

An Overview of Performance Funding Policy in Missouri

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1. Introduction

Traditionally, state funds to public universities and colleges are mostly determined by the input end (i.e., enrollment, incremental funding increases) without being linked to explicitly specified results.¹ Under accountability regimes, higher education institutions are called upon to make a compelling case to the general public and to political leaders that the overall value of a college education is real, and universities and colleges are deserving of state financial support.² Performance-based accountability has taken three forms: (1) performance funding, which ties state funding directly and tightly to the performance of public campuses on individual indicators; (2) performance budgeting, which enables state governments or postsecondary coordinating boards to consider institutional performance as one factor when calculating resource eligibility; and (3) performance reporting, which does not tie into funding at all but is reported to policy makers and the public who can then hold the schools accountable in different ways.^{3,4}

Officials from system, coordinating, and governing boards have decided that they must work with legislators and governors to substantially change the budgetary status quo. Many states started building performance-funding formulas as a means to improve the

performance and efficiency of their higher education institutions. Performance-based funding is a strategy that connects state funding directly to institutional performance on public campuses through indicators such as student retention, graduation rates, and cost efficiency. Traditionally, states finance public higher education institutions according to the number of students enrolled and the faculty, staff, and other resources needed for delivering an education. This financing model does little to address the outputs and outcomes higher education produces. Performance funding uses financial incentives to motivate institutions to improve student outcomes and college completion. Generally speaking, under performance-based funding, a university will be eligible to receive a designated amount of state funding only if it meets required institutional performance criteria. Performance-based funding policy was first introduced by the Tennessee Higher Education Commission in 1978 and adopted in 1979. Since this first enactment, many states have experimented with measures that attempt to finance higher education based on university performance.

States have constitutional authority over higher education. State lawmakers, along with campus governing bodies, have jurisdiction over foundational higher education policies. Higher education policymaking is largely decentralized and states have autonomy to regulate higher education based on internal needs; therefore, states bear primary responsibility for the governance and finance of public higher education.^{5,6}

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¹ Matthew Crellin et al., *Catalyst for Completion: Performance-Based Funding in Higher Education: A Case Study of Three States* (Boston, MA: New England Board of Higher Education, 2011), accessed June 24, 2020, http://www.nebhe.org/info/pdf/PerformanceFunding_NEBHE.pdf.

² Brenda Norman Albright, "The Transition from Business as Usual to Funding for Results: State Efforts To Integrate Performance Measures in the Higher Education Budgetary Process." *State Higher Education Executive Officers Association*, accessed June 20, 2020, <https://files.eric.ed.gov/fulltext/ED418652.pdf>.

³ Joseph C. Burke and Henrik Minassians, *Real Accountability or Accountability "Lite": Seventh Annual Survey* (Albany, NY: Rockefeller Institute of Government, 2003).

⁴ Steven Klein, *Performance-Based Funding in Adult Education: Literature Review and Theoretical Framework* (U.S. Department of Education, Office of Vocational and Adult Education, Division of Adult Education and Literacy, 2005).

⁵ Michael K. McLendon, "The Politics of Higher Education: Toward an Expanded Research Agenda," *Educational Policy* 17, no. 2 (2003): 165-191.

⁶ Marilyn Gittell and Neil Scott Kleiman, "The Political Context of Higher Education." *American Behavioral Scientist* 43, no. 7 (2000): 1058-1091.

Higher education governance and management can be categorized into three types of structures: consolidated governing boards, coordinating boards, and planning agencies.⁷ A consolidated governing board is a single statewide governing board that legally manages and controls the responsibilities for all public institutions of higher education.⁸ Consolidated governing boards have all the rights and responsibilities of a single corporate entity as defined by state law, including strategic planning, budgeting, and allocation of resources between and among institutions within the board's jurisdiction.⁹ A coordinating board is a single agency other than a governing board that has the responsibility for the statewide coordination of many policy functions (e.g., planning and policy leadership, program review and approval, and budget development and resource allocation). Coordinating boards do not govern institutions, they do not usually have any role in the appointment of institutional chief executives or in developing faculty personnel policies.¹⁰ Planning agencies possess little authority beyond making plans for higher education.

