funding.
- **A lack of support by higher education institutions for the continuation of performance funding** (all three states). In the case of Florida and Washington, criticism of performance funding by higher education institutions was founded in good part on their dismay over the form that it took. In both states, the performance funding systems that were discontinued held back a portion of the state's appropriation to a college, with the college then having to earn back the withheld amount through improved performance over the following year. Many colleges disliked the funding uncertainty this caused because they feared (with some justification) that they would not be able to win back all

the withheld funding. This fear was exacerbated, especially in Florida, by the fact that performance improvement was measured relative to other institutions. Institutions feared this revenue uncertainty because, on the expense side, their budgets are largely tied up with faculty and other personnel expenditures that are not easily reallocated.

- **The loss of key supporters of performance funding** (all three states). In two states, legislators had been key champions of performance funding at its inception. But at the time of its demise, they either had left office (Florida) or lost power as their party moved into the minority (Washington). In Illinois, the key loss of support was from the Illinois Community College Board. Its leaders had spearheaded the effort to establish performance funding, but were no longer around to make the case for preserving it six years later.
- **Lack of support by the business community** (all three states). Though business had supported the establishment of performance funding in Florida and Washington, in none of the three states did the business community push to retain performance funding.
- **The establishment of performance funding through a budget proviso rather than a statute** (Illinois and Washington). Enacting performance funding through a budget proviso made elimination easy because it did not require repealing legislation; it merely required not putting a performance funding item into the next budget.

The Florida case is very instructive because, while one performance funding program was terminated (the Workforce Development Education Fund), another one was kept (Performance-Based Budgeting). The two programs differed in several ways that appear to have played an important role in their differing fates. Unlike the WDEF, the PBB did not provoke strong opposition on the part of higher education institutions because it did not have a holdback feature and because the colleges had a strong voice in creating and later modifying the funding formula.

Conclusions

Our analysis arrived at findings that converge with but also diverge from Burke and Modarresi's findings on the causes of the demise of performance funding programs (Burke, 2002c,d; Burke & Modarresi, 2000). We concur that higher education opposition played a key role in the demise of performance funding. Stimulating this opposition were many of the same factors identified by Burke and Modarresi: a perceived lack of adequate consultation with higher education institutions; the use of performance indicators that higher education institutions did not find valid; a perception of high implementation costs to institutions; and a perception of erosion of campus autonomy.

At the same time, our analysis turned up other causes of higher education opposition to performance funding that were not discovered by Burke and Modarresi. One of the most potent was the use of an appropriation holdback, where a portion of the state appropriation to higher education institutions was held back and the institutions had to earn it back through improved performance. It is very instructive that Florida's surviving PBB program does not have this feature and has had much greater institutional support than did the defunct WDEF. Moreover, we also found that a major cause of higher education opposition to performance funding was a desire to preserve base funding at a time when the economic recession of the early 2000s was devastating state spending on higher education.

These findings lead us to our second main break with Burke and Modarresi's findings: the crucial impact of downturns in state finances. As we noted, a key feature of our analysis is the inclusion of cases (Illinois and Florida) where performance funding was dropped in the 2000s, while Burke and Modarresi's cases were restricted to the 1990's. The recession of the early 2000s played a major role in the demise of performance funding in Illinois and Florida (in the case of the WDEF).

Finally, a third area in which our findings go beyond those of Burke and Modarresi (Burke, 2002c; Burke & Modarresi, 2000) concerns which champions of performance funding were lost. Burke and Modarresi highlighted the loss of gubernatorial support. We found evidence of the impact of a loss not just of gubernatorial champions but also of the loss of champions in the legislature, the state higher education boards, and the business community.

Our findings converge with and diverge from key findings in policy termination theory in the policy sciences literature and program sustainability theory in the public health and social welfare literature. In keeping with policy termination theory (Bardach, 1976; DeLeon, 1978; Kirkpatrick, Lester, & Peterson, 1999), we found that performance funding was more likely to be terminated when there were budget cuts, there was a change of administrations, the initial champions of a policy were no longer around, and the resistance to termination lacked capable leadership or effective defensive tactics. However, we saw no evidence in the demise of performance funding of two other cited predictors: the ideological matrix in which the policy is embedded has been delegitimated; and the policy is new and has had less opportunity to accumulate allies.

Our findings also agree and disagree with those in the research literature on sustainability of public health and social welfare programs (Racine, 2006; Scheirer, 2005; Shediac-Rizkallah & Bone, 1998). We found that performance funding is indeed more likely to be sustained if its program design conforms to traditional practices and organizational forms, the design process allows for input from program constituents, and the implementing institutions champion the policy and have the resources to effectively implement it. However, contrary to program sustainability theory, we found no evidence that the demise of performance funding was due to a perceived lack of program impact.

Chapter 4

Continuity and Change in Long-Lasting Higher Education Performance Funding Systems in Two States

It is tempting to regard policies and programs, once they are enacted, as set and meriting little further attention. However, as research on policy implementation and policy sustainability shows, policies and programs can change greatly over time as they are adjusted to changing environmental circumstances and patterns of support (Daniels, 2001; Honig, 2006; Matland, 1995; Scheirer, 2005).

This reality prompted our third research question: What design features, political origins, strategies for policy implementation, and socio-political contexts affect the content and extent of changes in performance funding systems (particularly funding levels and criteria for allocating performance funds)?

Stability and change with respect to performance funding levels and indicators are important to consider for reasons of both theory and practice. Theoretically, changes in funding and indicators are a continuation of the politics of public policymaking. The operation of political forces is not exhausted by the passage of legislation; they continue to shape policy as it is being implemented. Hence, consideration of the implementation process is integral to the full analysis of the politics of public policymaking (Honig, 2006; Matland, 1995; McLaughlin, 1987, 2006; Sabatier & Jenkins-Smith, 1999).

Practically, change in performance funding levels and indicators can result in the adaptation and survival of the program. However, it is very hard to determine the optimal degree of change. If change is too frequent and large, performance funding systems may not work very effectively. A survey of community college and four-year college officials in five states with performance funding in the late 1990s found that 40 percent rated budget instability as an extensive or very extensive problem of performance funding in their state (Burke, 2002a, p. 77; Burke & Associates, 2000). At the same time, if change is contained too much, in the name of providing stability, external pressure can build up to such a point where it leads to explosive transformations. Arguably, this is what happened to Tennessee in 2010, when the Complete College Tennessee Act brought an entirely new performance funding system.

This chapter presents an analysis of the experience two states, Tennessee and Florida, that have had performance funding for many years but whose systems vary greatly in their design, origin, and trajectory. Tennessee, which pioneered the development of performance funding for higher education in 1979, has a system that applies to both two-year and four-year colleges and universities. It owes its origins primarily to the initiative of the Tennessee Higher Education Commission (Banta, Rudolph, Van Dyke, & Fisher, 1996; Bogue, 2002; Bogue & Brown, 1982; Dougherty, Natow, Hare, & Vega, 2010; Ewell, & Jones, 2006). In 2010, this performance funding system was joined by a very different one, created by the Complete College Tennessee Act. This new system, which comprises the basic funding formula for higher education, focuses on degree completion; student accrual of certain levels of credits; and, in the case of the community colleges, job placement and remedial success (Tennessee Higher Education Commission, 2011b).

