

**An Overview of Performance Funding in Tennessee**  
**Testimony prepared for the**  
***National Commission on Accountability in Higher Education***

**Submitted by**

**Brian E. Noland and Ronald C. Williams**  
**Tennessee Higher Education Commission**  
**Richard G. Rhoda, Executive Director**

**Background**

The coming decade for higher education is one of unprecedented opportunity coupled with significant fiscal, policy, and leadership challenges. The period of prosperity experienced by many states during the 1990's has passed and has been replaced by fiscal uncertainty characterized by declining trends in state appropriations and an increasing reliance upon student fees to offset these decreases. Parents and students have become responsible for funding a larger share of the support for higher education. As a result of increasing fiscal uncertainty, many institutions and state systems of higher education routinely struggle to make ends meet, simultaneously attempting to respond to volatile demographic changes that yield significant growth in new entrants to higher education, an emergence of new constituencies, and an ever-changing technological marketplace that demands graduates with skills to support the knowledge economy.

As the pressures on colleges and universities have increased, accountability has become the watchword of the legislative movement toward direct involvement in the activities of higher education. Through a formal auditing process, an increasing number of states have turned to an evaluation of outputs as a means to monitor the quality, efficiency, and effectiveness of their institutions and state systems of higher education. Traditionally, the most direct tie between elected officials and the campus leadership is the fiscal chain that connects the two entities. Consequently, many of the principal components of the budgeting process – incremental adjustments, formula calculations, peer institution indices, performance standards, special allocations, fee revenues, etc., have come under heightened scrutiny as states weigh current needs and project future demands on state coffers.

The recent and increasing concern with the public accountability of higher education in the United States is undeniable. The trend among public policymakers is to move away from the reliance on enrollment-driven funding and to attempt to tie budgetary support to institutional performance. In light of major economic and social changes, students, parents, legislators, administrators, and policymakers consider a quality education the critical component to competing in the knowledge economy. As a result, consumers are increasingly interested in obtaining information that speaks to the quality of the education provided by colleges and universities.

The concern with institutional and educational quality is further magnified by national trends of rising tuition costs. In an era epitomized by *U.S News and World Report* rankings, the National Center for Public Policy and Higher Education's *Measuring Up*, and other benchmark reports, state legislators and community leaders are increasingly calling for policies to assess costs along with the fluid concept of educational quality. In turn, there are increased pressures on institutions and state governing/coordinating bodies to assess the return on the investment that students, parents, and taxpayers make in post-secondary education.

Over the past decade, assessment and the improvement of student performance have been the focus of great discussion and efforts both within and external to colleges and universities. During that time there has been a progressive increase in the number of postsecondary institutions engaged in some form of student assessment policy. A considerable amount of faculty and administrative time and effort has been invested in promoting, supporting, and implementing student assessment. Postsecondary institutions throughout the nation continue to search for appropriate and effective strategies for student assessment and for credible evidence to guide their efforts.

### **Problem Areas Addressed by Performance Funding**

Given this call for legislative and consumer accountability, the state of Tennessee has implemented an innovative policy designed to stimulate instructional improvement and student learning. The Performance Funding Program has proven to be an effective incentive for meritorious institutional performance at public colleges and universities across the state. It has provided the citizens of Tennessee, the legislative and executive branches of state government, education officials, and faculty with a means of assessing the progress of publicly funded higher education. This program stimulates instructional improvement and student learning as institutions carry out their respective missions. By encouraging instructional excellence, this program contributes to continuing public support of higher education and complements academic planning, program improvement, legislative accountability, and student learning.

The performance funding program found its stimulus and rationale by recognizing the need for a more appropriate response to the demands of accountability, while simultaneously recognizing the limitations of the state's enrollment-driven funding formula. This policy provides institutions with an opportunity to earn a budget supplement of approximately 5.45 percent of the instructional component of its education and general budget for carrying out the following activities: <sup>1</sup> obtaining accreditation for creditable academic programs; <sup>2</sup> testing graduating students in their major fields and in general education using standardized externally developed examinations, and demonstrating that student performance is at/or above national averages on these tests; <sup>3</sup> surveying enrolled students, recent graduates, and community members/employers to assess their satisfaction with the institution's academic programs and student services; <sup>4</sup> conducting peer review of its academic programs; and, <sup>5</sup> clearly implementing the results of these assessment activities for campus improvements and programmatic revisions.

Through the various assessment initiatives associated with the program, policymakers are able to gauge the effectiveness of instruction as well as the quality of student services via specific program indicators. This regular assessment and review of academic outcomes and processes ensures that students receive a quality return on their tuition dollars invested in post-secondary education. Consequently, this program also benefits all citizens of Tennessee. As academic program quality increases, institutions are able to attract additional research resources, as well as provide for greater public service activities.

As Tennessee transitions into the twenty-first century, elected and appointed officials affiliated with the state's higher education system find themselves struggling with limited monetary resources during a time of heightened public expectations and reliance upon governmental services. It is significant to note that in a time of severe financial shortcomings in Tennessee, institutions across the state have continued to offer a high quality education to their students. The growing number of students choosing to attend higher education institutions in Tennessee is indicative of this quality.

