



**The Political Origins of
State-Level Performance Funding for Higher Education:
The Cases of Florida, Illinois, Missouri, South Carolina,
Tennessee, and Washington**

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Abstract

Performance funding is a method of funding public institutions based not on inputs, such as enrollments, but on outcomes, such as retention, degree completion, and job placement (Burke, 2002a; Dougherty & Hong, 2006; Layzell, 1999; Ruppert, 1995). The principal rationale for performance funding has been that performance funding will prod institutions to be more effective and efficient, particularly in a time of increasing demands on higher education and increasingly straitened state finances.

This report examines the origins of state performance funding in six states: Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington. These six states were chosen with an eye to enabling us to explore the establishment of state performance funding systems from a wide variety of angles. The states differ in the histories and structures of their state performance funding systems, higher education governance arrangements, political systems, political cultures, and social characteristics. We analyze each of our six cases in turn, beginning with the earliest case, Tennessee. We examine the supporters and opponents of performance funding, their beliefs and interests, how performance funding came to be identified as a policy option, and the political openings that allowed advocates of performance funding to place it on the government decision agenda. At the end of the report, we summarize these findings—looking across all six cases—and draw lessons for policymakers.

Table of Contents

Abstract.....	1
1. Introduction.....	1
1.1 Research Methods.....	2
1.2 Moving Past the Prevailing Perspective on the Origins of Performance Funding.....	7
2. Tennessee	10
2.1 The Structure of Performance Funding in Tennessee.....	10
2.2 Patterns of Support and Abstention	11
2.3 The Process of Establishing Performance Funding	17
2.4 Policy Learning.....	18
2.5 Agenda Setting.....	18
2.6 Summary.....	19
3. Missouri	19
3.1 The Structure of Performance Funding in Missouri	20
3.2 Patterns of Support and Abstention	20
3.3 The Process of Establishing the Funding for Results Program.....	27
3.4 Agenda Setting.....	28
3.5 Summary	29
4. Florida.....	30
4.1 Structure of the Florida Performance Funding System.....	30
4.2 Patterns of Support and Opposition for Performance Funding.....	32
4.3 The Process of Enacting Performance Funding.....	36
4.4 Summary	42
5. South Carolina	43
5.1 Structure of the South Carolina Performance Funding System	43
5.2 Patterns of Support and Opposition for Performance Funding.....	44
5.3 The Process of Enacting Performance Funding.....	49
5.4 Agenda Setting.....	52
5.5 Summary	54
6. Illinois.....	55
6.1 Structure of the Illinois Performance-Based Incentive System	55
6.2 Patterns of Support and Opposition for Performance Funding.....	56
6.3 The Process of Enacting Performance Funding.....	60
6.4 Summary	63

7. Washington	64
7.1 The 1997–1999 Performance Funding Program.....	64
7.2 Patterns of Support and Opposition for the 1997 Performance Funding Proviso.....	65
7.3 The Process of Enacting Performance Funding in 1997.....	69
7.4 The 2007 Community College Student Achievement Initiative.....	71
7.5 Patterns of Support and Opposition for the 2007 Student Achievement Initiative.....	71
7.6 The Process of Enacting the 2007 Student Achievement Initiative.....	74
7.7 Summary.....	77
8. Summary and Conclusions	77
8.1 Summary of Findings Across Six States.....	77
8.2 Lessons for Policymaking.....	84
References	86

1. Introduction

Performance funding is a method of funding public institutions based not on inputs such as enrollments but on outcomes such as retention, degree completion, and job placement (Burke, 2002a; Dougherty & Hong, 2006; Layzell, 1999; Ruppert, 1995). The principal rationale for performance funding has been that performance funding will prod institutions to be more effective and efficient, particularly in a time of increasing demands on higher education and increasingly straitened state finances.

Higher education institutions receive performance accountability demands from state and federal governments. But in light of state governments' dominant role in funding and governing public colleges and universities,¹ this report focuses on the origins of a particular type of *state* accountability system: performance funding program.

One of the mysteries of state performance funding systems is that they are not more widespread. While there has been great interest in performance funding for over 30 years, only half of all states have ever created a performance funding system for higher education (Dougherty & Reid, 2007). This poses the question: What forces have driven the development of performance funding and how do those forces differ across states?

This report will examine the origins of state performance funding in six states: Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington. We chose these states because they have considerably different state performance funding systems and histories as well as higher education governance arrangements, political systems, political cultures, and social characteristics, all of which will enable us to look at the formation of state performance funding systems from a wide variety of angles.

In analyzing the political origins of state performance funding systems, we will draw on two powerful theories of policy origins: the Advocacy Coalition Framework (Sabatier & Weible, 2007) and the Policy Entrepreneurship perspective (Mintrom & Norman, 2009). We will be using these theories heuristically, as sensitizing constructs that point us toward examining different features of the policy process in our six states. The Advocacy Coalition Framework focuses our attention on how policy evolves over

¹ As of fiscal year 2006–2007, appropriations and grants from state governments comprised about 27% of all revenues for public degree-granting institutions (not including state capital appropriations and grants) (National Center for Education Statistics, 2009, Table 352).

long periods of time, driven by the efforts of different “advocacy coalitions” that have distinctive sets of beliefs about how society is and should be organized and what form higher education policy should take. 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 timing and political opportunities to promote their policy issues and solutions.

In this report, we analyze each of our six cases in turn, examining the supporters and opponents of performance funding, their beliefs and interests, how performance funding was introduced into state policy debates, and the political openings that allowed advocates of performance funding to place it on the government decision agenda. At the end of the report, we summarize these findings—looking across all six cases—and draw lessons for policymakers.

1.1 Research Methods

Choosing the states. We chose six states 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, a state’s political culture, a state’s government structure, and a state’s 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 chosen vary along several different dimensions (see Table 1).

One dimension was when performance funding was established. Tennessee established its system in 1979, Missouri and Florida in the early 1990s (1993 and 1994), and the other states in the late 1990s (South Carolina in 1996, Washington in 1997, and Illinois in 1998).