Florida enacted performance funding in 1994. Its system has had two incarnations: Performance-Based Budgeting (PBB), in operation since 1996, and the Workforce Development Education Fund (WDEF), which operated between 1997 and 2002 (Wright, Dallet, & Copa, 2002). Because the WDEF no longer exists, we focus here on the Performance-Based Budgeting system.

Florida

Changes in Funding

Funding for Florida’s Performance-Based Budgeting system has fluctuated over the years. It started at 2 percent of state appropriations for community college operations in fiscal year 1996–1997, dropped below 1 percent in 2001-02, stayed at that level until 2005–06, and then jumped to 1.8 percent (see Table 4.1).[46]

[46] These figures are derived from the WDEF figures reported by Wright et al. (2002, p. 163) and the state appropriations for community college operating expenses reported in the *Grapevine* reports (Palmer, 2009) for fiscal years 2000, 2001, and 2002. If we include the Workforce Development Education Fund, which operated from 1999–2000 to 2001–2002, performance funding spiked at nearly 7 percent of state community college appropriations in fiscal year 2000–2001

Table 4.1.
Performance Funding Levels in Florida

Fiscal Year	Performance Based Budgeting (PBB) Appropriation	State Appropriation for Community College Operations	PBB Share of State Appropriation
1996–97	12,000,000	596,260,000	2.00%
1997–98	12,000,000	663,639,000	1.80%
1998–99	4,800,000	706,595,000	0.70%
1999–2000	8,074,032	755,359,000	1.10%
2000–01	8,318,934	776,733,000	1.10%
2001–02	7,674,371	820,424,000	0.90%
2002–03	7,674,371	816,196,000	0.90%
2003–04	7,674,371	802,141,000	1.00%
2004–05	7,674,371	936,463,000	0.80%
2005–06	18,075,996	992,174,000	1.80%
2006–07	22,241,700	1,040,290,000	2.10%
2007–08	21,182,692	1,043,060,000	2.00%

Sources: For total state appropriations for community college operations: 1996/97-2007/8: Palmer (2009). For Performance Based Budgeting funding: 1996/97-2000/01: Wright et al. (2002, p. 161); Yancey (2002, pp. 57, 62). 2002–03: Florida Community College System (2003). Includes $880,815 for College Prep Success program. 2003–04: Florida Community College System (2004). Includes $880,815 for College Prep Success. 2004–05: Florida Community College System (2005). Includes $880,815 for College Prep Success. 2005–06: Florida Community College System (2006). Includes $1,761,630 for College Prep Success. 2006–07: Florida Community College System (2007). Includes $1,167,749 for College Prep Success program and $900,660 for time to degree.

The drop between 1997–98 and 2005–06 in the share going to performance funding stemmed from the budget pressures faced by Florida community colleges. Between fiscal years 2001 and 2004, state appropriations for community colleges rose by 5.1 percent (see Table 3.1 in Chapter 3). However, these appropriations badly lagged behind rising enrollments, with the result that state spending per full-time equivalent (FTE) student at community colleges dropped by 13.7 percent during those years (Florida State Department of Education, 2009, Table 19; National Center for Education Statistics, 2007, Table 339).

Faced with the state's budget constraints, the community colleges wanted to protect their main enrollment-based funding and deemphasize performance funding (authors' interviews). As a leading state community college official noted, "They [community colleges] had not gotten any additional money in a long time, yet they had an open door policy, and so they were taking more and more enrollments. So they wanted to go back on more of an enrollment basis and de-emphasize performance."

In turn, the jump in the share of state appropriations distributed through the Performance Based Budgeting system in 2005–06 owed its origins to a calculation by the community colleges that a renewed emphasis on performance would be politically useful (authors' interview). The legislature and the Department of Education had largely ceded control over the PBB system to the Council of Presidents of the community colleges. The Council decided to increase the PBB share of total state funding for community colleges over ten years to 10 percent (authors' interviews). A state official with close ties to the Presidents Council noted:

> It was a policy decision by the presidents to come up with a process or some target goals by which performance funding as a percentage of the budget would rise. We actually had a schedule that we were phasing it in and we actually stayed on track until we had a major decline in state revenue and then it just fell apart.

Some of the members of the Presidents Council were nervous about premising this much of their state appropriations on performance criteria but they saw the political benefits of doing so (authors' interview). As a vice president of a community college, who has had many different positions in state government, said:

> The presidents who are real active with the formula and the Division [of Community Colleges] have always felt that the percentage should increase…So I think there was a feeling…that the PBB measures have matured to the point where some [measures] really help some colleges and some help other colleges and it kind of is a wash and [that] we would be in a better position with the budget and politically to have performance drive more.

As we can see, the funding levels for performance funding were products not just of legislative action but also of initiatives taken by the higher education system. We will see this pattern again when we consider changes in which indicators were used for performance funding.

Changes in Performance Funding Indicators

The Performance-Based Budgeting system experienced considerable changes in the indicators used. By indicators we mean specific characteristics of a college that are deemed important, such as its enrollment of certain types of students or the number of students it graduates, and that are used to condition state funding.[47] Florida added nine performance indicators and dropped two in the 12 years between 1996–1997 and 2007–2008. Table 4.2 categorizes the indicators that Florida adopted and dropped at one time or another. The changes in indicators fell in two main areas: high school to college transition (high school completion, dual enrollment, and remedial success) and workforce preparation (completion of occupational programs and job placement).

Table 4.2.
Performance Indicators Added and Dropped: Florida, 1996–1997 to 2007–2008

Performance Indicator Type	Nature of Change Made
Student Access	No change made.
High School to College Transition	Added 2000: * Completion of highest level remedial course. * Dual enrollments: High school students at community colleges.
	Added 2006: High school completion: Number of GEDs, adult HS diplomas awarded by community colleges.
Transfer Articulation	Added 1998: Number of transfers (partial credit if do not transfer with associate's degree).
Workforce Preparation	Added 1998: Job placement of AA graduates in full-time jobs earning over $10 per hour.
	Added 2006: Job placement of occupational graduates in full-time jobs earning less than $10 per hour or in continuing education.
	Added 2007: Completion of critical occupations programs: Graduates from registered nursing programs and teacher development institutes.
	Dropped 1998: Licensure exam passage.
	Dropped 1999, then added again 2006: Partial vocational completers.
Student Retention or Graduation	Added 1998: Minority student graduation (Black males).
Student Achievement in College	No change made.
Institutional Improvement	No change made.
Other Goals	Dropped 1998, re-added 2000: Time to degree.

Sources: Florida Community College System (2003, 2004, 2005, 2006, 2007); Wright et al. (2002, p. 161); Yancey (2002, pp. 57, 62).

Sources of Changes in Indicators

The changes itemized in Table 4.2 had two principal origins. One main source of changes was *external pressure*, whether from students and their parents or from legislators. However, change initiatives also came from within higher education itself. Sometimes these *internal initiatives*[48] came from the top: the higher education coordinating body. But still other internal

[47] We differentiate indicators from measures. By measures we mean the particular way that an indicator is operationalized. For example, does the graduation indicator apply to all entrants or only to those who accrue a certain minimum number of credits?

