

Assurance that Any New Funding Method Involves all University Stakeholders

Legislation that links state higher education appropriations to select institutional or student outcome metrics, 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.¹ Much of the lack of effect is due to the fact that Michigan has invested so little new money in higher education in prior years when PBF was used. 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.

Additionally, there are many possible ways that funding can be allocated to universities, whether using PBF or another rationale. However, one important tenet of funding is that it should be predictable and consistent. Universities conduct careful financial planning that extends out for many years to be good stewards of the public dollars and tuition payments they receive. That makes it imperative that funding allocated to a university’s base budget remains in that university’s base budget. Among the universities, there are vastly different amounts of state funding received per student. As policymakers work with institutional leadership to determine how funding should be allocated each year, it’s important that attempts to close funding inequities are done exclusively with new dollars rather than redistributing existing base funding. This is especially important for campuses that are right-sizing to new enrollment levels, as the combined reduction of state funding with reduced tuition and fees poses serious challenges to financial stability.

Policy Action:

- Involve all 15 public universities in any discussions about how to systematically allocate state appropriations to institutions if a funding formula is utilized in the future.
- Continue adding new funding for universities to close funding gaps rather than redistributing base funding among the institutions.

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