Secondly, the states retained performance funding for varying lengths of time. Tennessee and Florida have retained performance funding to this day.² However, Illinois, Missouri, and South Carolina relinquished their systems more or less rapidly (four years in Illinois, seven years in South Carolina, and nine years in Missouri). Washington

² Florida established two performance funding systems: Performance-Based Budgeting, which survives to this day, and the Workforce Development Education Fund, which ended in 2002.

relinquished performance funding in 1999 after two years but then reestablished it eight years later.

The states also differ 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.

In addition, the states vary considerably in the proportion of state 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 vary considerably across the states (McGuinness, 2003). As of 2003, Tennessee’s system was quite 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 colleges. Missouri’s system was at the other pole in degree of centralization; it 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 fell somewhere in between in their degree of centralization (McGuinness, 2003).

Sixth, the six states differ considerably in state political culture. Following Daniel Elazar’s influential typology of state political cultures, South Carolina and Tennessee are “traditionalist,” Florida is a mixture of traditional and “individualistic,” Illinois and Missouri are individualistic, and Washington State is “moralistic.” Moralistic political cultures are issues-oriented and emphasize the role of government as being for the advancement of the common good. Individualistic political cultures are partisan and patronage-oriented rather than issues-oriented and emphasize the role of government in advancing the interests of one or another contending social group. Traditionalist political cultures (concentrated in the Southern states) envision the role of government as limited and focused on maintaining traditional class and racial hierarchies (Elazar, 1984).

Table 1
Characteristics of the Six States

	Tennessee	Missouri	Florida	South Carolina	Washington	Illinois
1. Year PF established	1979	1993	1994	1996	1997	1998
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. If PF system was re-established, year done					2007	
5. Higher education sectors covered	Public 2- and 4-years	Public 2- and 4-years	Public 2-years only	Public 2- and 4-years	First program: Public 2-and 4-years Second program: Public 2-years only	Public 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 (2003)						
* State coordinating board for all public higher education	X	X	X	X	X	X
* Public universities: Governing board for all public universities	X (U of Tennessee 5 campuses)		X			
* Public universities: Governing boards for each public university or university system		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		
* Public 2-year colleges: Coordinating board for all public 2-year colleges			X		X	X
* Public 2-year colleges: Governing boards for each public 2-year college		X				

Table 1
Characteristics of the Six States

	Tennessee	Missouri	Florida	South Carolina	Washington	Illinois
8. Political culture	Traditional	Individualistic	Traditional, individualistic	Traditional	Moralistic	Individualistic
9. Gubernatorial powers (2002)	Above average	Below average	Average	Below average	Below average	Above average
10. Legislative professionalism (2000)	Below average	Above average	Above average	Below average	Above average	Above average
11. Party competition index (1999-2003)	Above average	Above average	Below average	Above average	Above average	Above average
12. Population (2000)	5,689,000	5,597,000	15,983,000	4,012,000	5,894,000	12,420,000
13. Personal income per capita (2000)	\$26,099	\$27,243	\$28,511	\$24,426	\$31,780	\$32,187
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%

Sources:

1. Burke & Minassians (2003); McLendon, Hearn, & Deaton (2006); Authors' Interviews.
2. Burke & Minassians (2003); Dougherty, Natow, & Vega (forthcoming).
6. See text of case studies for derivation of these percentages.
7. McGuinness (2003).
8. Elazar (1984, p. 136).
9. Beyle (2004, p. 212).
10. Hamm & Moncrief (2004, p. 158).
11. Bibby & Holbrook (2004, p. 88).
12. U.S. Bureau of the Census (2005, p. 20)
13. U.S. Bureau of the Census (2005, p. 434)
14. U.S. Bureau of the Census (2005, p. 143)

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

Finally, the states differ considerably in their social characteristics: population, income, and education. For example, among our six states, Illinois and South Carolina are the polar opposites in population size, per capita income, and proportion of adults with a baccalaureate degree or higher (U.S. Bureau of the Census, 2005).

Data gathering and analysis. Our analysis is based 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 2 lists the number and types of interviews that we conducted with various types of political actors: state and local higher education officials, state legislators and their staff, governors and their advisors, business leaders, and academics, consultants, and other observers of policymaking on performance funding in these six states. The interviews were semi-structured. 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.³

Table 2
People Interviewed

	FL	IL	MO	SC	TN	WA
State higher education officials	10	8	4	5	6	6
Higher education institution officials	8	10	4	7	5	5
Legislators and staff	3	2	5	4	1	6
Governors and advisors	3	3	3	1	1	2
Other state government officials	1					
Business leaders	2	1	2	3	1	1
Other (e.g., consultants, researchers)		1	2	5	4	2
Total	27	25	20	25	18	22

³ Some of the interviews in Florida and Illinois were conducted as part of a study funded by the Sloan Foundation (Dougherty & Hong, 2006).

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 this. The coding began with a pre-established list of codes, focusing on the content of performance funding systems, the actors and 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. However, we added new codes and changed existing ones 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 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 to what degree 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.

1.2 Moving Past the Prevailing Perspective on the Origins of Performance Funding

Our explanation of the rise of performance funding in six states both converges and diverges with the prevailing perspective on the rise of performance funding. The existing research literature on the origins of performance funding 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 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 finds 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. Our analysis of the origins of performance funding in six states does find 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 legislatures.

Moreover, while we did not find evidence that the rising capacity of state governments to collect detailed information on colleges was a conscious factor in the rise of performance funding, it is 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 see 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 rise of performance funding in our six states. More importantly, we identify a variety of actors and beliefs and motives that the prevailing perspective does not address. The most important are 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 pushed strongly for performance funding. They viewed performance funding systems that were designed by higher education itself 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 in calling attention to the opponents of performance funding. While they did not stop performance funding from being established in these six states, their opposition later played an important role in the cessation of performance funding in several of these states (Dougherty & Natow, 2009). 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.

Finally, our research points to the importance in fostering the rise of performance

funding of policy learning and political opportunities, 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 “shocks.” One 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, an antitax 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.