[48] This distinction between internal initiative and external pressure can be conceptualized in terms of different perspectives with regard to bureaucratic politics: bureaucratic autonomy on the one hand or principal-agent

initiatives were the product of pressure from lower level implementers, namely higher education institutions, as the bottom-up perspective in implementation theory would predict.[49]

External pressure. Demands from the legislature prompted the addition of an indicator for minority student graduation rates, beginning fiscal year 1998–99 (authors' interviews). A state legislator had raised the issue of providing incentives to colleges to improve college access and success for African American males. This prompted the State Division of Community Colleges to add African American males to a category of "special populations" whose graduation rates were given greater weight in the calculation of performance funding. A state community college official with intimate knowledge of the development of PBB noted:

> It was actually a member of the legislature who [was] looking at special populations…There had been some discussion going on about how underrepresented Black males were among our graduates…and he felt that if perhaps we put some economic incentives in there, that would change things.

The addition in 2000 of an indicator for remediation completion was prompted by complaints from the legislature about the high rates of remediation in the community colleges (authors' interviews).[50] A state community college official noted:

> The Postsecondary Feedback Report came in about that time, and so we started looking at how many previous year high school graduates had to take remediation. And then the legislature was saying, "Well, if remediation is just for previous year high school graduates, we're not going to pay for it, because they should have learned it"…The legislature was upset because of all the money that was going into remedial, and we were trying to show it wasn't just prior year high school graduates, but we also recognized it's important to get people out [graduated], and so the [performance funding] incentive came in to get people out.

Internal initiatives. Internal initiatives to revise performance funding indicators and weights also played a key role in the development of the performance funding system in Florida.

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subordination to elected officials on the other hand (Hill, 1991; Kerwin, 2003; Makkai & Braithwaite, 1992; Rourke, 1969; Waterman & Meier, 1998; Yackee, 2003).

[49] For an excellent discussion of the top-down and bottom-up perspectives in policy implementation theory, see Matland (1995).

[50] In 1996 Florida legislators had started voicing concerns that too many unprepared students were graduating from high schools and too much money was being spent on remediating them in community college (Bousquet, 1996; Date, 1996).

They derived from the autonomous concerns of the state coordinating board or of the higher education institutions themselves.

The decision to eliminate the indicator for passage of licensure exams was made by the State Board for Community Colleges on its own volition. The Board came to the conclusion that it had become simply too difficult to collect data for this indicator from the state licensure boards (authors' interviews). A state community college official reported:

> A lot of the licensure boards are becoming an independent entity in keeping the data a bit closer to the chest than they had in the past and so we find it extremely difficult to get licensure information for some of our groups…So now is our opportunity to say, okay, that wasn't working as well. We'll come up with something else.

Internal initiative also determined how Florida chose to operationalize a key performance indicator: graduation. The State Division of Community Colleges chose to use *numbers* of graduates rather than *rates* of graduation as its measure of graduation because data on the former were easier to collect, as a state community college official indicated:

> We tried to use data that we were already collecting and certainly, numbers of degrees awarded were handy. Graduation rates were not only harder to obtain, but even harder to define…You were talking about whether you count everybody who comes to the school and did they graduate or whether you'd look at somebody who professed to be pursuing a degree or somebody who actually had gone so far as to take 15 or 18 hours as evidence that they were going to pursue a degree.

The Process of Change in Florida

Florida has not had a highly institutionalized process for revising its performance funding system, unlike Tennessee. There are no periodic reviews tied to a strategic planning process, so changes in funding levels and indicators were instituted more erratically. Moreover, the Florida legislature reshaped the performance funding system at various irregularly occurring times. Unlike Tennessee, the Florida legislature is a particularly activist one, with a history of micro-managing educational policy and compelling administrative agencies to adopt specific policies (authors' interview). Alan Rosenthal (1990), a well-known analyst of state politics, observed:

> [I]n a number of places legislative leadership in education has become institutionalized. Florida is one such state. Here since the 1970s the legislature has made major changes or tinkered with

> education…It has exerted strong policy leadership, enacting mandate after mandate and specifying requirements, because of a continuing distrust of the Department of Education. (pp. 119–120)

This observation was echoed by a higher education consultant who has worked in many states: “States develop legislative cultures…Florida is a very top-down state and it’s always been that way. The legislature actually legislates things.”

Tennessee

Tennessee has long had performance funding, beginning with a system established in 1979 (following five years of pilot testing). That system gradually changed over the years. However, in 2010, the Tennessee legislature passed the Complete College Tennessee Act, which mandated a very different performance funding system that will run in tandem with the system established in 1979.

The 1979 Performance Funding System and How It Has Changed

Changes in funding levels. The performance funding system that Tennessee established in 1979 has experienced a fairly steady increase in funding over the years. Initially, the system amounted to a potential addition of 2 percent to the state appropriation for each public institution. In 1983 the amount was raised to 5 percent and in 1987 to 5.45 percent, where it has remained (Bogue & Johnson, 2009; Levy, 1986, p. 24).

Performance funding is allocated on the basis of a point system, and institutions can earn up to 100 points. Because not every college earns the maximum number of points, the actual amount of funds going to the colleges is less than what was authorized (Bogue & Johnson, 2009; Noland, 2006). The bonus funds actually received by all the colleges and universities rose fairly steadily, from an average of 0.8 percent of state appropriations for higher education between 1978–79 and 1981–1982, to 3.0 percent between 1982–1983 and 2001–2002, and 4.2 percent since 2001–2002 (see Table 4.3).

Table 4.3.
Performance Funding Levels in Tennessee under 1979 System

Fiscal Year	State Appropriation for Performance Funding	State Appropriation for Public Higher Education Operating Expenses	Performance Fund Share of State Appropriation for Public Higher Education Operating Expenses
1978–1979	2,111,811	312,799,000	0.68%
1979–1980	2,584,883	318,173,000	0.81%
1980–1981	2,878,233	338,165,000	0.85%
1981–1982	3,397,392	357,016,000	0.95%
1982–1983	11,306,662	385,600,000	2.93%
1983–1984	13,844,113	405,884,000	3.41%
1984–1985	14,086,315	495,749,000	2.84%
1985–1986	16,965,557	548,271,000	3.09%
1986–1987	17,641,067	621,410,000	2.84%
1987–1988	17,594,997	636,948,000	2.76%
1988–1989	18,891,187	673,881,000	2.80%
1989–1990	20,714,573	727,449,000	2.85%
1990–1991	19,498,037	711,978,000	2.74%
1991–1992	19,915,351	679,374,000	2.93%
1992–1993	24,815,042	761,543,000	3.26%
1993–1994	27,051,432	829,302,000	3.26%
1994–1995	26,627,575	880,037,000	3.03%
1995–1996	26,436,530	904,158,000	2.92%
1996–1997	26,947,773	936,401,000	2.88%
1997–1998	29,439,495	907,391,000	3.24%
1998–1999	30,673,475	967,969,000	3.17%
1999–2000	31,543,793	984,858,000	3.20%
2000–2001	32,236,469	1,045,546,000	3.08%
2001–2002	38,104,524	1,071,512,000	3.56%
2002–2003	42,567,984	1,106,889,000	3.85%
2003–2004	43,793,457	1,088,681,000	4.02%
2004–2005	49,866,270	1,122,978,000	4.44%
2005–2006	50,161,757	1,164,332,000	4.31%
2006–2007	52,649,172	1,254,677,000	4.20%
2007–2008	56,309,923	1,361,977,000	4.13%

Sources: For state appropriation for performance funding: Tennessee Higher Education Commission (personal communication); for state appropriation for public higher education operating expenses: Palmer (2009).