2. Higher Education Finance in Missouri

The Missouri Coordinating Board for Higher Education (CBHE) is the coordinating board for higher education and it oversees the Department of Higher Education and Workforce Development (MDHEWD), which serves as the administrative arm of the board and is led by the commissioner. The CBHE was authorized by an amendment to the Missouri Constitution in 1972 and established by statute in the Omnibus State Reorganization Act of 1974. The nine board members, one from each congressional district and a member at large, are appointed by the governor and confirmed by the Senate.¹¹ The CBHE coordinates the state system of higher education which includes thirteen public four-year colleges and universities,¹² fourteen public two-year community colleges,¹³ twenty-six independent colleges,¹⁴ eleven specialized/technical colleges,¹⁵ sixteen theological institutions¹⁶ and more than 150 proprietary and private career

⁷ Aims C. McGuinness Jr., Rhonda Martin Epper, and Sheila Arredondo, *State Postsecondary Education Structures Sourcebook: 1997* (Denver: Education Commission of the States, 1997).

⁸ Colorado Department of Higher Education, "Mission of 2017," *Colorado Department of Higher Education*, accessed June 16, 2020, http://highered.colorado.gov/Publications/General/StrategicPlanning/Meetings/Resources/Mission/Mission_100407_Boards_Common_Functions.pdf.

⁹ Connecticut General Assembly, "Higher Education Governance Structure," *Connecticut General Assembly*, Accessed June 16, 2020, https://www.cga.ct.gov/pri/docs/2010/Final_Report_Higher_Education_Governance_Structure.PDF.

¹⁰ Connecticut General Assembly, "Higher Education Governance Structure," *Connecticut General Assembly*, Accessed June 16, 2020, https://www.cga.ct.gov/pri/docs/2010/Final_Report_Higher_Education_Governance_Structure.PDF.

¹¹ Missouri General Assembly, "Missouri Constitution," *Missouri General Assembly*, accessed June 16, 2020, <https://www.sos.mo.gov/pubs/constitution>.

¹² Harris-Stowe State University, Lincoln University, Missouri Southern State University, Missouri State University, Missouri University of Science & Technology, Missouri Western State University, Northwest Missouri State University, Southeast Missouri State University, Truman State University, University of Central Missouri, University of Missouri–Columbia, University of Missouri–Kansas City, and University of Missouri–St. Louis.

¹³ Crowder College, East Central College, Jefferson College, Metropolitan Community College, Mineral Area College,

Missouri State University–West Plains, Moberly Area Community College, North Central Missouri College, Ozarks Technical Community College, St. Charles Community College, St. Louis Community College, State Fair Community College, State Technical College of Missouri, and Three Rivers College.
¹⁴ Avila University, Central Methodist University, College of the Ozarks, Columbia College, Cottey College, Culver-Stockton College, Drury University, Evangel University, Fontbonne University, Hannibal-LaGrange University, Lindenwood University, Maryville University, Midwest University, Missouri Baptist University, Missouri Valley College, Park University, Rockhurst University, Saint Louis University, Southwest Baptist University, Stephens College, Washington University, Webster University, Westminster College, William Jewell College, and William Woods University.

¹⁵ A.T. Still University of Health Sciences, Bolivar Technical College, Cleveland University, Cox College of Nursing, Goldfarb School of Nursing, Kansas City Art Institute, Kansas City University of Medicine & Biosciences, Logan University, Ranken Technical College, Saint Luke's College of Health Sciences, and St. Louis College of Pharmacy.

