

SENATE BILL REPORT

SB 6042

As Reported by Senate Committee On:
Higher Education, January 28, 2014
Ways & Means, February 11, 2014

Title: An act relating to establishing an incentive-based methodology of distributing state appropriations to public four-year institutions of higher education.

Brief Description: Establishing an incentive-based methodology of distributing state appropriations to public four-year institutions of higher education.

Sponsors: Senators Baumgartner, Brown and Schoesler.

Brief History:

Committee Activity: Higher Education: 1/23/14, 1/28/14 [DP-WM].
Ways & Means: 2/10/14, 2/11/14 [DPS].

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass and be referred to Committee on Ways & Means.
Signed by Senators Bailey, Chair; Becker, Vice Chair; Baumgartner and Tom.

Staff: Kimberly Cushing (786-7421)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6042 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Bailey, Becker, Billig, Braun, Conway, Dammeier, Fraser, Frockt, Hasegawa, Hatfield, Hewitt, Kohl-Welles, Padden, Parlette, Rivers, Schoesler and Tom.

Staff: Maria Hovde (786-7710)

Background: In 2011, via enactment of E2SHB 1795, the Legislature determined that the authority to increase or decrease tuition rates must be considered within the context of performance-based measures and goals. As a result, each of the four-year public

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baccalaureate institutions were directed to submit performance plans to the Office of Financial Management (OFM) every September of an odd-numbered year that include, but are not limited to, expected outcomes to be achieved in the subsequent biennium for the following:

- time and credits to degree;
- retention and success of students from low-income, diverse, or underrepresented communities;
- baccalaureate degree production for resident students; and
- degree production in high-employer demand programs of study and critical state need areas.

In the same legislation, the Legislature directed the four-year institutions of higher education to report annually by August 15 on the effectiveness of the various sources and methods of financial aid in mitigating tuition increases. A key purpose of the reports is to provide information regarding the results of the decision to grant tuition-setting authority and whether the authority should continue or revert back to the Legislature after considering the impact on students. An accountability monitoring and reporting system was also established as part of a continuing effort to make meaningful and substantial progress toward the achievement of long-term performance goals in higher education. Higher education institutions must report by December 1 annually on performance data that aligns with the National Governor's Association *Complete to Compete* metrics with additions that include 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.

In 2013 the Legislature directed OFM in coordination with the Joint Committee on Higher Education and the Washington Student Achievement Council (WSAC) to convene a technical incentive funding model taskforce for the four-year institutions of higher education. The taskforce was directed to create a system for allocating new incentive funding to four-year institutions that voluntarily participate and demonstrate improvement on existing performance measures, control resident undergraduate tuition growth, and efficiently utilize classrooms, laboratories, and online and other high technology instructional methods. Additionally, the taskforce's model was required to include a method for investing unallocated funds to the State Need Grant program, allocating performance funding that recognizes each institution's unique mission, and establishing a baseline level of state funding.

The taskforce, which included one representative each from WSAC, the Education Data and Resource Center, and all six four-year institutions, provided eight recommendations to the Governor and Legislature in December 2013. Recommendations include supporting three statewide achievement goals: (1) increase overall degree production; (2) increase degree production in science, technology, engineering, mathematics, and high-demand areas; (3) increase degree production for students from underrepresented groups, identifying five institution-specific metrics based on institutional mission, and providing new, upfront, ongoing state performance funding to be added to the institutional base.

Currently, the State Board for Community and Technical Colleges (SBCTC) oversees the Student Achievement Initiative, which is the performance funding system to incentivize

community and technical colleges to employ strategies that promote student success. SBCTC identified key academic benchmarks that students must meet to successfully complete degrees and certificates, known as Achievement Measures which are:

- building toward college-level skills by basic skills gains and passing precollege writing or math;
- first-year retention by earning 15, then 30, college-level credits;
- completing college level math by passing math courses required for either technical or academic associate degrees; and
- completions such as degrees, certificates, or apprenticeship training.