The rise in the percentage of state appropriations that was composed of performance funding dollars resulted from the Tennessee Higher Education Commission's decision to make performance funding "more important" within the higher education "funding structure" (authors' interview). The Higher Education Commission was able to do this because the Tennessee state higher education system did not experience budget problems of the magnitude of many other states in the early 1990s and the early years of this decade. For example, state appropriations for Tennessee public higher education institutions rose by 3.9 percent between fiscal years 2001 and 2003, despite the fact that total state revenues dropped by 5.4 percent between fiscal years 2000 and 2002 (United States Census Bureau, 2002, Table 429; 2006, Table 439).

Moreover, the Tennessee Higher Education Commission designed the 1979 performance funding system in such a way that it did not stand out as a separate item. Performance funding dollars are calculated for each institution and added into each institution's overall budget before the Commission makes institutional budget requests to the legislature. Therefore, performance funds are not listed as a separate item in the budget request to the legislature. In the words of a former Higher Education Commission official:

> The performance element of funding is integrated into the basic institutional appropriation recommendation, and so that's never been separated and what happens is if the budgets are cut, which they have been in recent years, the overall appropriation is reduced [but] not the performance funding part of it…the Higher Education Commission makes a line item appropriation and recommendation for each institution in the state, and that line item appropriation includes the part related to performance funding.

Changes in performance indicators for the 1979 system. Tennessee added nine performance funding indicators and dropped four in the 31 years between 1979–80 and 2009–2010, a rate of change far lower than Florida's. Tennessee's changes focused on student achievement in college, institutional improvement, and other goals. It made no changes with respect to high school-to-college transition and only minimal changes with regard to workforce preparation (see Table 4.4).

In addition to changing indicators, Tennessee has changed the weight given to particular indicators. Over the years it reduced the weight it gave to program accreditation, from 20 points to 5; general education assessment, 20 to 15; and graduate performance in major fields, 20 to 10 (Bogue & Johnson, 2009).

Table 4.4.
Performance Indicators Added and Dropped, Tennessee 1979–1980 to 2009–2010

Performance Indicator Type	Nature of Change Made
Student Access	Dropped 1997: Enrollment goals for campus-specific groups.
High School to College Transition	No changes.
Transfer Articulation	Added 2000: Transfer: Overall number of transfers.
	Added 2000: Retention after transfer (generally and for academically at risk students).
Workforce Preparation	Added 1993: Job placement (for community colleges).
Student Retention or Graduation	Added 1993: Retention to sophomore year.
	Added 1993: Graduating within six years (both students generally and African Americans specifically).
Student Achievement in College	Dropped 1988: Assessment of graduates' learning (four-year colleges and community college academic programs) or job placement (community college workforce programs).
Institutional Improvement	Added 2000: Assessment implementation and assessment pilot.
	Added 2005: Incentivizes incorporation of institutional assessment data into colleges' Quality Enhancement Plans.
	Dropped 1988: Improved programs or programs of exceptional quality: Improvements in performance of program graduates.
	Dropped 1997: Planning for instructional improvement.
Other Goals	Added 1993: Campus-specific indicators.
	Added 1997: State strategic planning goals: Colleges declare 4-8 measurable objectives supporting at least one goal from each of four Partnership areas: (1) Access, (2) Student Preparation, (3) Affordability, and (4) Educational Excellence.

Sources: Banta (1986); Banta et al. (1996); Bogue & Johnson (2009); Tennessee Higher Education Commission (2009, n.d.b); Freeman (2000, p. 42).

Sources of changes in indicators under the 1979 system. The changes itemized in Table 4.4 had two principal origins, external and internal.

External pressure. In Tennessee, external pressures on the 1979 system have tended to be rather indirect. Rather than responding to demands for specific changes by the legislature, governor's office, or interest groups, the Tennessee Higher Education Commission—aware of issues circulating within the higher education policy subsystem —added performance funding indicators that addressed those issues (authors' interview). A university official told us:

> [D]irectly linking legislators to performance funding, I don't think you will see that. But the Higher Education Commission has the pulse of the legislature. So what they see the legislators wanting, they kind of anticipate that and put it in the performance funding.

For example, state higher education officials and university administrators noted how student and parent complaints about transfer problems reached the ears of legislators, who then relayed these concerns to the Tennessee Higher Education Commission. This prompted the Commission to add transfer rates to the indicators that applied to the public four-year colleges (authors' interviews). A state university administrator noted how the legislative concerns sparked action by the Higher Education Commission:

> Legislators get lots of complaints from students who say that "I went to Chattanooga State and transferred to the University of Memphis but they would not take the courses"…And [legislators] may not say, "put this in performance funding," but the Higher Education Commission says this is the way in which we are going to see that we can improve it.

External pressure also played an important role in Tennessee's addition of a performance indicator addressing minority student retention in 1993. This action certainly reflected a rising interest on the part of the state's higher education system in focusing on minority persistence (authors' interviews). A former state university official noted that this indicator was:

> …something that the state was interested in…and the campuses understood that that would be of benefit to them…if you could increase your minority enrollment then you were enhancing your performance…both the state and the campuses began to see that as a priority because it would enhance the quality of undergraduate education.

However, this state interest in minority retention was also clearly shaped by the fact that the state had been subject to a longstanding court order to desegregate its public higher education system (authors' interviews). According to a former state higher education official, the minority persistence measure was included for the four-year colleges because "the state was under the auspices of a federal court decision." Another state higher education official explained that the inclusion of this measure:

> may be an outgrowth of the…state's desegregation lawsuit that had been going on for decades…There was an apparatus in place that would provide funding across the state for certain desegregation activities…and there was just a general focus across lots of different policies on those types of issues. My guess is that its inclusion in the performance funding program is consistent…with the other desegregation stuff we were doing at the time.

Internal initiative. Internally driven efforts to revise performance funding indicators and weights derived from the autonomous concerns of state coordinating or governing boards or of higher education institutions themselves. The Tennessee Higher Education Commission and higher education institutions together have influenced the performance funding system through their joint participation in the periodic review of indicators and weights (authors' interviews; Bogue & Johnson, 2009). Commission staff and institutional officials participate in the review and revision of the performance funding indicators every five years (authors' interviews; Tennessee Higher Education Commission, 2009). A state-level higher education official noted:

> Whenever we go through a new PF cycle, our folks engage in an 18-month period where they develop the new goals, the new metrics, make any changes to it, and there's heavy involvement from the two systems and campuses and we really do sort of try to come to some consensus around what's a good idea and worthy of pursuit.

Another state higher education official agreed: "The majority of the members of the task force are campus folks. We're talking about presidents. We're talking about chief academic officers. We're talking about deans. So you know they are the voice of the campus." And a campus official said:

> [T]here is a committee that has campus representatives on it…I am on it…We try to get the feel of what people, the other institutions [want] when we are working up changes. And also the drafts get distributed for comments prior to being implemented…to all of the different institutions.

State colleges and universities influence the Tennessee performance funding system through other mechanisms as well (authors' interview). A state-level higher education official told us that even outside the formal revision period, the Higher Education Commission keeps in touch with the institutions and solicits their input about performance funding indicators:

> [T]here's just sort of a constant feedback loop that occurs between [the Higher Education Commission] and the governing boards and the campuses and so…it just seems to work well and I think it, again, encourages that level of buy-in and sort of an ownership among the campuses for the program.