¹⁶ Aquinas Institute of Theology, Assemblies of God Theological Seminary, Baptist Bible College, Calvary University, Central Bible College, Central Christian College of the Bible, Conception Seminary College, Concordia Seminary, Covenant Theological Seminary, Eden Theological Seminary, Kenrick-Glennon Seminary, Midwestern Baptist Theological Seminary, Nazarene Theological Seminary, Ozark Christian College, Saint Louis Christian College, and Saint Paul School of Theology.

schools.¹⁷

To facilitate effective communication, the CBHE meets at least four times annually with an advisory committee, consisting of thirty-two members, including the president (or other chief administrative officer) of the University of Missouri; the chancellor of each campus of the University of Missouri; the president of each state-supported four-year college or university; the president of State Technical College of Missouri; the president or chancellor of each public community college district; and representatives of each of five accredited private institutions selected biennially. According to Chapter 173 Section 5 of the Missouri Revised Statutes:¹⁸

... the coordinating board for higher education shall establish guidelines for appropriation requests by those institutions of higher education; however, other provisions of the Reorganization Act of 1974 notwithstanding, all funds shall be appropriated by the general assembly to the governing board of each public four-year institution of higher education which shall prepare expenditure budgets for the institution.

... However, nothing in this section shall prevent any institution of higher education in this state from presenting additional budget requests or from explaining or further clarifying its budget requests to the governor or the general assembly.

According to Chapter 173 Section 30 of the Missouri Revised Statutes, the CBHE has the additional responsibility of:

Recommending to the governing boards of state-supported institutions of higher education, including public community

colleges receiving state support, formulas to be employed in specifying plans for general operations, for development and expansion, and for requests for appropriations from the general assembly.

The Missouri Constitution of 1875, Article V Section 13 indicates:¹⁹

The governor shall, within thirty days after it convenes in each regular session, submit to the general assembly a budget for the ensuing appropriation period, containing the estimated available revenues of the state and a complete and itemized plan of proposed expenditures of the state and all its agencies. The governor shall not determine estimated available revenues of the state using any projection of new revenues to be created from proposed legislation that has not been passed into law by the general assembly.

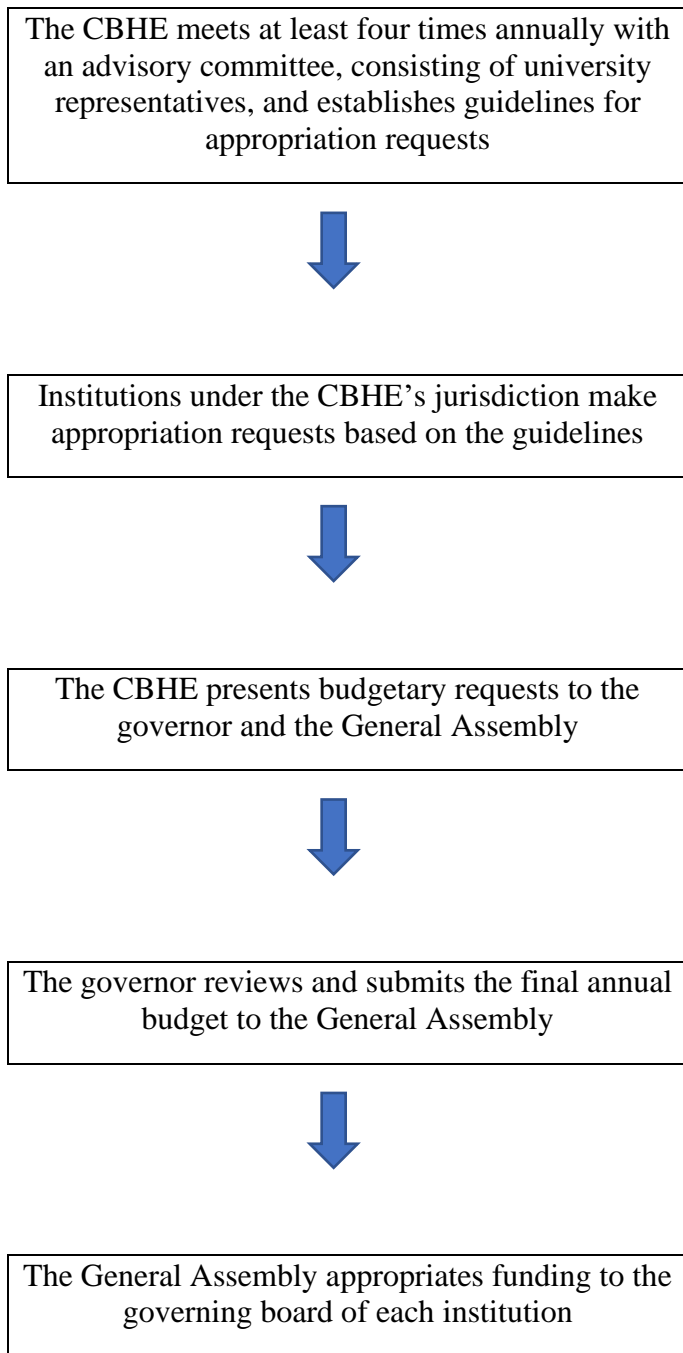
The statutory terms stipulate that the CBHE bears the responsibility of developing guidelines for higher education institution budgetary requests. Following these established guidelines, universities and colleges under the CBHE's jurisdiction evaluate internal financial needs and submit annual budgetary requests to the CBHE. After gathering all the requests, the CBHE presents these documents to the governor and state Legislature. At the state level, the governor studies these budgetary requests, submits the final budget to the General Assembly for revision and approval. Institutions are allowed to submit additional funding requests or clarify their budget requests to the governor or the General Assembly directly. The General Assembly possess the constitutional authority to appropriate funding to the governing boards of each institution. Higher education budgeting in Missouri is depicted in Figure 1 below.

