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## Tennessee and Florida: Continuity and Change in Long-Lasting State Performance Funding Systems for Higher Education

Kevin J. Dougherty and Rebecca S. Natow

One of the key ways that state governments pursue better higher education performance is through performance funding. It ties state funding directly to specific indicators of institutional performance — such as rates of graduation and job placement — in order to induce colleges and universities to be more efficient (Burke, 2002; Dougherty & Hong, 2006).

Continuity and change with respect to performance funding levels and indicators are important to consider for reasons of both theory and practice. Theoretically, an analysis of the policy implementation process is integral to the full analysis of the politics of public policy making because the operation of political forces is not exhausted by the passage of legislation. Those forces continue to shape policy as it is being implemented (Honig, 2006; Matland, 1995).

Practically, stability and change in performance funding levels and indicators may be a source of either ineffective performance or of program adaptation and survival. If changes are too frequent and large, performance funding systems may not work very effectively because higher education leaders find it hard to decide where to focus the efforts of their institutions. Conversely, if funding levels and performance indicators change in a regular and systematic way, performance funding systems may be better able to adapt to changing circumstances, retain supporters, and survive.

The study reported here analyzes changes over time in long-lasting state performance funding systems for higher education. It addresses two research questions: First, in what ways have long-lasting systems changed over time in funding levels, indicators used to allocate funds, and measures used for those indicators? Second, what political actors, actions, and sociopolitical conditions explain those changes?

Our analysis draws on two theoretical perspectives: policy implementation theory and program sustainability theory. Policy implementation theory focuses on how policies change after they have been enacted, focusing on the interaction between higher-level officials who design and authorize policies and lower-level or “street level” officials who ultimately implement the policies. We

particularly draw on the “bottom up” perspective, which focuses on how the interests, beliefs, knowledge schema, and experiences of lower-level implementers shape their views of a policy and thus their willingness to support it and in what form (Honig, 2006; Matland, 1995). Program sustainability theory addresses the factors that promote program continuation and the maintenance of effectiveness. Key clusters of factors that have been identified as influencing program continuation are ones pertaining to the design of the program, the organizational setting in which it housed, and the wider community environment in which it is operating (Scheirer, 2005).

To answer these questions we investigated the experiences of two states with long-lasting performance funding systems: Tennessee, which pioneered performance funding in 1979; and Florida, which launched it in 1994 (Bogue & Dandridge Johnson, 2009; Wright, Dallet, & Copa, 2002). For both states, we analyzed publications issued by state agencies and independent researchers, and conducted interviews with top executive branch officials and staff, state legislators and staff, officials of state higher education boards, presidents and other top officials of several colleges, and state business leaders.

### Changes in Funding Amounts

Tennessee’s performance funding system has exhibited a fairly steady increase in funding over the years, while Florida’s system has had a more volatile funding history. As shown below, the levels for performance funding were products not just of legislative action but also of initiatives taken by the higher education system.

#### Tennessee

Initially, performance funding in Tennessee 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 & Dandridge Johnson, 2009; Levy, 1986). 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 funds going to the colleges are less than the amounts authorized, however (Bogue & Dandridge Johnson, 2009). The actual funds 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.

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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 increase the importance of performance funding within the higher education funding structure. The 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, and it designed the performance funding system in such a way that the performance share was insulated from fluctuations in the state economy. Performance funding dollars are calculated for each institution and factored into each institution's overall budget before the Commission makes institutional budget requests and therefore are not listed as a separate item in the budget request to the legislature.

## Florida

Funding for Florida's Performance Based Budgeting (PBB) system has been much more volatile than for its Tennessee counterpart. 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. 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 2000-01 and 2003-04, state appropriations for community colleges rose by 5.1 percent. 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; National Center for Education Statistics, 2007).