The Tennessee Higher Education Commission also receives feedback from institutions through surveys (authors' interview). A state higher education official told us: "We have done surveys. We did one prior to this cycle, the 2005–10 cycle, and surveyed the performance funding coordinators just in terms of…just getting their feedback on the program." Thus, higher education institutions provide substantial feedback to the Higher Education Commission regarding the performance funding system, and institutional representatives are consistently involved in the reform of performance funding indicators and weights in Tennessee.

Our data indicate that the state Higher Education Commission and representatives of institutions together have pursued the inclusion of a couple of indicators in the performance funding system. Both the Higher Education Commission and the higher education institutions were instrumental in adding the assessment implementation indicator (authors' interview), which "challenged institutions to demonstrate how they were using all of this information that they collected through performance funding to improve course structure, course delivery, and faculty activities at the base level" (authors' interview). According to a former state higher education official, the Higher Education Commission supported the inclusion of an indicator for assessment implementation as a "means through which to keep the [performance funding system] relevant" to "state policymakers" and "faculty members." However, some institutional representatives were also interested in including the assessment implementation indicator. A university representative said that this indicator was "pushed forward" by institutions because

> some of us thought it might be good to tie [the assessment implementation indicator] to part of our regional accreditation, which is called the QEP, Quality Enhancement Plan, part of the SACS [Southern Association of Colleges and Schools] accreditation…We thought it might make things easier to use the QEP work in that assessment implementation and then that's one thing that we got changed.

Another change that appears to have been jointly pursued by institutions and the Commission is the inclusion of campus-specific indicators in the Tennessee performance funding system (authors' interview). A former campus-level official said that the assessment implementation indicator was designed to:

> …let institutions decide what was important to them, and related to their mission, and put it [on the list of indicators]. And of course that would differ from campus to campus, and so putting in something that would permit institutional mission to influence the system was a good thing.

According to a former state higher education official, the impetus behind adding campus-specific indicators "was a combination of institution and the state." When asked about their origins, a community college official said: "I would suspect that there was probably some institutional nudging towards having those included." But a former Higher Education Commission official opined: "My suspicion is that [the inclusion of campus-specific indicators] was something that [the Higher Education Commission] may have tossed on the table…" Thus, the responses suggest that both institutions and the Higher Education Commission sought the inclusion of campus-specific measures in the Tennessee performance funding system.

Process of change in Tennessee under the 1979 system. The gradual and stable process in Tennessee for changing the 1979 performance funding system (with fewer changes of indicators per decade and a more stable funding history than in Florida) reflects the way the policy was designed from the beginning. Performance funding emerged under the aegis of the Tennessee Higher Education Commission, which pilot tested it for five years and designed a system with several key features. First, as noted above, the performance funding system was made subject to regular review by advisory committees with representatives from the higher education institutions as well as the Commission itself (Tennessee Higher Education Commission, n.d.a; authors' interviews).[51] A former state higher education official reported:

> That policy has now been in effect, it is getting very close to 30 years…And I think one of the reasons is that it has a five-year revision built into it so that campus and board and state folks come together to look at the policy and how it is functioning every five years.

Second, the five-year cycle for reviewing performance funding indicators was created to coincide with the state higher education system's strategic planning cycle (authors' interviews). As a former community college official told us, "Performance funding is a building block of strategic planning…I think by making performance funding a component of strategic planning, it made a big difference in making it stabilized and retained all these years."

As a result of these two features, the performance funding system has largely gained the confidence of the institutions. The participation of college and university representatives in the periodic reevaluation of the program gives institutions an active voice in developing the

[51] The Commission has also made sure to involve the campus governing boards: the University of Tennessee and the Tennessee Board of Regents.

indicators on which their performance will be measured and therefore breeds confidence in the performance funding system (authors' interview). A community college representative told us:

> I think in general the standards make sense…the student success standards…general education outcomes and job placement, accreditation of…programs, major field assessment in terms of pass rates on licensure exams and things like that, program review. Those are all the right things to be doing from an assessment standpoint, so why would you change that?

Although they have a significant voice in the performance funding system, Tennessee's higher education institutions have not been universally supportive of all aspects of the 1979 system. They have voiced criticisms of a "one-size-fits-all notion of many programmatic components," the focus on test performance, and the costs involved in conducting assessments (Noland, 2006, pp. 63–64; see also authors' interviews). Still, performance funding has become institutionalized in Tennessee (authors' interviews). A state higher education official explained:

> It's very much a part of our culture…So yes there are things that people feel are problematic…but I think that…when I interface with the representatives on the campuses who will administer and coordinate the performance funding process that it's very much part of their culture, and it provides…a way to consolidate their own institutional goals. It frames their initiatives to some degree.

But the very factors that produced the stability of the 1979 system may have laid the basis for the appearance of the system mandated by the Complete College Tennessee Act of 2010. The 1979 system was a product of the Tennessee Higher Education Commission and enjoyed the confidence of the higher education institutions. Legislative pressure was relatively infrequent and typically indirect, and the governor spoke little. However, this relative insulation from legislative and gubernatorial interference in Tennessee may have led to a build-up of unfulfilled external demands, laying the system open to the imposition of a new system, a change spearheaded by the state governor.

The Appearance of a New System in 2010

In 2010, the Tennessee legislature passed the Complete College Tennessee Act, part of which provided for the dramatic redesign of the basic higher education funding formula. Previously, Tennessee's funding formula had been largely enrollment-driven, meaning that institutions received the bulk of their state appropriations based on the number of students enrolled in their institutions. But the changes made by the Complete College Tennessee Act will render the funding formula predominantly outcomes-driven as of the 2011–2012 academic year (authors' interviews; see also Tennessee Higher Education Commission, n.d.c).

This new system does not replace but adds to the 1979 system. The state's 1979 performance funding system, comprising up to a 5.45 percent bonus on state appropriations for public institutions, continues to exist. However, persistence and graduation indicators will no longer be included in the performance funding system because these measures are prominent in the new funding formula (authors' interview). Moreover, because the new system applies to the whole of state funding for higher education, the 1979 system may lose influence.

The Complete College Tennessee Act required the Tennessee Higher Education Commission to develop a funding formula design that closely aligned with the state's higher education Master Plan (authors' interview; see also Tennessee State Senate, 2010). A committee consisting of THEC staff, representatives from the two state governing boards, and other state government personnel convened in the spring and summer of 2010 to redesign the funding formula in accordance with the requirements of the Complete College Tennessee Act (Tennessee Higher Education Commission, n.d.d). This committee developed a formula that emphasizes college completion; as a result, persistence and graduation are the focus of many of the formula's new indicators (authors' interviews).

The content of the new system. During the first year of the new system's implementation in FY 2011–2012, university funding will be based on the following indicators (Tennessee Higher Education Commission, 2011b, p.1):

- Student accumulation of 24 hours of credit.
- Student accumulation of 48 hours.
- Student accumulation of 72 hours.
- Research and service expenditures.
- Bachelor's and associate degrees awarded.
- Master/Ed specialist degrees awarded.
- Doctoral/law degrees awarded.
- Degrees per full-time equivalent student (FTE).
- Transfers out with at least 12 credit hours.
- Six-year graduation rate.