In this report, we attend to many of the factors mentioned above—such as the role of actors’ beliefs, policy learning, and political openings—because of the guidance we received from theories of the policy process, particularly the Advocacy Coalition Framework (Sabatier & Weible, 2007) and the Policy Entrepreneurship perspective (Mintrom & Norman, 2009). Used in conjunction with one another, these theories help us identify important features of the politics of performance funding that the extant literature on the origins of performance funding misses or gives insufficient weight.

We turn now to examining the origins of performance funding in each of our six states, arrayed from earlier to later in date of enactment: Tennessee, Missouri, Florida, South Carolina, Washington, and Illinois. We conclude by summarizing the main patterns across these six states of supporters and opponents, motivating beliefs, and political openings shaping the actions of the supporters. We will also draw conclusions about the policy implications of our findings.

2. Tennessee

Adopted in 1979 following a five-year pilot period, Tennessee's performance funding program was the first of its kind, and our research reveals that it was developed and refined almost entirely within the state's higher education community. In the following, we describe the actors, beliefs and motivations, and background context involved in the adoption of performance funding in Tennessee.

2.1 The Structure of Performance Funding in Tennessee

Originally dubbed "the Instructional Evaluation Schedule" (Ewell, 1994, 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 TN #1, 3, 4, 10; 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 in the pilot 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 TN #1, 10a).

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, 1994; Levy, 1986; Noland, Dandridge-Johnson, & Skolits, 2004). Funds were first allocated to institutions using performance funding in fiscal year 1980–81 (Authors' Interview TN #10a). Under that system, higher education institutions could earn up to 2% 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 & Dandridge-Johnson, 2009; Ewell, 1994; Levy, 1986).⁴ The original indicators and their point allocations were as follows (Banta, 1986, pp. 123–128; Bogue, 1980; Bogue & Dandridge-Johnson, 2009):

⁴ Performance funding was designed with an "improvement" focus so that each institution was competing with itself for the 2%, not with other institutions. Institutions were told that performance funding was voluntary and 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 TN #10a).

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).

In the years following, the performance indicators changed. Some were added, others were dropped, and some were measured in new ways. Additionally, the percentage of funding that institutions could earn based on performance increased from 2% to 5.45% (see Bogue & Dandridge-Johnson, 2009; Dougherty & Natow, 2010). However, Tennessee's performance funding system has exhibited a high degree of stability overall.⁵

2.2 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

⁵ For a description of these changes, see Bogue and Dandridge-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).

creation; however, these actors played secondary roles that were important background features in 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 TN #1, 2, 3, 4, 5, 8, 10, 12; 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 TN #1). Additionally, 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 [THEC] developed from within" (Authors' Interview TN #2).

Significant parts of the higher education community joined the Tennessee Higher Education Commission in favor of 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 Regents the other, and those representatives suggested how performance funding might be put together" (Authors' Interview TN #1). In addition, institutional representatives served on initial advisory committees and helped THEC to develop the details of the performance funding policy (Authors' Interviews TN #2, 12). Finally, a large number of the state's public institutions volunteered to participate in the initial pilot program (Authors' Interviews TN #1, 2; Levy, 1986, pp. 16–17).⁶

Beliefs uniting the supporters. The supporters of performance funding were united by a certain number of beliefs held in common. These included the importance of

⁶ Early involvement of colleges and universities in the development of performance funding has been cited by some of our respondents as a reason for the program's longevity (Authors' Interviews TN #2, 3, 12; see also Dougherty & Natow, 2010).

making higher education more accountable and raising its quality. By doing both, Tennessee public higher education institutions could both 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 TN #1, 11, 12). 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 address these concerns by improving the quality of Tennessee public higher education institutions (Authors’ Interviews TN # 10a, 12, 15; see also Ewell, 1994, p. 86). Advocates of performance funding believed that the existing enrollment-driven funding formula did not sufficiently address quality improvement (Authors’ Interview TN #10a).

The supporters of performance funding also believed it was a way to justify increased higher education appropriations in a time when enrollments were not rising as fast as before (Authors’ Interviews TN #1, 3; 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 accountable, and therefore deserved a supplement to the budget” (Authors’ Interview TN #1). 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 THEC thought might be enacted if the higher education community did not implement an accountability mechanism of its own (Authors' Interviews TN #2, 12; 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 TN #2).

Supportive but not active. 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.

Elected officials. In Tennessee, elected officials (i.e., the governor and legislature) were essentially uninvolved in the development of performance funding (Authors' Interviews TN #1, 4, 10). 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 does 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 TN #4, 10). 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 TN #12; 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).

Business. 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 business people on the Tennessee Commission of Higher Education (Authors' Interviews TN #1, 2). 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" (Authors' Interview TN #1). This stands in contrast to the states of Florida, South Carolina, and Washington, where the business communities openly supported performance accountability for higher education.

However, it is worth noting that business leaders served on the Higher Education Commission, which was the entity that created the performance funding program (Authors' Interview TN #10). 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 TN #12). 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 in favor of 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 TN #2, 4, 10, 12; 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 funding for performance funding was initially embedded within the regular state appropriation for higher education and was 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 TN #10a; 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 TN #1; Levy, 1986).⁷ 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.

But despite their unhappiness about performance funding, the institutions that

⁷ 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).

disliked the program did not openly oppose its development (Authors' Interviews TN #10, 12). As one former community college official said,

Faculty and general staff and business officers and people like that 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 (Authors' Interview TN #10).

2.3 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.⁸ 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 TN #1, 3, 4, 10; 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 TN #10a; Bogue, 2002; Burke & Serban, 1998; Levy, 1986). In fact, the staff of the state's two governing

⁸ Folger's successor, Wayne Brown, also supported and promoted the performance funding program (Authors' Interview TN #1, 10a).

boards—the Tennessee Board of Regents and the University of Tennessee system—worked closely with THEC in the development of performance funding (Authors’ Interviews TN # 2, 3). Members of the governing boards served on one of the initial performance funding advisory committees (Authors’ Interview TN #2). In addition, the Commission invited the state’s public higher education institutions to submit proposals to 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; Bogue & Troutt, 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).

