

## Ensuring that Performance-based Funding Systems Involve all University Stakeholders

Legislation that links state higher education appropriations to select institutional or student outcomes, commonly known as performance-based funding (PBF), served as a university financing policy mechanism in Michigan’s higher education budget in the last gubernatorial administration. Research shows that PBF generates very little in terms of positive effects on postsecondary education institutions and can lead to unintended and undesired outcomes, such as a decrease in the production of associate degrees in favor of many more certificates.<sup>1</sup> Much of the lack of effect is due to the fact that Michigan has invested so little new money in higher education in recent years. If use of a funding formula is resurrected in the future, it should involve a collaborative effort among key stakeholders to build an incentive structure that respects and reinforces campus missions; encourages campuses to recruit, retain, and graduate low-income and nontraditional students; and remains compatible with state higher education, workforce, research, and economic goals. Above all else, all universities must have the ability to provide input on the creation of a performance funding formula.

### Policy Action:

- Involve all 15 public universities in any discussions about how to systematically allocate state appropriations to institutions if a performance-based funding formula is utilized in the future.

---

<sup>1</sup> Hillman, Nicholas W.; Hicklin Fryar, Alisa; and Crespin-Trujillo (2017), Evaluating the Impact of Performance Funding in Ohio and Tennessee. American Educational Research Journal.