Community colleges will be funded based on somewhat different criteria (Tennessee Higher Education Commission, 2011b, p.1):

- Student accumulation of 12 hours of credit.
- Student accumulation of 24 hours.
- Student accumulation of 36 hours.
- Workforce training.
- Dual enrollment students.
- Associate degrees granted.
- Certificates granted.
- Awards per FTE.
- Job placements.
- Transfers out with 12 credit hours.
- Remedial and developmental success.

In addition, an institution is eligible for a 40 percent bonus for credit and degree completion for low-income and adult students (Tennessee Higher Education Commission, 2011b).

What most distinguishes Tennessee's new funding formula from that of most other states is that Tennessee's formula no longer includes enrollment in its funding of public higher education institutions (authors' interview).[52] In addition, Tennessee's revised funding formula will take account of institutional missions by adjusting the content and weights of the various outcome measures to reflect different institutional priorities, as reflected in an institution's Carnegie classification (authors' interview; see also Tennessee Higher Education Commission, 2011b). For example, the credit accumulation thresholds for community colleges will be lower than for the universities (authors' interviews; Tennessee Higher Education Commission, personal communication).

In November 2010, the Tennessee Higher Education Commission officially adopted the new funding formula and requested appropriations based on the new outcomes-driven model for 2011–2012 academic-year funding (Tennessee Higher Education Commission, personal communication).

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[52] However, enrollment will play an indirect role in the form of "productive enrollment," which refers to the accumulation of credits in progress towards a degree (authors' interview).

The political origins of the new funding formula. The new funding formula was developed as a result of a unique confluence of events (authors' interviews). First, Democratic Governor Phil Bredesen's term in office was coming to a close and, by multiple accounts, the governor wanted to make some policy changes to improve the state's higher education institutions before he left office (authors' interviews). According to one government insider, the governor:

> really created an environment where education reform was central. It started with our enrollment in the Tennessee Diploma Project, which is part of the American Diploma Project, which is very much a P-20 initiative. And I think that kind of got people starting to think about what was going on in the state higher ed wise.

Another initiative that had been taking place in Tennessee around this time was the Making Opportunity Affordable initiative of Lumina Foundation for Education, which sought to improve college completion rates in various states through grant funding and the encouragement of policies that promote higher education completion (authors' interviews; see also Garrett, 2009; Tennessee Government, n.d.). Tennessee received a Making Opportunity Affordable grant in 2009, due in part to the fact that the state had demonstrated that it was "working to tie public funding to increasing the overall number of college graduates" (Garrett, 2009). In fact, one early report states that Tennessee had intended to put some of the Making Opportunity Affordable grant monies towards redesigning the higher education funding formula (Garrett, 2009). The existence of this initiative in the state contributed to the atmosphere of higher education policy reform and the focus on postsecondary completions that was prevalent in Tennessee around the time that the Complete College Tennessee Act was considered by the state legislature (authors' interviews).

Also around this time, the state was vying for federal "Race to the Top" funding for its K-12 education system (authors' interviews). A state higher education insider told us that the governor "began to ask higher ed for some ideas … about [what] … he could include in a reform package that addressed higher ed along with whatever he was doing with Race to the Top." The Tennessee Higher Education Commission came with the idea of increasing the performance funding bonus as high as 20%. The governor picked up this suggestion and during his discussions with the THEC the idea of the new performance funding formula arose (authors' interviews).

Meanwhile, an organization external to the state, Complete College America, had been promoting the adoption of state policies aimed at increasing the postsecondary completion rate across the country (Complete College America, n.d.; see also authors' interviews). Representatives of this organization were brought to Tennessee to discuss ideas that later led to a redesign of the funding formula in a way that would emphasize completion (authors' interviews). According to a higher education insider:

> The governor and his staff brought [Complete College America] in back in the fall…[to] work on some ideas…for changes to higher education…[Complete College America] staff were all here during that week of the special sessions helping to answer questions. I think they had a major role…in developing the actual proposed legislation that the governor eventually got passed.

However, although Complete College America consulted with Tennessee policymakers, the real impetus behind this reform came from the governor's office (authors' interviews).

All of these events transpired in an atmosphere in which there was widespread sentiment that higher education in Tennessee was not reaching its full potential and that higher education was essential to economic development (authors' interviews). A source familiar with the situation told us:

> I think in the South especially, you get this sense that they feel they are behind the rest of the country…And this sense that in order for them, their people, to have a good life, good jobs…it's about educational opportunity and a better life. So I think that that's really the underlying motivation…part of it was jobs, but part of it was the sense that Tennessee wants to be part of the rest of the world and why not give our citizens the opportunity to participate?

In January 2010, the governor convened a special session of the state legislature, during which only K-12 and higher education reform issues were debated (authors' interviews; see also Berke, 2010; Tennessee Higher Education Commission, 2011a). The new funding formula was adopted during this special session as part of the Complete College Tennessee Act of 2010 (Tennessee Higher Education Commission, 2011a).[53]

[53] In addition to making changes in the funding formula, the Complete College Tennessee Act creates a statewide "Master Plan for Higher Education" (which includes statewide objectives for higher education and provides for a yearly "Progress Report" to track whether and how these objectives are being met), brings greater alignment to four-year and two-year college curricula and develops "common course numbers" for lower level courses to provide for easier transfer, provides for dual admissions of some students into both two-year and four-year colleges, and

Later in 2010, the Tennessee Higher Education Commission convened a committee to redesign the funding formula to be more outcomes-focused (authors' interviews).[54] The committee consisted of high-level administrators from a number of different state institutions (both two- and four-year colleges), some state government representatives, representatives from the state's higher education boards and the THEC, a consultant who advised the state on Lumina's Making Opportunity Affordable program, and a representative from Complete College America (Tennessee Higher Education Commission, n.d.e; see also authors' interviews). This committee was described as consisting of "as wide of a cast of characters as [the THEC] could [get]" (authors' interviews). The THEC asked these individuals to provide substantial input and feedback on the new funding formula (authors' interviews).

Perhaps the effort to involve the institutions in the design of the new funding formula—similar to the way that institutions were involved in the cyclical review of the performance funding system—staved off resistance to the formula redesign from institutions. Our respondents did indicate that institutions in Tennessee had been concerned about how the formula redesign would affect them, but they did not speak out against the new outcomes-based formula (authors' interview). A government insider told us that institutions were hesitant about the new formula "because…there's a lot of anxiety about how is it really going to work. What are the long-term implications of this?" However, we found no evidence of any vocal opposition to the funding formula overhaul. In the words of a government insider: "[M]y personal recollection is there was not opposition. I mean absolutely people were very interested and you know the campuses wanted to see what this is going to mean." Another source familiar with the situation said that "there are a few [institutions] fighting it, but not many."

In sum, Tennessee's funding formula for higher education was redesigned with an outcomes-oriented focus in a climate of education reform, where the beliefs that higher education is essential to economic development and that the state's higher education system needed to undergo improvement were fairly widely held. The governor was in his final term of office and wanted to launch a higher education policy reform, and an external organization (Complete

requires that remedial courses be offered by community colleges only (and no longer by four-year colleges) (Tennessee Higher Education Commission, 2011a; see also Sher, 2010).

[54] Other committees were also convened to develop ways to implement other aspects of the Complete College Tennessee Act as well (authors' interview).