2.4 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 rather encouraged institutions to simply pursue increased enrollments (Bogue & Brown, 1982, p. 124; Bogue & Troutt, 1977, pp. 1–2; Serban, 1997, p. 91).

2.5 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 TN #12). For example, in 1973, California passed Proposition 13, which put limits on how much state taxes could rise (Levy, 1986). In addition, Tennessee in the 1970s 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).

2.6 Summary

Tennessee’s performance funding program, established in 1979, was the first performance funding system for higher education in the country. Tennessee’s performance funding system began 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.

3. Missouri

Missouri was one of the first states to develop performance funding for higher education. It created a system in 1993 that took effect in fiscal year 1993–94 (Stein, 2002, p. 113; Stein & Fajen, 1995, pp. 82–83). This 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, 1994; Schmidt, 2002a, 2002b). Below, we describe this system and then analyze its political origins.

3.1 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 went up and down, 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, forthcoming), 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 these 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).

3.2 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 and John Ashcroft, and Democratic legislative leaders. While it 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. We explore

these patterns of support and abstention below.

Supporters. The main coalition in support of performance funding was comprised of the Coordinating Board for Higher Education, Governor Mel Carnahan, and Democratic legislative leaders (Stein, 2002, p. 119). Also playing significant roles were Governor John Ashcroft and external consultants, including the National Center for Higher Education Management Systems (NCHEMS). We briefly review their roles below and then examine the beliefs that united this advocacy coalition.

Virtually all those 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 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 MO #1, 2, 3, 5, 7, 9, 10, 16; also see Naughton, 2004; Stein, 2002; Stein & Fajen, 1995).

Governors Mel Carnahan (1993–2000) and, to a lesser extent, John Ashcroft (1985–1993) 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; also see Authors’ Interviews MO #1, 2, 6).

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 proposal (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 MO #6, 10).

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 MO #1, 2, 10; Aguillard, 1990).

Common beliefs. 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 antitax mood and a constitutional amendment passed in 1980 (the Hancock Amendment) that limits how much the state can raise taxes (Hembree, 2004). 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 MO #2, 3, 7, 12). 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 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 in favor of performance funding was the importance of making higher education run more efficiently and that performance funding was a useful way of doing this (Missouri Coordinating Board for Higher Education, 1992; Authors' Interviews MO #1, 2, 3, 6, 7, 16). 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 MO #3, 7, 10, 16; Thomson, 1992). A Democratic legislative leader who served on the Missouri Business and Education Partnership Commission (MBEPC) 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 MO #1, 2). 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% 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% or 6% margin based on some agreed-upon academic outputs."

Supportive but not active. 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 MO #1, 2, 3, 6, 7, 10, 19). 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.⁹ 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 MO #10). 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. 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 performance funding (Authors' Interviews MO #2, 3, 6, 7; 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."

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 MO #1, 2, 3). However, the University of

⁹ For more on this concept of non-participatory business power, see Dougherty (1994).

Missouri was decidedly negative (Authors' Interviews MO #1, 7; 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 MO #2, 10; 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 MO #1, 2, 7; 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 MO #16). 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 MO #1, 3, 7). This was particularly the concern of the community colleges, who felt 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 MO #1, 3).

3.3 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 MO #1, 2, 3, 5, 6, 7, 9, 10, 12, 16; 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 regive 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% 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)

3.4 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, it 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 by a two-to-one margin 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 MO #1, 2, 6). In contrast, in his budget message for fiscal year 1994, Carnahan 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).

3.5 Summary

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 held in common. 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.

4. Florida

Florida adopted two performance funding systems for higher education. Performance-Based Budgeting (PB2) 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. In the following, we describe in greater detail the structure of these two performance funding systems and then analyze their origins.

4.1 Structure of the Florida Performance Funding System

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 PB2, which went into effect for them in 1996. The state's four-year colleges and universities were supposed to become subject to PB2 some time later, but this has not happened (Bell, 2005, p. 42; Yancey, 2002, pp. 56–57; Wright et al., 2002, pp. 144–145).

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. This displeased key senators, who wanted a fixed formula. This led these senators to create the Performance Incentive Funding program in 1996 (1996–97 General Appropriations Act, HB 2715, Specific Appropriation 172A). This program created a specific pot of money that would be allocated by formula to community colleges, based on specific performance indicators. This new program became a part of Performance-Based Budgeting.

Initially, \$12 million was appropriated for fiscal year 1996–1997. These funds would be distributed to community colleges at the end of the fiscal year, depending on their individual performances on three sets of indicators: completion of certificates and Associate of Arts and Associate of Science degrees (\$5 million); completion of the same by students who are economically disadvantaged, disabled, non-English speakers or in ESL programs, passed state job licensure exams, or were placed in 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, PB2 funding has accounted for 1% to 2% of total state appropriations for the community colleges. While the performance indicators have changed over time, they have 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.¹⁰ The WDEF operated between 1997–1998 and 2000–2001 and then lapsed (Dougherty & Natow, 2009). At its peak, WDEF comprised nearly 6% of state funding for community colleges. WDEF held back 15% of an

¹⁰ There was a short-lived precursor called Performance Based Incentive Funding (PBIF) (Florida Statutes § 239.249), which was enacted in 1994 and lasted till 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% of those funds, with colleges and schools then betting that they could perform well enough to get all those funds and even more back, 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).

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 students, welfare recipients, the 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).

4.2 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 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. This coalition, which was focused on the 1994 Government Performance and Accountability Act, was centered on the governor, legislators in the House, and business leaders. This coalition 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 FL #13, 16, 19; also see 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 on government without having to also increase taxes (Authors' Interviews FL #1, 2, 3, 6, 7, 10, 14, 19, 20; also see Berry & Flowers, 1999, pp. 585, 587, 591, 594; Klas, 1994).

