

# HOUSE BILL REPORT

## E2SHB 2265

---

**As Passed House:**  
February 13, 2012

**Title:** An act relating to establishing Washington works payments to increase graduation rates, address critical skill shortages, increase student success, and narrow the educational opportunity gap.

**Brief Description:** Establishing Washington works indicators for four-year institutions of higher education.

**Sponsors:** House Committee on Ways & Means (originally sponsored by Representatives Probst, Haler, Haigh, Rivers, Zeiger, Seaquist, Sells, Jinkins, Roberts, Hunt, Santos, Kelley, Finn and Ryu).

**Brief History:**

**Committee Activity:**

Labor & Workforce Development: 1/27/12 [DPS];  
Ways & Means: 2/6/12, 2/7/12 [DP2S(w/o sub LWD)].

**Floor Activity:**

Passed House: 2/13/12, 60-38.

**Brief Summary of Engrossed Second Substitute Bill**

- Expresses legislative intent to advance the goal of ensuring a high-value return on investment by developing and implementing a plan for measuring and rewarding the performance of four-year institutions.
- Requires the Office of Financial Management (OFM) to develop a recommended plan for measuring and rewarding performance of four-year institutions, and report on the recommended plan by December 1, 2012.
- Requires the OFM to measure performance on Washington works indicators by July 1, 2012, and each July 1 thereafter, and subject to legislative action, to disburse funds as rewards for such performance on July 10, 2013, and each July 10 thereafter.

---

### HOUSE COMMITTEE ON LABOR & WORKFORCE DEVELOPMENT

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Sells, Chair; Reykdal, Vice Chair; Green, Kenney, Miloscia, Ormsby and Roberts.

**Minority Report:** Do not pass. Signed by 6 members: Representatives Condotta, Ranking Minority Member; Shea, Assistant Ranking Minority Member; Fagan, Moeller, Taylor and Warnick.

**Staff:** Jill Reinmuth (786-7134).

---

## HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Labor & Workforce Development. Signed by 15 members: Representatives Hunter, Chair; Darneille, Vice Chair; Hasegawa, Vice Chair; Carlyle, Cody, Dickerson, Haigh, Hunt, Kagi, Kenney, Ormsby, Pettigrew, Seaquist, Springer and Sullivan.

**Minority Report:** Do not pass. Signed by 12 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Chandler, Haler, Hinkle, Hudgins, Parker, Ross, Schmick and Wilcox.

**Staff:** Trista Zugel (786-7157).

### **Background:**

Several means are used to measure performance by four-year institutions of higher education in Washington. These include the state Higher Education Opportunity Act ("Complete to Compete"), which require annual reporting of certain performance data. The reports include outcome and progress metrics that align with the National Governor's Association "Complete to Compete" metrics as well as metrics for: graduate and professional degrees; Science, Technology, Engineering, and Mathematics participation; student debt load; and disaggregation of measures based on various student demographics, including socio-economic status and income level, among others. Four-year institutions also develop performance plans that include minimum sets of expected outcomes.

### **Summary of Engrossed Second Substitute Bill:**

#### Findings and Intent.

The Legislature makes it an economic priority to: increase graduation rates; increase graduation rates in fields addressing critical skill shortages; and narrow the educational opportunity gap for disadvantaged students and minority students.

The Legislature intends that: the state distinguish itself by becoming the fastest-growing provider of highly-skilled workers for targeted industries; the percentage of households in the

state living in the middle-income bracket or above increase over time; and Washington works indicators be established for four-year institutions of higher education.

The Legislature reaffirms the findings and intent expressed in the state Higher Education Opportunity Act, and intends to advance the goal of ensuring a high-value return on investment by developing and implementing a plan for measuring and rewarding the performance of four-year institutions.

#### Definitions.

Various terms are defined, including "Washington works indicators," "graduation," "graduation in fields addressing critical skill shortages," and "narrowing the achievement gap."

"Washington works indicators" means: increasing graduations; increasing graduations in fields addressing critical skills shortages; and narrowing the educational opportunity gap for disadvantaged students and minority students.

"Graduation" means receipt of a baccalaureate or advanced degree.

"Graduation in fields addressing critical skills shortage" means graduation in fields specified in the Higher Education Opportunity Act. These fields include certain programs in the sciences.

"Narrowing the achievement gap" means "increasing the number of graduations by in-state disadvantaged students and in-state minority students.

#### Recommended Plan and Report.

The Office of Financial Management (OFM) must develop a recommended plan for measuring and rewarding performance of four-year institutions, and report on the recommended plan to the Legislature and the Governor. In developing the recommended plan, the OFM must consult with the Higher Education Coordinating Board's successor (HECB successor) and the Council of Presidents (COP), examine and recommend metrics for measuring performance, and design and recommend a means of rewarding performance. The report is due by December 1, 2012.

#### Measures of Performance.

The OFM must measure performance on Washington works indicators using metrics that award points for each indicator and result in a single numeric score for each four-year institution. The OFM may make statistical adjustments for student demographics. Performance is measured by July 1, 2012, and each July 1 thereafter.

The OFM must award the following: one point per student for growth in the number of students who earn baccalaureate or advanced degrees; an additional point per student for growth in the number of students who earn baccalaureate or advanced degrees in fields addressing critical skill shortages; and an additional point per student for growth in the

number of in-state disadvantaged students and in-state minority students who earn baccalaureate or advanced degrees. For each of these indicators, the numbers of students are from data reported pursuant to the state Higher Education Opportunity Act.