¹⁷ "Missouri Coordinating Board for Higher Education," Department of Higher Education and Workforce Development, accessed June 16, 2020, <https://dhewd.mo.gov/cbhe/>.

¹⁸ Missouri General Assembly, "Missouri Revised Statutes 2011," *JUSTIA US Law*, accessed June 16, 2020, <https://law.justia.com/codes/missouri/2011/>.

¹⁹ Missouri voters ratified the Constitution on October 30, 1875. The Constitution was most recently revised in January 2019.

Figure 1: Higher Education Budgeting in Missouri



3. Performance Funding in Missouri

Missouri has a history of allocating additional state

resources on the basis of performance through the Funding for Results program from the 1990s. The Missouri State Legislature and the state Coordinating Board for Higher Education assumed active roles in expanding assessment and reshaping higher education governance and finance during the late 1980s and early 1990s.²⁰ The heads of the coordinating board, especially Commissioner of Higher Education Charles McClain, were among the first ones in the state to call for performance funding. In 1989, McClain directed the MDHEWD staff to research and review the concept of performance funding. A couple of years later, McClain served on the Missouri Business and Education Partnership Commission, which in its 1991 report called for performance funding.

The Legislature initiated, through the 1991 *Economic Survival Act*, comprehensive reforms including a review of higher education goals and objectives and institutional missions, accountability measures, and new funding mechanisms. The CBHE established a statewide task force proposing new goals for Missouri's higher education focusing on institutional outcomes. This proposal became the framework for performance reporting, mandated in 1993, and for performance funding, which was adopted in 1991 and first funded in 1993-94 for four-year institutions and since 1994-95 for both two- and four-year campuses.²⁰

In the mid-1990s, Missouri adopted performance funding following the work initiated by McClain, as well as the recommendations of the Missouri Business and Education Partnership Commission and the Taskforce for Critical Choices in Higher Education. The two new funding strategies introduced by Missouri were Mission Enhancement Funding, which was implemented in 1997, and Funding for Results, implemented in 1994.²¹ Both programs were appropriated through 2002.

Funding for Results began with three indicators and later developed into six for the community colleges and eight for the four-year institutions. Four

²⁰ Joseph C. Burke and Andreea M. Serban, "State Synopses of Performance Funding Programs," *New Directions for Institutional Research* 25, no. 1 (1998): 25-48.