Democratic Governor Lawton Chiles (1991–1998) had pledged to not raise taxes until the state ran more efficiently (Klas, 1994). The need for greater government efficiency was a longstanding concern of the governor, according to a key gubernatorial staffer:¹¹

[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 were more accountability, then he could make a 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 FL #19).

The business supporters of the 1994 Act emphasized the connection between greater efficiency and keeping down taxes. Florida TaxWatch, Associated Industries of Florida, the 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 government—which increased taxes every year in the 1980s—was wasteful (Partners in Productivity, 1992, p. 8; also see 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

¹¹ We were unable to interview Chiles, who passed away in 1998.

legislation (Authors' Interview FL #13; also see Berry & Flowers, 1999, p. 594; Bradley & Flowers, 2001, p. 378).

The second coalition. This 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 also to allocate funds through algorithms linking performance and funding (Authors' Interviews FL #1, 7, 9, 10, 19, 20; also see 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 FL #1, 9, 19). 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."¹² In the case of higher education, Kirkpatrick and his allies believed—according to a staffer who worked closely with 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. This 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 Republican legislators about the importance of government efficiency and market incentives, but this belief did not appear to be widely shared among community college officials and faculty (Authors' Interviews FL #7, 10). Rather, their main reason for supporting performance funding was

¹² We were unable to interview Kirkpatrick, who passed away in 2003.

a desire for additional funding and legitimacy for their institutions (Authors' Interviews FL #1, 7, 8, 10, 19, 20; also see 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, they favored performance funding that enabled the community colleges to receive “new” money, that is, funding over and above their current appropriation (Authors' Interview FL #10).

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 the 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 opposing performance funding, centered on the state universities and the Board of Regents that headed them (Authors Interviews FL #6, 9, 10, 11, 12, 13, 14). 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 FL #11, 19). 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 FL #6, 14). 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 historic 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 FL #17, 18, 19; also see Wright et al., 2002, pp. 149–152).

4.3 The Process of Enacting Performance Funding

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). Members the Chiles administration played key supporting roles in writing the 1994 legislation, including the 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 FL #18, 19; also see 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 FL #19; also see 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 FL #1, 7, 9, 10, 19, 20; also see 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 PB2 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% 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 FL #1). However, the community colleges greatly disliked WDEF's

provision of reserving 15% of their state workforce appropriations, to be won back by good performance (see Dougherty & Natow, 2009). In the end, 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 performances 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 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 FL #14). Moreover, the state passed legislation in 1984 establishing job placement requirements for vocational programs. Programs had to demonstrate a training-related placement rate of 70% 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).¹³

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. 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 FL #8). Moreover, Governor Lawton Chiles and other actors were influenced by the work of David Osborne on re-inventing government (Authors’ Interview FL #19; also see Berry & Flowers, 1999, pp. 586–587). Finally, state policy actors were influenced by the National Performance Review that President Clinton and Vice President 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 revenues stagnated from 1990 to 1992, falling well below budget projections, at the same time as demand for state services (e.g., welfare, Medicaid,

¹³ These indicators included graduation rates for Associate of Arts and Associate of Science seekers; minority enrollment and retention rates; student performance (including rates 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).

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% and the community college share of state general revenues dropped from 4.7% to 3.7% (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, voters passed in 1992 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 with 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 Democratically controlled, 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 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 FL #9, 10, 19; also see 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.”

4.4 Summary

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 (PB2)—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.

5. 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 done since).¹⁴

In the following, 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.

5.1 Structure of the South Carolina Performance Funding System

Act 359 in 1996 legislated that 100% 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

¹⁴ However, South Carolina actually did not end up allocating all of its state appropriations for higher education on the basis of institutional performance. The highest share allocated on the basis of performance was 38% in fiscal year 1999, but then it dropped to 3% the next year (South Carolina Legislative Audit Council, 2003). Moreover, many of the indicators used were not actually outcomes indicators.

on Higher Education (CHE). The CHE would then be responsible for deciding how to measure performance and drawing up the funding formula. After a “hold harmless” period in which state funding would not be based on performance indicators, 100% of each school’s state funding would be tied to these measures beginning in fiscal year 2000.

5.2 Patterns of Support and Opposition for Performance Funding

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

Supporters. The supporters were a coalition of legislators and a segment of the business community which was not affiliated with the state’s research universities. The governor was supportive but not an active participant (Authors’ Interview SC #10).

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), Holly Cork (R-Beaufort) and Representatives Ronald Townsend (D-Anderson), David Wright (R-Lexington), and Leon Howard (D-Columbia) (Burke, 2002b; Fix, 1996b). However, as we will explore below, the key figure was Senator Setzler.

Although many business leaders supported performance funding, they did not represent the whole of the business community (Authors’ Interview SC #3). 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 business people, 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 needs to become more efficient and that market-like

incentives are 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 SC #3, 7, 19; also see Trombley, 1998). One businessman who was a key supporter of the performance funding effort commented that higher education institutions, 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*. 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 leading to unnecessary line items, or pork, as causes of the system's inefficiency (Authors' Interviews SC #3, 5, 7). 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 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.¹⁵ 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 stable population and enrollments (Authors' Interviews SC #16, 19; also see Burke, 2002b, Frazier & Meggett, 1995). 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 belief in the ineffectiveness and inefficiency of higher education, the advocates of performance funding believed in a need for *greater accountability* in higher education (Authors' Interviews SC #16, 17; 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

¹⁵ 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. However, the two-year technical colleges are governed by the State Board for Technical and Comprehensive Education (SBTCE) (McGuinness, 2003).

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 efficient by becoming more market-oriented (Authors' Interviews SC #6, 18).

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 [Sen.] 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 Governor David Beasley signed the performance funding legislation and supported the program, he was not an active member of the coalition (Authors' Interview SC #2). 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.¹⁶

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 SC #1, 14, 22). Although the Commission on Higher Education remained publicly neutral on Act 359, it was privately opposed (Authors' Interview SC #1). 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 their 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 SC #3). 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 recalls, "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

¹⁶ 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.

compared us to other institutions in the region.”