Each four-year institution may modify points awarded for each indicator, so long as the institution uses the same metrics, awards no more than three points for three metrics, and awards at least 0.5 point, but not more than 2.0 points, per metric.

#### Rewards for Performance.

Subject to legislative action, the OFM must disburse funds to four-year institutions as rewards for performance on Washington works indicators. The amount available to be disbursed to four-year institutions is equal to an amount transferred from the state General Fund to the Higher Education Coordinating Board Fund for Innovation and Quality. The amount disbursed per point awarded is set by the OFM. Disbursements are made on July 10, 2013, and each July 10 thereafter.

Subject to legislative action, the state Treasurer must transfer an amount from the state General Fund to the Innovation and Quality Fund. The transferred amount is equivalent to a percentage of the state General Fund appropriations and one-half of the Education Legacy Trust Account appropriations to four-year institutions. Allotments of the state General Fund appropriations to four-year institutions are adjusted to reflect proportionate shares of the transferred amount. Transfers are made and allotments are adjusted on July 1, 2013, and each July 1 thereafter.

The Legislature must determine whether an amount is transferred by the state Treasurer and disbursed by the OFM to four-year institutions as rewards for performance. If so, the Legislature also must determine the percentage of state General Fund and Education Legacy Trust Account appropriations on which the amount is based. Determinations are made in the 2013-15 Operating Budget and each budget thereafter.

The Innovation and Quality Fund is modified to authorize disbursement of transferred amounts to four-year institutions.

#### Other.

The Education Data Center must analyze employment or continued education in consultation with the Employment Security Department, the HECB successor, and the COP, and publish the analyses on its website. "Employment or continued education" means that, within one year of graduation, a student has an annual income that exceeds the federal poverty level for a family of four or is enrolled in postsecondary education. Employment or continued education is measured by July 1, 2013, and each July 1 thereafter.

Four-year institutions are encouraged to redistribute resources and realign course offerings to increase graduations and completions in fields addressing critical skill shortages.

**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available. New fiscal note requested on January 29, 2012.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony (Labor & Workforce Development):**

(In support) This is a simple bill with a lot of complexities. It makes two big changes that have a dramatic impact on commerce, the economy, jobs, and the workforce. The state is in a global talent race, and the state has been taking gas out of the engine that creates talent. If the state keeps doing that, the impact on the economy will be very clear.

The first change requires the state to begin paying for outcomes. Now the state mostly pays for the number of students. In the future, the state would pay for four outcomes: graduation and completion rates going up, increased production of degrees that are needed by the industries that will lead the economic recovery, closing the gap for disadvantaged students, and getting a job.

The second change requires the state to make a commitment to fund education. When the state started making budget cuts to higher education four years ago, higher education took more than its fair share. But there's a point at which higher education cannot absorb any more cuts. This is a modest, but important, commitment to start putting money back into higher education.

The performance funding system is modeled after the student achievement initiative, which has been very successful for community and technical colleges. In its first four years, that initiative increased the output of degrees in the community and technical college system by 40 percent. The state should replicate it for other parts of the education system.

Career and technical education at the secondary level in the K-12 system is working to articulate with common core standards and core academics, and to apply those skills so students can find success through multiple pathways. By the changes in the K-12 system, what is done by career and technical education becomes an important part of the measurement.

Studies show that degrees and certificates add value to the economy and personal income. This is a small investment with very high return. This investment makes sense because the state's economy is driven by technology and innovation, plus a well-educated workforce.

(In support with concerns) The State Board for Community and Technical Colleges supports this initiative, including its focus on accountability performance funding, and also its recognition of the student achievement initiative's value and the Board's role in directing that. Some amendments were provided, and it looks like they have been addressed in the substitute bill.

The higher education system has had significant cuts, yet degree attainment goals have not changed. The state is not on track to meet those objectives. To do that, the state needs to

build capacity in the sector. This revenue is important to have students prepared to meet vital degree objectives, and for Washington to continue to have a vibrant economy.

Overall, this is a positive first step in addressing funding concerns affecting higher education. Suggested changes included making the framework consistent with the one adopted in House Bill 1795, and providing time for institutions to develop institution-specific methodologies that do not penalize high-performing schools.

(Opposed) None.

**Staff Summary of Public Testimony (Ways & Means):**

(In support) This bill focuses on several outcomes and is modeled exactly after the Student Achievement Initiative. The possible appropriations are all based on potential future funding, as described in the fiscal note. The Council of Presidents have proposed changes that would alter the fiscal note. The Council of Presidents appreciate the work that has gone into this bill. You cannot have a performance funding bill without a linkage to funding.

(Opposed) None.

**Persons Testifying (Labor & Workforce Development):** (In support) Tim Knue, Washington Association for Career and Technical Education; Sherry Burkey, Western Washington University; and Eric Whithee, Stand for Children.

(In support with concerns) David Prince, State Board for Community and Technical Colleges; Michael Reilly, Council of Presidents; Margaret Shephard, University of Washington; Julie Garver, The Evergreen State College; and Chris Mulick, Washington State University.

**Persons Testifying (Ways & Means):** Representative Probst, prime sponsor; and Paul Francis, Council of Presidents.

**Persons Signed In To Testify But Not Testifying (Labor & Workforce Development):** Amber Carter, Association of Washington Business.

**Persons Signed In To Testify But Not Testifying (Ways & Means):** None.