College America) had been promoting in a number of states the adoption of policies that encourage college completion.[55] As one respondent explained:

> You get these strange confluences of events.…the Complete College America group whose interest happened to align with the Governor. You had Tennessee already working with Lumina [Foundation] on Making Opportunity Affordable…we were ready for a new master plan anyway. It was an election year, the governor's last year of office, you had all these things happen to occur over about a six-month period, and we sort of "threaded the needle" so to speak from a policy standpoint and got everything passed…everything just happened to fall in place at the right time. There's no mystery to it. Everything was just in place.

Conclusions

Performance funding systems are anything but static, as shown above. Indeed, Tennessee and Florida demonstrate that performance funding systems can change considerably over time in funding level and performance indicators. Florida's Performance-Based Budgeting (PBB) system has had a rather erratic funding history and has added and dropped performance indicators at a faster rate than Tennessee. Meanwhile, Tennessee's performance funding system arguably has been both more and less stable than Florida. The performance funding system established in 1979 has been more stable in that it has exhibited steadier growth in funding and less frequent changes in indicators than has been the case with Florida's PBB system. However, Tennessee's performance funding system also has been less stable in that in 2010 it added another performance funding system that operates on quite different principles from the existing system and now applies to the whole of state higher education funding, rather than just being a small add-on.[56]

Behind these changes have been initiatives both external and internal to the higher education system in Florida and Tennessee. Internally, changes in performance indicators and

[55] In recent years other states (Washington and Ohio) have adopted performance funding programs that involve the concept of "momentum points"—that is, awarding institutions points for their students' accumulation of a certain number or credits or completion of certain courses on their way to attaining a degree (authors' interviews; Jenkins, Ellwein, & Boswell, 2009; Petrick, 2010). Tennessee's new funding formula adopts a similar mechanism by rewarding institutions for students' attainment of a certain number of credits as well as for degree completion (Tennessee Higher Education Commission, 2011b).

[56] However, it should also be noted that performance funding in Florida has not been that stable either. In 2002 Florida abandoned an entire program of performance funding focused on workforce education, the Workforce Development Education Fund (Dougherty & Natow, 2009; Dougherty, Natow, & Vega, in press).

funding have come at the behest of the state higher education coordinating boards and—as the bottom-up perspective in policy implementation theory suggests—pressures from lower level implementing organizations (in this case, the colleges). Externally, changes in indicators and funding have come from pressures by state legislators and, in the case of Tennessee, the governor.

Typically, the internal pressures produce incremental changes. This incrementalism is particularly likely if the performance funding policy subsystem resembles Tennessee's during the ascendance of the 1979 performance funding system. The initial policy design of the 1979 system much more clearly delineated how it was to be governed and changed over time, and provided for regular and systematic evaluation by the state higher education coordinating board, the sectoral higher education governing boards, and the higher education institutions themselves. Moreover, the state legislature played a smaller role in the ongoing development of performance funding in Tennessee than in Florida.

Conversely, as we have seen in the case of the passage of the Complete College Tennessee Act of 2010 external pressure carries the possibility of nonincremental change that involves the creation of an entirely new system of performance funding. Here, the intervention of the governor in the politics of performance funding led to a wholesale change in policy. In a way that fits punctuated equilibrium theory in policy analysis (True, Jones, & Baumgartner, 2007), the governor's intervention moved the issue of performance funding out of a circumscribed policy subsystem dominated by the Tennessee Higher Education Commission and the university governing boards and into the realm of legislative macro politics where new political forces came to bear. These new forces, such as Complete College America, introduced new ideas that markedly reshaped performance funding in Tennessee.

Chapter 5

Conclusions:
Lessons for Implementing and Sustaining Performance Funding

Performance funding carries the promise—but it is not an unalloyed one—of being an important device through which states can secure better outcomes from higher education (Dougherty & Hong, 2006; Jenkins, Ellwein, & Boswell, 2009).[57] In this final chapter, we draw lessons from our research on what conditions make it more likely that performance funding will be enacted in states that do not have it, survive long term in states that do have it, and avoid excessive instability in form and funding after enactment.[58]

Successfully Enacting Performance Funding

As noted earlier, half of all states have not developed performance funding for higher education (Burke & Minassians, 2003; Dougherty & Reid, 2007; McLendon, Hearn, & Deaton, 2006). Based on our analysis of the experiences of six states that did establish it and two states that did not, we identified several factors that increase the likelihood that a state will enact performance funding: securing greater support from public higher education institutions (especially state universities), securing wider and more extensive support from business, and reaching out to equity-oriented groups that emphasize the contributions of performance funding to social equality.

[57] There is substantial evidence that performance funding gets the attention of colleges and universities and leads them to make programmatic changes to improve their performance (Dougherty & Hong, 2006; Dougherty & Reddy, 2011; Jenkins, Ellwein, & Boswell, 2009). However, there is a lack of strong evidence that performance funding—as it has been implemented to date—results in major improvements in student outcomes such as retention, course passage, graduation, transfer, and job placement. (However, see the results for the Washington Student Achievement Initiative, as detailed in Washington State Board for Community and Technical Colleges, 2010). Moreover, there is evidence that performance funding can produce substantial negative side effects (Dougherty & Hong, 2006; Dougherty & Reddy, 2011).

[58] We do not address here how to maximize the benefits and minimize the costs of performance funding. For recommendations on this, see Dougherty (2011), Dougherty, Hare, & Natow (2009), Dougherty & Hong (2006), Jenkins, Ellwein, & Boswell (2009), and Offenstein & Shulock (2010).

Securing Greater Support from Higher Education

Lack of support from higher education institutions doomed efforts to establish performance funding in California and undercut initiatives in Nevada. Moreover, in several states that did establish performance funding, lack of enthusiasm or even opposition on the part of the state universities prevented its spread beyond the community colleges.

Key to securing the support of the state universities is addressing their fears that performance funding provides an excuse to keep down regular state funding for higher education, undercuts the autonomy of higher education institutions, and does not sufficiently recognize different institutional missions. Thus it is important to engage in extended consultation with higher education institutions in order to address their concerns. Their involvement in designing the system makes it more likely that performance funding will reflect the varying missions of higher education institutions and not be seen as infringing unduly on institutional autonomy.

Higher education institutions are also more likely to support performance funding if it involves new money, over and above their regular state funding. A holdback system[59]—as was tried in Washington (in 1997–1999) and in Florida (the Workforce Development Education Fund of 1998-2002)—particularly weakens the support of higher education institutions for establishing performance funding and lays the basis for their later repudiation of it. Such a system not only does not bring new money but leaves higher education institutions quite uncertain about how much money they can expect.

Securing Wider and Deeper Support from the Business Community

Business has been supportive of state performance funding systems in several of the states we studied, but its enthusiasm could be greater. A lack of interest by the business community may have been an important reason why performance funding for higher education did not develop in Nevada and California. In both states, the main business organizations were notably absent from the ranks of supporters.[60]

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[59] In such a system, state governments hold back a portion of their appropriation to higher education institutions; the institutions have to earn back some or all of that reserved portion through improved performance the following year.
[60] There were business supporters in California but they did not include the state chamber of commerce or the California Business Roundtable.

The experience of these states argues that advocates of performance funding would benefit if they could better mobilize business support, given that business is typically a very influential player in state politics (Thomas & Hrebenar, 2004). At the same time, advocates of performance funding also need to keep in mind that mobilizing business carries dangers. The greater involvement of business in the politics of performance funding may pave the way for strong higher education opposition to performance funding. The very strong involvement of business in the development of performance funding in South Carolina, for example, led to a celebration of business values and ways of thinking that undermined higher education support for performance funding (see Dougherty, Natow, Hare, & Vega, 2010).