²¹ Kevin J. Dougherty, et al., *The Politics of Performance Funding in Eight States: Origins, Demise, and Change. Final*

Report to the Lumina Foundation for Education (Community College Research Center, Columbia University, 2011), accessed September 17, 2020, <https://files.eric.ed.gov/fulltext/ED517751.pdf>.

indicators were common to both community colleges and four-year institutions: freshman success rates, success of underrepresented groups, performance of graduates, and successful transfer. The community colleges had two additional indicators: degree/certificate productivity and successful job placement. Four-year institutions had four additional 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.²²

Mission Enhancement Funding and Funding for Results were funded in conjunction with the informal process for calculating an institution's core budget request to the Legislature. Funding for Results rewards institutions for their achievement of quality goals and for their design and implementation of faculty-driven teaching and learning improvement projects. In Missouri, each institution has a core budget that is carried forward each year; new dollars which support major public policy initiatives are requested in addition to the core budget.

The Funding for Results rewards dollars earned by an institution in a given year are placed in that institution's core budget and thereby are retained in succeeding years.²³ The Funding for Results appropriation peaked at 1.6 percent of the state funding to higher education institutions. Both initiatives were abandoned by the early 2000s for lack of revenue, and budget requests since have been based on an incremental increase to the previous year's funding.²¹

Since the initial implementation of performance funding, the Missouri model has undergone several revisions. In 2007, Gov. Matt Blunt offered a three-year plan to increase funding to higher education by \$112 million (12.6 percent) over three years. Gov. Blunt's budget recommendation included \$13.4 million to expand education opportunities for Missouri students

pursuing health-related careers. On May 24th, Gov. Blunt signed Senate Bill 389, an omnibus higher education bill that authorized both the Lewis and Clark Discovery Initiative (LCDI) and the Access Missouri Scholarship program.

The LCDI was a program to fund capital improvement projects at various state higher education institutions with funds from the Missouri Higher Education Loan Authority (MOHELA). Senate Bill 389 provided for the MOHELA to transfer a total of \$350 million to the Lewis and Clark Discovery (LCD) Fund over a six-year period. Subsequent appropriation bills totaling \$350 million allocated \$335 million between various projects and initiatives related to higher education institutions, and \$15 million for the Missouri Technology Corporation (MTC).²⁴ These increases were funded in FY08 and FY09. FY10 higher education appropriation remains flat per a tuition freeze agreement between Gov. Jay Nixon and the higher education institutions.

Senate Bill 389 charges the Joint Committee on Education with monitoring, studying, and analyzing the higher education system in the state, as well as monitoring the establishment of performance measures required by this act and reporting on such measures to the General Assembly and the governor. The bill also required that modified performance measures had to be established by July 1, 2008.

There were to be two institutional measures negotiated by each institution and three state-wide measures developed by the MDHEWD. To fulfil such requirement, the CBHE assembled the Higher Education Funding (HEF) taskforce soon after. The HEF recommendation was for an approach which would guarantee 96-98 percent of the previous year's funding plus inflation. Upon the Legislature appropriating funds to meet that requirement, additional new funding would be directed toward strategic initiatives and performance funding, in that order of priority.

²² Kevin J. Dougherty and Vikash Reddy, *Performance Funding for Higher Education: What Are the Mechanisms? What Are the Impacts?* (Community College Research Center, Columbia University, 2013), accessed June 16, 2020, <https://ccrc.tc.columbia.edu/publications/performance-funding-mechanisms-impacts.html>.

²³ Dora Marcus, Eulalia B. Cobb, and Robert E. Shoenberg, *Lessons Learned from FIPSE Projects IV*, Fund for the

Improvement of Postsecondary Education (Washington, DC: US Department of Education, 2000), accessed June 16, 2020, <https://eric.ed.gov/?id=ED443300>.

²⁴ Missouri Senate, *Missouri SB 389*, accessed June 16, 2020, https://www.senate.mo.gov/07info/BTS_Web/Bill.aspx?SessionType=R&BillID=8645.