### **National Implications and Opportunities for Policy Diffusion**

A broad survey of the higher education landscape reveals that most institutions are engaging in some form of student assessment. Therefore, an incentive-based program has potential to be a widely accepted phenomenon. However, such programs are historically campus initiated rather than driven by state policy priorities. As state systems of higher education rise to meet the challenges of the coming decades, they should work to frame a public agenda for education that creates a broad vision where state efforts nurture their human capital potential. Rather than the traditional focus on institutional goals and objectives, the public agenda should focus on many of these broader areas related to economic growth and competitiveness in the knowledge economy. States should look to raise educational attainment levels, promote life-long learning, improve adult literacy rates, recruit and retain highly skilled knowledge workers, and enhance the research and development capacities of their colleges and universities. States should also begin to strategically examine the means through which public funds are expended to address the goals of the public agenda. The Tennessee experience with performance funding reveals that the program not only promotes access, it fosters institutional and local government cooperation and the enhancement of research and development projects that support the public agenda.

In order to overcome resistance at the campus level to the creation of a broad based public agenda and related accountability policies, several substantive obstacles must be overcome. The nature of "funding for performance" is the primary obstacle to successful replication of the Tennessee program. A number of states have tried to implement "punitive" performance budgeting systems. Typically, these systems remove a portion of the institutional budget that can then be reinstated through improved performance. This method can have the unintended consequence of an institution engaging in little real assessment and accepting its reduced budget. One of the strengths of Tennessee's incentive approach is that it is designed to encourage institutional participation rather than discourage it.

Successful implementation could also be impeded through disproportionate levels of campus participation in the development and planning stages. A hallmark of Tennessee's program is the direct involvement of institutional and system representatives in the development of performance standards. This involvement helps ensure that the outcomes are meaningful from a public accountability and institutional perspective. Furthermore, this grass-roots involvement is one of the core strengths of the Tennessee program. While the legislative and executive branches have at times been involved in maintaining or criticizing the program, it has always had campus support due to the ownership that higher education feels in the standards and logistics. The Tennessee experience has demonstrated that indicators which originate at the campus level, rather than an imposed set of rigid standards, are typically more successful.

Another problem area associated with the assessment activities mandated by this program relates to the issue of student motivation. Motivating students to take assessments seriously when the results do not serve as a barrier to further study or graduation, or have any other direct implications for individual students, is an issue encountered by most institutions. This issue is of critical importance to states considering implementing performance funding programs because the results of the programmatic assessments have significant financial implications for all participating institutions.

The political climate of the state government may pose an additional impediment to successful implementation. Tennessee is truly fortunate that, overall, its General Assembly has allowed institutions, with the oversight of the governing boards and Commission, to guide the program. This support has allowed the program to try innovative and challenging ways of improving public higher education. Examples of such policy innovations include, but are not limited to: the utilization of campus-based general education pilots such as portfolio assessments; job placement assessments at the community colleges; student, alumni, and employer surveys; and the development of campus quality enhancement plans.

Finally, the nature of assessments themselves may provide an additional obstacle to successful implementation. Programs that place a heavy reliance upon performance measures linked to graduation and retention rates may be politically popular, but they are often laced with a host of confounding variables. For example, traditional measures of retention and graduation do not account for students that transfer into and/or out of institutions. Additionally, retention and graduation rates may penalize those institutions with unique and/or specialized missions. Indicators such as the amount of overall education and general expenditures allocated to support student centered programs, activities, and services; the use of technology on campus to expand educational opportunities; and, the number of degrees conferred may prove to be a more accurate indication of an institution's performance than retention and graduation rates. As institutions continue in their quest to design and implement assessments or performance based programs, the Tennessee experience suggests that an incentive based program may be effective and sustainable if such programs contain a proper and adequate mix of assessment tools and indicators that have broad based state and campus level support.

## Summary

Increasingly, colleges and universities are being asked for more direct measures of student outcomes. National studies report recurring questions such as, how much did students learn, and did they complete college prepared for employment? Questions such as these resemble local debates regarding the assessment of general education outcomes, critical thinking skills, and student/alumni satisfaction. One of the lessons learned from the Tennessee experience is that faculty are often best suited to question current pedagogical practices and inform departments about advances in research that may impact curricula. Without the direct support of the faculty and their involvement with assessment, Performance Funding becomes nothing more than a sophisticated auditing exercise.

In addition to the internal concerns mentioned above, performance funding is central to higher education's accountability to external constituencies. The assessment standards utilized in the program were developed to respond to the rising concerns of elected officials as they evaluate investment returns on state budget allocations. Should state funding for higher education in Tennessee continue with recent trends, the performance funding program will take on an increasingly important role in core budget activities. The funds generated by this program have become increasingly essential to maintaining the base operations of many institutions. This fact alone points to a bright and promising future for the policy, a future that could easily be adapted to fit the needs of other states across the nation.

The lessons learned from the Tennessee experience provide opportunities to learn from the state's policy successes and failures. As states struggle in their effort to balance the tension between performance funding formulas and individual campus criticisms, institutional leaders must realize that their institutions must effectively meet the needs of the students for which the mission was created. The ability of states to continue to provide the ultimate in educational quality coupled with reasonable access will be tested in the coming decades by declining state appropriations and the limits of tuition and fee affordability. While higher education may be challenged to more adequately meet the needs of the state, the development and/or expansion of performance funding models is a unique opportunity for strategic re-direction of the academic enterprise.