A number of institutional leaders believed that performance funding could lead to institutional closures (Authors’ Interviews SC #16, 19). 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).

5.3 The Process of Enacting Performance Funding

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 subcommittee 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 SC #1, 2, 3, 7, 9, 15, 19, 20, 24; also see 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 SC #15, 19). 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 business people. 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.”

Policy selection. 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 four different sources: policy learning based on the South Carolina experience, the business community, national organizations, and other states.

Policy learning. 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 the state’s history with performance reporting:

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 SC #2; also see 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 included 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).

Business ideas. As we have noted, business people 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 SC #6, 18, 19). 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% driven by performance.

National organizations. 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 SC #6). 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.”

Other states. 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 SC #6, 9). 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.”

5.4 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. Additionally, 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 cutting down 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 SC #15; also see 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. The committee selected Senator Setzler to be 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 SC #3, 14, 21; see also Trombley, 1998). The change in venue 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% 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% 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 SC #21).

5.5 Summary

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 business people to support performance funding. 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 stifled, and new supporters for performance funding recruited. As a result, South Carolina became the first state in the nation to legislate that 100% of state appropriations for public higher education be based on the performance of its institutions.

6. 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). In this section, we describe the PBIS system and analyze its origins.

6.1 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% of the state’s appropriation to community colleges be based on performance, the amount of funding involved was much smaller. Funding allocations for 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, 1998b, 2000, p. 3). These funds amounted to only 0.4% of state appropriations to the community colleges in fiscal year 2001 (Illinois Community College Board, 2002, Tables IV-5 and IV-14).¹⁷

PBIS consisted of six statewide goals, accounting for 60% of the PBIS money, and one district goal, which accounted for 40%. The six statewide goals were the following (Illinois Community College Board, 1998b, 2000, 2003):

- *Student satisfaction* (12% 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%): 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.

¹⁷ 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 (Illinois Community College Board, 2002, pp. IV-5, IV-14).

- *Student success in employment/continued pursuit of education* (12%): the number of graduates who were employed or currently enrolled in college.
- *Student transfers* (8%): 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%): average credit enrollments over three years divided by a district's population.
- *Academically disadvantaged students' success* (8%): percentage of remedial courses completed of total remedial courses attempted for the fiscal year.

For the one local goal (worth 40%), each community college district selected one area of focus from the following three (Illinois Community College Board, 2000, p. 3):

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

Three panels (one for each goal) appointed by the Presidents Council determined how well the local goals were met (Illinois Community College Board, 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 (Illinois Community College Board, 2000, pp. 3–4).

6.2 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 the Performance-Based Incentive System was led by a coalition centered on officials of the Illinois Community College Board 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 Illinois Community College Board in 1998 (details below), which then made a successful budget request to fund performance funding beginning in fiscal year 1999 (Illinois Community College Board, 1996, 1998a, 1998b; Authors' Interview Data).

The governor, legislature, and Board of Higher Education supported performance funding to the degree that they supported the ICCB request for funding. 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, 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 IL #3, 4, 9, 11, 24, 26).

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 (Illinois Community College Board, 1996, pp. 3, 8, 17; *idem*, 1998a, p. 3; Authors' Interviews IL #4, 11, 12, 26). 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 IL #4, 11, 24, 26; also see Illinois Community College Board, 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.

Secondly, 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. (Illinois Community College Board, 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 IL #3, 4, 7, 9, 27). 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 that some local community college officials had reservations about performance funding (Authors' Interviews IL #3, 17; Illinois Community College Board, 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 (Illinois Community College Board, 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 were the public universities, particularly the University of Illinois. The public 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 IL #3a, 19, 20, 24, 27). University officials—particularly those associated with the University of Illinois¹⁸—strongly questioned the applicability of the business model of organization to higher education. A

¹⁸ 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 IL #22).

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 IL #13, 14, 15, 20, 24). 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 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.

6.3 The Process of Enacting Performance Funding

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 IL #4, 7, 8, 9, 10, 11, 12, 26). 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." The Presidents Council had gotten this idea from the experience of Tennessee, Missouri, Florida, and Ohio with performance funding (Illinois Council of

Community College Presidents, 1995, pp. 17, 25).

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 (Illinois Community College Board, 1996, p. iii). The Task Force recommended implementation in fiscal year 1999 of a performance funding system (Illinois Community College Board, 1996, p. 17). It is clear that one of the reasons performance funding was chosen was that it was likely to appeal to state policymakers interested in greater accountability for higher education (Authors' Interviews IL #4, 11, 24, 26).

This recommendation of performance funding was then energetically pursued by Joseph Cipfl when he became Chief Executive Officer of the Illinois Community College Board in 1997 (Authors' Interviews IL #4, 7, 9, 10, 25, 26). 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 Illinois Community College Board (including two vice presidents). It was advised by a prominent out-of-state higher education consultant (Illinois Community College Board, 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 (Illinois Community College Board, 1998a). The Illinois Community College Board formally accepted the Advisory Committee's final report in May 1998 (Illinois Community College Board, 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 (Illinois Community College Board, 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 (Illinois Community College Board, 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 IL #3, 4, 12, 14, 15, 16, 17, 20, 21, 24, 26).¹⁹ 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 increased Republican strength and, in turn, general sentiment in favor of higher education accountability (Authors' Interview IL #14).

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

¹⁹ We found little evidence that the concern of state elected officials about higher education efficiency and accountability was due to public pressure. In a search of Illinois newspapers in Lexis-Nexis for 1994–1998, we did come across a few articles discussing the fact that tuition was rapidly rising (Dodge, 1997; Drell and 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% of the national average of \$2,848 (National Center for Education Statistics, 1996, p. 322). However, none of the articles that we found 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 or any demands for greater efficiency.

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% 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 IL #3, 4, 7, 9). As a leading state community college official noted:

South Carolina stands out because it 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.