Table 1: Performance Measures for Four- and Two-Year Institutions

Measures for four-year institutions	Measures for two-year institutions
Student success and progress: freshman to sophomore retention or first-time, full-time freshman completing 24 credit hours their first academic year	Three-year completion rate for first-time, full-time entering students
Increased degree attainment: the total number of degrees awarded or the six-year graduation rate	Percentage of developmental students successfully completing their last developmental English course and first college-level English course
Quality of student learning: improvements in assessments of general education or major field of study or improvements on professional/occupational licensure tests	Percentage of developmental students successfully completing their last developmental math course and first college-level math course
Financial responsibility and efficiency: the percent of total education and general expenditures on the core mission of the college or university or the increase in education revenue per full-time student at or below the increase in the Consumer Price Index	Percentage of career/technical students who pass their required licensure/certification examination
An institution-specific measure approved by the Coordinating Board for Higher Education	An institution-specific measure that addresses financial responsibility and efficiency measures

Source: Missouri Department of Higher Education and Workforce Development (<https://dhewd.mo.gov/>)

In 2010, Gov. Jay Nixon held the first Higher Education Summit and charged higher education institutions with revising funding approaches and the 2008 HEF proposal. The Summit called on higher education leaders to adopt an agenda focused on four key areas: affordability and attainment, quality and effectiveness, collaboration, and performance funding. Gov. Nixon emphasized that specific institutional missions and performance should be prioritized.²⁵ A task force, appointed by the commissioner of higher education, developed a performance funding model in 2012 based on five performance indicators. Higher education institutions can earn one-fifth of their available performance funding by demonstrating success

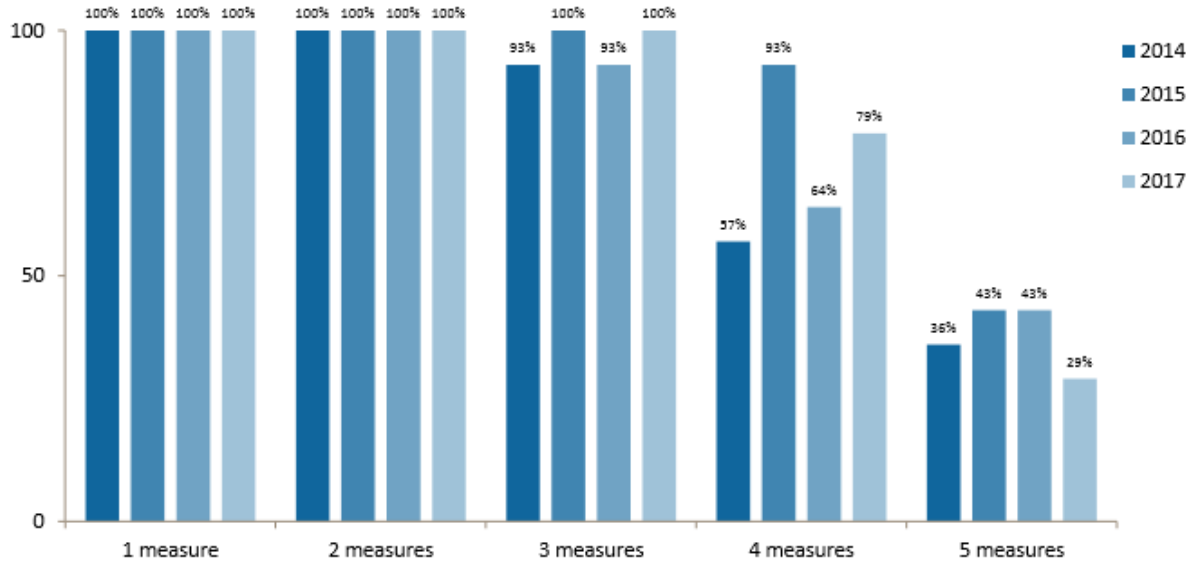
for each one of the five performance measures, listed in Table 1 above. The initial year that funds were allocated using the model was FY 2014.

In the first year of enactment of this formula, all institutions met at least two measures with only 36 percent of two-year and 44 percent of four-years schools met all five measures. Throughout the implementation of the funding model, 2016 stands out as the best year when 43 percent of two-year and 90 percent of four-year institutions achieved all measures. In 2017, the percentage of two-year and four-year schools that hit all goals dropped to 29 percent and 80 percent, as depicted in Figures 2 and 3.²⁶

²⁵ Missouri Coordinating Board for Higher Education, "Gov. Nixon's Remarks at Higher Education Summit Dinner," Missouri Department of Higher Education, accessed June 16, 2020, <https://dhewd.mo.gov/files/Nixonagendaforhighereducation.pdf>.