Reaching out to Equity-Oriented Groups

If they wish to enhance the sustainability of performance funding, advocates need to expand their base of social support beyond the groups that typically would sanction it. One potential source of support consists of social groups that are moved primarily by a commitment to educational equality, particularly for underserved students, rather than an interest in government efficiency. These equity-oriented actors were not involved in any of the states we studied (except for California), but they might be attracted to performance funding systems that strongly reward colleges for enrolling, educating, and graduating students from underserved populations (Dougherty, Hare, & Natow, 2009; Dougherty & Hong, 2006). Certainly, it was this prospect that accounted for the support for performance funding in California by the Campaign for College Opportunity.

Aside from helping secure the enactment of performance funding, equity-oriented groups can be important for ensuring that performance funding realizes its egalitarian potential. They can press for the inclusion in the initial design of a performance funding system of indicators that strongly reward college access and success for underserved populations. Moreover, these groups can push to ensure that such indicators are preserved and strengthened as the performance funding system is revamped over time.

Preventing the Demise of Performance Funding Systems

As we analyzed the causes of the demise of performance funding in Illinois, Washington (the 1997–1999 system), and Florida (the Workforce Development Education Fund), we found several factors at work: a sharp drop in state higher education funding (either total or per capita); a lack of support by higher education institutions for the continuation of performance funding; the loss of key supporters of performance funding, whether through retirement, replacement, electoral defeat, or term limits; and declining support by the business community. How can these threats to the persistence of performance funding be addressed? Our findings suggest the importance of insulating performance funding from fluctuations in the state revenue cycle, retaining the support of higher education institutions, and cultivating new sources of support.

Insulating Performance Funding from Fluctuations in the State Revenue Cycle

It is unlikely that advocates of performance funding can protect it by insulating higher education funding overall from the ups and downs of the state revenue cycle. Higher education funding has long served as a balance wheel in the state budgeting process. When state funding gets tight, states have perennially turned to higher education as a place to make cuts, in the belief that it can always increase tuition and cannot fight back as well as K-12 schooling (Callan, 2002).

However, even if state higher education spending cannot be protected from such fluctuations, it is possible to insulate performance funding from the vicissitudes of state higher education spending. One way is to include performance funding as part of the basic state funding formula for higher education so that the system does not stand out separately and look ripe for cutting. If state funding goes down, performance funding declines as well, but it is not eliminated. Ohio and Tennessee provide an example of how performance funding can be embedded within regular state higher education funding.. In 2009, Ohio moved to base its state formula for state university funding on course and degree completions, not on enrollments (Petrick, 2010).[61] Meanwhile, in 2010, Tennessee modified its higher education funding formula to drop enrollments as a basis and instead rely on various outcomes, including numbers of graduates and of students reaching certain levels of accrual of credits (Tennessee Higher

[61] Three quarters of the new formula for universities will be based on course and degree completions, with the remainder being doctoral and medical set asides (Petrick, 2010). State funding for community colleges will be on a different basis. A portion of state funding will be based on numbers of students who successfully complete remedial education (three different measures), earn 15 semester credit hours, earn 30 semester credit hours, attain an associates degree, or transfer to an Ohio four-year college or university. In addition, there will be an indicator chosen by community colleges themselves to reflect their individual missions. The proportion of the state formula allocated on the basis of these indicators is projected to rise from 5% in fiscal year 2011 to 30% in fiscal year 2015 (Ohio Association of Community Colleges, 2010).

Education Commission, 2011b). This use of course and degree completions and credit accrual to drive state funding formulas constitutes performance funding: higher education institutions are rewarded on the basis of student outcomes rather than student enrollments. But performance funding is protected from elimination because it is embedded in the basic higher education funding formula and therefore does not stand out as a separate item.

However, it should be noted that this strategy carries a significant danger. To the degree that institutional funding depends on course and degree completion or credit accrual, institutions face a great temptation to promote course and degree completion by relaxing grading standards or becoming more selective in admissions. Both practices have been identified as negative side effects of the use of performance funding (Dougherty & Hong, 2006; Dougherty & Reddy, 2011).

Retaining the Support of Higher Education

Loss of support from higher education institutions played a key role in the cases of demise that we examined. Beyond a desire to protect their base funding in times of state funding cuts, higher education institutions had various other reasons for not supporting performance funding when it came under fiscal stress. They were angered by what they viewed as the use of invalid performance indicators, the erosion of campus autonomy, the imposition of high implementation costs on institutions, and (in Florida and Washington) the use of a holdback system that did not bring new money and made fiscal planning difficult.

In order to better retain the support of higher education institutions (or at least not further anger them), performance funding systems can be designed with certain features. They can either provide “new” money over and above regular state appropriations or build performance funding into the basic state funding formula, and they can forego a holdback component. The performance indicators used can be those that higher education institutions see as valid and as not infringing unduly on their autonomy. The best way to ensure the acceptability of the design of performance funding is for the policy architects to consult widely and deeply with higher education institutions on the design, both at the beginning and as the system evolves over time.

Cultivating Other Sources of Support

Even when business played a significant role in the establishment of performance funding in certain states, it typically did not stay interested. Retaining business interest requires continuing cultivation. Advocates of performance funding cannot assume that the initial support of business—based on its approval of the use of business-like methods in higher education—-ensures continuing interest in performance funding. Maintaining business interest may entail directly involving business in the process of reviewing and revising the performance funding system after it has been established. However, this political tactic carries the same caveat about the possibilities of angering higher education institutions that was discussed above under securing wider and deeper business support for enacting performance funding.

The state officials who first championed performance funding in many states—whether heads of state higher education boards or state legislators and governors—often faded away after several years due to replacement, retirement, electoral loss, or term limits. Key to the longevity of performance funding, then, is finding new champions in the state boards, the legislature, and the governor's office. It is important for the original champions to groom their successors.

Whatever the political coalition that led to the enactment of performance funding, it is always possible to broaden it. A likely source of new support is equity-oriented groups which may not have played an important role in the origins of existing performance funding systems but can become important new supporters. Enlisting them can make up for the loss of some of the original supporters and also strengthen the egalitarian possibilities of performance funding.

Helping Performance Funding Evolve Effectively

Often and abrupt changes in performance funding systems can undercut their effectiveness. College officials find it difficult to make plans because they cannot clearly anticipate what demands the performance funding system will place on them and how much funding they are likely to get from it (Burke, 2002a, p. 77; Burke & Associates, 2000; Dougherty & Natow, 2010).

Hence, performance funding systems need to be partially insulated from external and internal demands so that funding levels and performance indicators do not change suddenly and erratically, thereby interfering with colleges' efforts to plan effectively. Incremental change can be fostered by scheduling review and revision of performance funding systems regularly, perhaps in connection with a new iteration of a master plan for higher education, and by involving extensive representation from a wide variety of stakeholders inside and outside the higher education system. Periodic reviews allow changes to be anticipated, and extensive participation ensures that the review process is not dominated by a small set of actors.

At the same time, the review and revision process needs to be designed in a way that allows performance funding systems to change enough to keep demands for change from building up to such a point that they lead to demands to eliminate or radically change the system. If performance funding systems are not sufficiently responsive to calls for minor revisions, they leave themselves open to abrupt changes, when a governor or legislature forcefully intervenes to change the system.

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