6.4 Summary

The origins of the Performance-Based Incentive System for Illinois community colleges lie primarily with state and local leaders of the community colleges. 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 driving forces behind performance funding were the Illinois Community College Board and the Illinois Council of Community College Presidents. The governor,

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

7. 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. To explain the rise of these two different performance funding policies, this section looks at the various actors and contextual circumstances that led to their establishment.

7.1 The 1997–1999 Performance Funding Program

Washington enacted a performance funding system of accountability for public institutions of higher education in 1997, 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,²⁰ 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).

7.2 Patterns of Support and Opposition for the 1997 Performance Funding Proviso 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). Additionally, 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 WA #1, 2, 9, 10, 11, 12, 14, 16, 20, 21, 22, 23; 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

²⁰ 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).

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 WA #12). A state government 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 WA #1, 12, 20; Paulson, 1997). A state community and technical college board staffer explained,

[I]t started with the governor, and 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 WA #5, 10, 14, 16, 20). 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 WA #10). 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 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 WA #10, 17, 16, 20). The Board and its staff held meetings across the state to discuss the concept of higher education accountability (Authors' Interview WA #16). 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 WA #2, 14; 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 WA #9, 20). In fact, both boards later recommended that the performance funding system be discontinued after the 1997–1999 biennium (Authors' Interview WA #9).

Opponents. A coalition opposed to performance funding for higher education was also present in Washington State. This coalition was mostly made up of the presidents and faculty of the state universities (Authors' Interviews #2, 5, 11, 12, 14, 16, 17, 21, 22).²¹ 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 the negative attitude toward 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

²¹ 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 the money should take the form of new funding rather than a holdback of a portion of the existing state appropriation (Authors' Interviews WA #1b).

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 WA #5). As one higher education insider explained, "The institutions collectively want more 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 WA #9). And in 1993, Washington voters passed a limit on government expenditures (Authors' Interviews; see also Lefberg, 1999; *Seattle Post-Intelligencer*, 1993). This enactment was not directed specifically at higher education; rather, it applied generally to all state expenditures (see *Seattle Post-Intelligencer*, 1993).

Yet despite the general public's attitudes toward government and efficiency, there was no strong public demand to hold higher education institutions accountable through performance funding (Authors' Interviews WA #9, 14). 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.

7.3 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 WA #1, 2, 9, 10, 11, 12, 14, 16, 20, 21, 22, 23; 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 #2, 22, 23; also see 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 WA #23; also see Ammons, 1997; Shukovsky, 1997). These circumstances made lawmakers look to higher education as a natural place to keep spending down (Authors' Interviews WA #9, 14; also see 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 WA #5, 9, 23; 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 WA #5, 23; also see 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.

7.4 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 WA #1, 2; see also Jenkins et al., 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 to reward technical and community colleges with a small amount of new money when their students reach certain outcomes thresholds.²² Performance indicators include competency in basic 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 receive “achievement points” when their students reach certain goals on these indicators. The 2008 fiscal year was a “learning year,” which involved community and technical colleges examining their performance on these measures and developing plans to improve. During the 2009 fiscal year, institutions began to be rewarded for their performance on the measures (Authors’ Interviews WA #1, 2; see also Jenkins et al., 2009; WSBCTC, 2007).

7.5 Patterns of Support and Opposition for the 2007 Student Achievement Initiative

Supporters. The coalition supporting this new type of performance funding for community colleges is comprised primarily of board members and administrators of the Washington State Board for Community and Technical Colleges along with local community and technical college officials (Authors’ Interviews WA #1, 2, 18; see also

²² Although this program was designed to reward institutions for meeting certain performance levels, whether appropriations are 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.

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 are not the primary instigators of the Student Achievement Initiative, they do 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 WA #7, 23; see also Jenkins et al., 2009, pp. 24–25; WSBCTC, 2007).²³ As a result, there is a feeling among practitioners that there has been 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 believe that the Student Achievement Initiative is founded on solid research (Authors’ Interview WA #7; 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 WA #2, 23; see also Jenkins et al., 2009, pp. 42–43). According to a state-level 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 appears to hold beliefs similar to 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 WA #1, 2; see also Jenkins et al., 2009; Rolph,

²³ However, there is evidence that community college trustees and top administrators are more supportive of the Student Achievement Initiative than are community college faculty (Jenkins et al., 2009, p. 24).

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 believes that funding for outcomes can be used to improve student success in the public two-year colleges (Authors’ Interviews WA #1, 2). 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 WA #1, 18). There was growing interest on the part of the governor and the legislature in performance accountability. 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 WA #1b, 18; 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.

7.6 The Process of Enacting the 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 WA #1, 2). But unlike the prior system, the Student Achievement Initiative did not originate in the state legislature. Rather, the Student Achievement Initiative was spearheaded by the State Board for Community and Technical Colleges (Authors’ Interviews WA #1, 2, 18, 22, 23). 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 WA #1, 2, 18, 22; 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. The task force’s recommendations were then forwarded to the State Board for approval (Authors’ Interviews WA #2, 22; also see 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 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 WA #1, 2, 22; 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.

Additionally, 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 WA #2). 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 WA #2). 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 WA #2).

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 WA #1b, 20; 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 GMAP, the state of Washington 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 #13; 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 WA #11, 13).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

²⁴ Washington State did adopt performance agreements for higher education in 2008 (Authors' Interviews). However, as of this writing, it is unclear the extent to which this policy has been implemented.

Achievement Initiative because it was aware that the legislature was interested in accountability around that time (Authors' Interview WA #18).

7.7 Summary

Washington established performance funding programs at two different times: 1997 and 2007. These two programs differ in substance, who supported and opposed them, and the circumstances that existed at the time each program was adopted. 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 at a time when the state budget was healthy and Democrats controlled the legislature.

8. Summary and Conclusions

We summarize below our findings across six states concerning the actors who supported and opposed performance funding, their beliefs and motives, the sources of their ideas, and the circumstances shaping their actions. We finish by drawing conclusions for policymaking.