²⁶ Missouri Department of Higher Education, *2017 Annual Report*, accessed June 16, 2020, <https://dhewd.mo.gov/about/2017annualreport.php>.

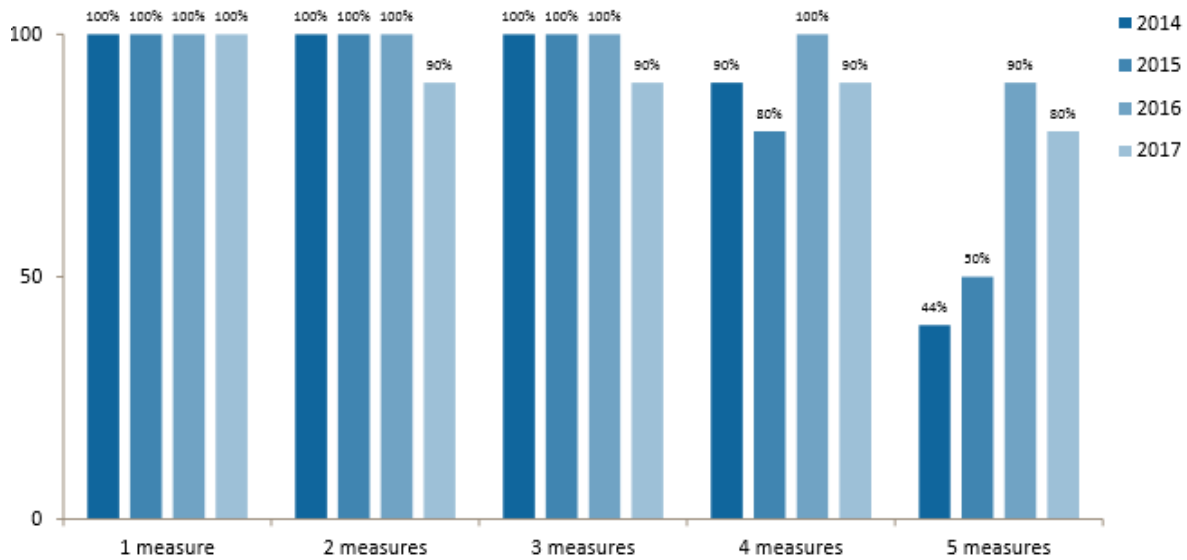
Figure 2: Missouri Performance Funding, Two-Year Higher Education Institutions



Percentage of schools achieving performance measures

Source: Missouri Department of Higher Education and Workforce Development

Figure 3: Missouri Performance Funding, Four-Year Higher Education Institutions



Percentage of schools achieving performance measures

Source: Missouri Department of Higher Education and Workforce Development

In 2017, the CBHE assembled a second task force to develop a sixth performance item to measure student job placement in a field or position associated with

the student’s degree level and pursuit of a graduate degree.²⁷ Further, the revised formula recategorized higher education institutions as public, community,

²⁷ Missouri Department of Higher Education, *2018 Annual Report*, accessed June 16, 2020, <https://dhewd.mo.gov/about/2018annualreport.php>.

and technical schools (see Table 2 below). In comparison with the previous set of performance indicators presented in Table 1 above, the revised measures continue to emphasize student progress, degree/program completion, quality of student learning, and financial efficiency. The revised formula takes into consideration the placement of graduates and the economic climate of the state. For example, the formula specifies that state funding is partially determined by percent change in tuition compared to Missouri median household income. The revised formula was

approved and adopted by the CBHE in December 2017. Overall, this revised formula is better-rounded and more comprehensive than the previous version.