Faced with these budget constraints, the community colleges wanted to protect their main enrollment-based funding, because they were serving more students without receiving more funds, and to deemphasize performance funding. As a leading state community college official noted, "[T]hey [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 PBB system in 2005-06 also owed its origins to the actions of the community colleges. The legislature and the Department of Education had largely ceded control over the system to the Council of Presidents of the community colleges. The Council decided to increase over 10 years the PBB share of total state funding for community colleges to 10 percent in order to increase the focus on performance goals, which had political as well as education benefits. As a vice president of a community college who has had many different positions in state government noted,

The presidents who are real active with the formula...have always felt that the percentage should increase.... I think there was a feeling...[that] we would be in a better position with the budget and politically to have performance drive more.

## Changes in Performance Funding Indicators

In both Tennessee and Florida, the state performance funding systems experienced considerable changes in the indicators used. By indicators we mean specific characteristics of a college that are deemed important, such as enrollment of certain types of students and number of students graduated, and that are used to condition state funding. Florida added nine performance indicators and dropped two in the 12 years between 1996-1997 and 2007-2008. Meanwhile, Tennessee added six and dropped four in the 31 years between 1979-80 and 2009-2010 — thereby changing indicators only a third as often as Florida.

### Nature of Performance Indicators Added and Dropped

Besides their differences in the rate of indicators added and dropped, the two states also differed in which indicators they changed. Florida's changes fell in two main areas: high school-to-college transition (high school completion, dual enrollments, and remedial success) and workforce preparation (completion of occupational programs and job placement). Tennessee's changes focused on student achievement in college, institutional improvement, and other goals; it made no changes concerning high school-to-college transition and only minimal changes with regard to workforce preparation. 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 & Dandridge Johnson, 2009).

### Sources of Changes in Indicators

Changes in indicators resulted from two main sources: external pressure, whether from students and their parents or from legislators; and initiatives from within higher education itself.

*Pressure from outside the higher education system.* Both Florida and Tennessee evidence the impact of external pressure in changing the indicators used in their performance funding systems, but the pressures have been less direct in Tennessee.

Demands from the Florida legislature prompted the addition of an indicator for minority student graduation rates, beginning in fiscal year 1998-99, interviewees reported. A prominent legislator raised the issue of providing incentives to colleges to improve college access and success for African American males, thereby prompting 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 based budgeting funding. In 2000, the addition of an indicator for remediation completion was prompted by complaints from the legislature that too many unprepared students were graduating from high school and too much money was being spent on remediating them in community college.

In Tennessee, external pressures have tended to be less direct. Rather than responding to demands for specific changes by the legislature, the governor's office, or interest groups, the Tennessee Higher Education

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Commission — aware of issues circulating within the higher education policy community — added performance funding indicators that addressed those issues. 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 their concerns to the Commission. This prompted the Commission to add transfer rates to the indicators that applied to the public four-year colleges.

External pressure also played an important role in Tennessee's addition of a performance indicator addressing minority student retention in 1993, according to several interviewees. This addition reflected both a rising interest in minority persistence on the part of the state's higher education system and the fact that the state had been subject to a longstanding court order to desegregate its public higher education system.

#### ***Internal initiatives to revise performance funding.***

Internal initiatives derived from the autonomous concerns of state coordinating or governing boards or — as the bottom-up perspective in implementation theory would predict — of higher education institutions themselves. In Florida the decision to eliminate the indicator for passage of licensure exams was made by the State Board for Community Colleges on its own volition when it came to the conclusion that collecting data from the state licensure boards had become simply too difficult. Internal initiative also determined how Florida chose to operationalize a key performance indicator: graduation. The State Division of Community Colleges made the decision to use *number* of graduates rather than *rate* of graduation as its measure of the graduation indicator because data on the former were easier to collect.

The Tennessee Higher Education Commission and higher education institutions together influence the performance funding system through their joint participation in a review of indicators and weights every five years. State colleges and universities influence the Tennessee performance funding system through other mechanisms as well. Even outside the formal revision period, the Commission keeps in touch with the institutions and solicits their input about performance funding indicators and weights.