8.1 Summary of Findings Across Six States

As detailed in the previous sections, 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 who were the main supporters and opponents, what beliefs animated them, and what political openings allowed political entrepreneurs to put performance funding on the decision making agendas of state

governments.

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).²⁵ Governors were openly supportive in four states (Florida, Missouri, South Carolina, and Washington) but played a significant role in only the first two states.

These leading state officials were joined in supporting performance funding by local college officials (particularly from community colleges) and business. Officials of individual public colleges were openly supportive of performance funding in Florida, Illinois, Tennessee, and Washington (in 2007). In 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 Missouri, business concerns about government efficiency strongly shaped the politics of performance funding by making performance funding an attractive policy for higher education in the eyes of state officials insofar as it would seem to please business.²⁶

²⁵ As we note below, the state universities were considerably less favorable and even opposed to performance funding.

²⁶ For more on this indirect, non-participatory form of business power, see Dougherty (1994).

Table 3
Actors, Beliefs, Idea Sources, and Political Openings Across Six States

	TN	MO	FL	SC	IL	WA
Supporters (leading groups are in bold)						
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
Antitax mood	X	X	X			X 1997
Spillover from other policy subsystems	X				X	X 2007

Table 3
Actors, Beliefs, Idea Sources, and Political Openings Across Six States

	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

Florida had the broadest advocacy coalition, 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 (particularly community 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 tying together the supporters of performance funding were beliefs in the importance of finding new means to secure additional funds for higher education in a time of fiscal stringency and in the importance of increasing the efficiency of government generally and higher education specifically. In addition, there was more scattered belief in the importance of increasing the quality of higher education, increasing the 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 beliefs were 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 in making government agencies operate more efficiently. These beliefs 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 belief was in 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 market-like forces 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. Rather, this institutional opposition was primarily expressed 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 present in Missouri and Washington. Institutions felt 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.²⁷

Sources of ideas. It is not always easy to determine the source in a given state for the idea of performance funding. Sabatier and Jenkins-Smith have argued that a potent path to policy change is created when an advocacy coalition encounters new data that questions its policy core or secondary beliefs about the severity of a public problem and the best ways to address it (Jenkins-Smith and 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.

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

²⁷ 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 the community college presidents had endorsed performance funding.

(McLendon, Heller, & Young, 2005). Observers in three states (Florida, Illinois, and South Carolina) noted how performance funding activists in these states were influenced by the examples and experiences of other states, particularly Tennessee (as the first state) and South Carolina (as the most radical state).²⁸ Regional and national policy organizations played a role as well (McLendon et al., 2005, p. 388). Interviewees in two states (Florida and South Carolina) mentioned that activists were influenced—either through personal contact or exposure to relevant publications—by organizations, such as the Southern Regional Education Board and the National Conference of State Legislatures, that held discussions about performance funding or 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 and occasions for action. Relatively transitory political events played an important role in our six states by providing political openings for advocates of performance funding to advance this idea. As Kingdon (1995) and Sabatier and Weible (2007) point out, “policy windows” or “external shocks” provide an opportunity for policy proposals to get a hearing that they might not otherwise 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. This 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, Hearn, and Deaton (2006, p. 11) that the probability of a state adopting performance funding legislation is significantly associated with a higher percentage of Republican legislators.

Another important political opening was a growing antitax mood among the electorate and politically influential interest groups. This 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

²⁸ 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.

enrollments.

Finally, the advent of performance accountability in a related policy subsystem also 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 having one be imposed that they did not find palatable. Similarly, in Illinois, 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.

The weakness of egalitarian concerns. One of the surprising features of the discourse on performance funding in the six states we have examined is how little concern has been expressed about the possible impacts of performance funding on equality of higher education opportunity. We have seen little discussion about how performance funding might enhance (or damage) access to and success in higher education for underserved populations, such as low-income students, students of color, or older students. Performance accountability systems can enhance the prospects of such students by making access to and success in college for disadvantaged students important performance indicators. Conversely, performance funding can damage the prospects of these students to the degree that it rewards higher course completion and graduation rates but does not deter public colleges from boosting both rates by becoming more selective in admissions (Dougherty, Hare, & Natow, 2009; Dougherty & Hong, 2006). Performance funding is too important a policy instrument not to be subject to careful analysis and discussion of how to maximize its positive impacts on equality of higher education opportunity (Dougherty, Hare, & Natow, 2009).

8.2 Lessons for Policymaking

For those interested in performance funding as a policy, our findings carry a number of implications. First, the supporters of performance funding usually did not include the state universities, very important actors within the higher education policy subsystem. Their opposition prevented the spread of performance funding to the state universities in Florida. Moreover, it played a key role in the later demise of performance funding in Missouri and South Carolina (for more information, see Dougherty & Natow,

2009; Dougherty, Natow, & Vega, forthcoming). Key to securing their support would be to address 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 insufficiently recognizes different institutional missions. At the very least, this suggests the usefulness of extended consultation with higher education institutions to address their concerns.

Second, community colleges were more supportive of performance funding than were the state universities. They provided key support for performance funding in Florida, Illinois, and Washington (in 2007). However, the main reason community colleges supported for performance funding was to secure additional state funds, as enrollment-based financing was failing to grow sufficiently rapidly. This emphasis on new revenues makes performance funding vulnerable when an economic downturn cuts into government appropriations for higher education. Faced with such cuts, higher education institutions prefer to eliminate performance funding in order to prevent deeper cuts in their base appropriations (Dougherty & Natow, 2009; Dougherty, Natow, & Vega, forthcoming). For those wishing to protect performance funding, this argues for retaining the support of community colleges for performance funding by justifying it as more than just a source of new revenues and, in any case, by finding ways to insulate performance funding from the ups and downs of the state revenue cycle.

Finally, it is noteworthy that the supporters of performance funding in our six states did not include groups that principally view higher education as a means to serve social equality. Missing from the supporters of performance funding were minority groups and other equality-oriented groups. Addressing such groups and their concerns would not only broaden the political support for performance funding but also make it more likely to promote not just greater government efficiency and service to the economy but also greater social equality.

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