In FY 2018, public colleges and universities received reappropriation of 10 percent of the core base funding depending on how many performance measures they met. For example, if an institution received a core appropriation for FY 2018 of \$10 million after withholdings, \$1 million would be subject to the reappropriation process. If that institution met three of its six

Table 2: Revised Performance Measures for Public, Community, and Technical Institutions

Measures for public universities	Measures for public community colleges and MSU-West Plains	Measures for State Technical College
Degree and certificate completions per full-time-equivalent (FTE) student	Three-year completion or transfer rate for first-time, full-time entering students	Degree and certificate completions per full-time-equivalent (FTE) student
Improvements in assessments of general education or major field of study or improvements on professional/occupational licensure tests	Percent of attempted courses successfully completed	Three-year completion rate for first-time, full-time entering students
Percent of total education and general expenditures expended on the core mission of the college or university	Percentage of career/technical students who pass their required licensure/certification examination	Percentage of career/technical students who pass their required technical skills (major field) examination
Percent change in salary expenditures compared to Missouri median household income	Percent of total education and general expenditures not expended on the core mission of the college or university	Percent of total education and general expenditures expended on the core mission of the college or university
Percent change in net tuition revenue per Missouri undergraduate FTE student compared to Missouri median household income	Percent change in full-time student tuition and fees compared to Missouri median household income	Percent change in full-time student tuition and fees compared to Missouri median household income
Percent of graduates employed full-time, participating in a volunteer or service program (e.g., Peace Corps), serving in the US military, or enrolled in a program of continuing education	Percent of graduates competitively employed or found in Missouri wage records, serving in the military, or enrolled in continuing education	Percent of graduates competitively employed, serving in the military, or enrolled in continuing education

Source: Missouri Department of Higher Education and Workforce Development (<https://dhewd.mo.gov/>)

performance measures, it would receive a reappropriation of \$500,000 or three-sixths of the \$1 million.²⁷ For FY 2018, the total amount available for reappropriation was approximately \$88.2 million.

In FY 2019, a new line item appropriation for \$100,000 was added for MDHEWD to assess, plan, and implement performance improvement initiatives for institutions that have not met their performance measures. This added line item was eliminated in the FY 2020 budget. No funding was recommended by the governor, the House, or the Senate for performance funding in the FY 2020 budget.²⁸

4. Discussion and Implications for Missouri

This paper examines the history of performance funding policy in Missouri and the policy changes since its first enactment. Although the policy intends to hold higher education institutions accountable, policymakers and higher education experts have deep concerns about its intended and unintended consequences. First, in order to meet the performance requirements and earn state funding, some institutions may deliberately change degree requirements to make it easier for students to graduate. Inflating graduation rates potentially creates negative influence on workforce productivity because employers hire employees partially based on academic credentials not knowing that the educational standards were significantly lowered. The corner-cutting may lead to these employees' inability to complete their tasks effectively. Also, such inflation is discouraging to students who try hard to stay motivated when they see slackers receiving equal credit.

Second, to meet certain performance standards, higher education institutions may even restrict admissions. If public higher education institutions are responding to performance funding by admitting fewer students and only those applicants who tick all the boxes for the highest qualifications, many minority students will be at a great disadvantage with less chance of being accepted by institutions. This would limit admission rates of groups of students who have been shown to be less likely to graduate and increase admission rates of students who are more likely to

graduate, regardless of institutional resources.²⁹ Although this may make logical sense within the institution and help with the goal to obtain more state funding, this could contribute to the problem of inequality in higher education.

Lawmakers should be aware of these unintended challenges with performance funding. In Missouri, nontraditional and minority students make up a sizable portion of the college-going population. While focusing on higher education outcomes, policymakers should take into consideration the struggles of these students who may be at a disadvantage when it comes to meeting requirements that result from performance-based funding. A possible solution could be to add an equity measure to the performance funding formula to provide extra incentives for students of color, lower-income, and first-generation students who graduate; or incentivize institutions to help underserved students succeed.

²⁸ Missouri Coordinating Board for Higher Education, *FY2020 Higher Education Budget*, accessed June 16, 2020, <https://dhewd.mo.gov/cbhe/boardbook/documents/Tab270619.pdf>

²⁹ Ernest T. Pascarella and Patrick T. Terenzini, *How College Affects Students: A Third Decade of Research (Vol. 2)* (San Francisco, CA: Jossey-Bass, 2005).