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 Commission and the higher education institutions were instrumental in adding an assessment implementation indicator. According to a former state higher education official, the Higher Education Commission supported its inclusion as a “means through which to keep the [performance funding system] relevant” to “state policy makers” and “faculty members.” However, some institutional representatives were also interested in including the assessment implementation indicator because

[s]ome of us thought it might be good to tie [the 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.

Another change pursued by institutions and the Commission together was the inclusion of campus-specific indicators in the Tennessee performance funding program in order to have an indicator that reflected what individual institutions decided was important to them and related to their mission.

#### **The States' Different Processes of Changing Indicators**

A striking difference between Tennessee's and Florida's performance funding systems is that the process of adding and deleting indicators has been smoother and more regularized in the former than in the latter. In Tennessee, performance indicators are added at the end of a regular five-year review; in Florida they have been added irregularly, with no tie to a cyclical process of program reappraisal. These practices reflect differences in how the performance funding system has been designed in each state, a program feature that is highlighted by program sustainability theory (Scheirer, 2005).

Performance funding in Tennessee emerged under the aegis of its Higher Education Commission, which pilot tested the system for a number of years and designed it with several key features. First, as noted, 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. Second, the five-year cycle for reviewing performance funding indicators was created to coincide with the state higher education system's strategic planning cycle.

As a result, the performance funding system has 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 indicators on which their performance will be measured. To be sure, Tennessee's higher education institutions are not universally supportive of all aspects of performance funding. Many voice criticisms of programmatic components that do not reflect institutional differences, the focus on test performance, and the costs involved in conducting assessments. Still, performance funding has become institutionalized in Tennessee. A state higher education official explained:

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.

In Florida, there are no periodic reviews tied to a strategic planning process, so changes in funding levels and indicators have been made more erratically. Moreover, external pressure — particularly from the legislature — seems to have played a bigger role in leading to changes in funding levels and indicators. Florida's way of managing performance funding is traceable to the different political context in which the state's system operates. Unlike Tennessee, there have

been big shifts in control of performance funding, from the State Community College Board to the State Education Board and, most recently, to the Council of Presidents of community colleges. In addition, the Florida legislature is a particularly activist one, with a history of micromanaging educational policy and compelling administrative agencies to adopt specific policies.

## Conclusion

As we have seen, performance funding systems are anything but static. They can change considerably over time in both funding level and performance indicators used, as demonstrated by Tennessee and Florida, two states with long-lasting systems. While Tennessee has seen a steady growth in funding, Florida has had a more erratic funding history. Moreover, both states have added and dropped indicators rather frequently, though Florida has done so at a faster rate than Tennessee. Behind these changes have been both external pressures from legislators and the public and internal initiatives from higher education boards and — as the bottom-up perspective in policy implementation theory suggests (Matland, 1995) — lower level implementing organizations (in this case, the colleges).

The differences between Tennessee and Florida in the way that they have approached performance indicator changes are attributable to important differences in their policy process, which conform to the insights of program sustainability theory: policies and programs are more likely to be sustainable if their designs are clearly delineated and provide for regular evaluation (Scheirer, 2005). Tennessee's performance funding system has been considerably more stable than Florida's because its initial policy design much more clearly delineated how the system was to be governed and changed over time, and provided for regular and systematic evaluation. Indeed, a key marker of the greater instability of the Florida system is that it abandoned an entire program of performance funding focused on workforce education, the Workforce Development Education Fund (for more on this matter, see Dougherty & Natow [2009]). Moreover, the state legislature has played a smaller role in the ongoing development of performance funding in Tennessee than in Florida.

These differences in policy process carry important implications. A system where funding levels do not oscillate greatly and indicators change more gradually and systematically is more likely to allow institutions to plan effectively. It is also a system that will have a more secure base of consent from institutions if it comes under attack.

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Kevin J. Dougherty is Associate Professor of Higher Education at Teachers College, Columbia University, and a Senior Research Associate at the Community College Research Center, Teachers College, Columbia University.

Rebecca S. Natow is a Senior Research Assistant at the Community College Research Center, Teachers College, Columbia University.