Summary of Bill (Recommended Substitute): The Legislature finds that the statewide goals of public institutions of higher education are to (1) increase total degree production; (2) increase degree production in high-demand fields of study; and (3) increase degree production for underrepresented student populations. Therefore, the Legislature intends to create an incentive funding structure to encourage student success in the postsecondary educational system and to provide a funding enhancement equal to no less than \$25 million each fiscal year to the four-year institutions of higher education based on their performance in meeting the statewide goals. The funding enhancement is an addition to the baseline budgets of public four-year institutions and, in subsequent fiscal years, additional amounts allocated for this purpose will be distributed to the public four-year institutions of higher education and subsequently built into their carry-forward budgets based on their performance on institutional specific performance metrics that contribute to the three statewide goals.

In place of performance plans and subject to appropriation, incentive funding appropriated in the operating budget must be distributed to the public four-year institutions of higher education as specified in the budget. The incentive funding is based on an institution's performance in relation to the three-year average of its own past performance in the following metrics: (1) number of degrees produced; (2) number of high-demand degrees produced; and (3) number of degrees awarded to underrepresented students.

The four-year institutions of higher education must report on the effectiveness of financial aid in mitigating tuition increases by December 31, rather than August 15. Additionally, only institutions of higher education that increased tuition beyond levels assumed in the operating budget after January 1, 2011, must provide the financial aid report.

Language is repealed that created an accountability monitoring and reporting system for long-term performance goals, and recodifies the National Governor's Association *Complete to Compete* metrics in Chapter 43.41 RCW.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): Clarifies the intent that the \$25 million per fiscal year is an initial funding enhancement for the purposes of incentive funding; that this funding enhancement must be an addition to the baseline budgets of public four-year institutions; and that, in subsequent fiscal years, additional amounts allocated for this purpose will be distributed to the public four-year institutions of higher education and subsequently built into their carry-forward budgets based on their performance on institutional specific performance metrics that contribute to the three statewide goals.

Specifies that the incentive funding distribution is subject to appropriation.

The four-year institutions of higher education must report on the effectiveness of financial aid in mitigating tuition increases by December 31, rather than August 15. Additionally, only institutions of higher education that increased tuition beyond levels assumed in the operating budget after January 1, 2011, must provide the financial aid report.

Repeals language that created an accountability monitoring and reporting system for long-term performance goals and recodifies the National Governor's Association *Complete to Compete* metrics in Chapter 43.41 RCW.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Higher Education): PRO: Last year we were able to reverse several years of cuts to higher education, but we need to do more, and the intent of this bill is to continue to work on that. This bill sets up a structure as a result of work done by the four-year universities. The goal is to increase funding, and not to decrease baseline funding. If universities perform, the state needs to reward that. Twenty-five million dollars is the pot of money to start the journey. By definition, performance funding is not predictable. Metrics that are achievable will increase transparency and credibility with the public. Students like performance funding as long as it measures things the institutions are already doing. We should not lower standards just to increase performance. We appreciate the acknowledgment that there is a skills gap which needs to be filled.

OTHER: A number of elements link nicely to what institutions will recommend. Overly complicated programs invite skepticism. We appreciate new funding and that it is in addition to baseline funding and would be ongoing. Washington currently ranks 49th in the country in terms of funding per full-time equivalent. We would appreciate performance plans from 2011 going away in place of something more useful. We have questions about mechanical details, such as when would it start, and the definition of words such as high demand and underrepresented.

Persons Testifying (Higher Education): PRO: Senator Baumgartner, prime sponsor; Jansen VanderMeulen, Director of Legislative Affairs, Associated Students of WA State University; Neil Strege, WA Roundtable.

OTHER: Paul Francis, Council of Presidents.

Staff Summary of Public Testimony on Substitute (Ways & Means): PRO: We have worked with the institutions on this subject and this version of the bill addresses many of their concerns.

OTHER: We like many components of this bill, such as linking state funding to outcomes and the establishment of the three overarching statewide goals. We do have some concerns such as how, mechanically, the process proposed in the bill would work.

Persons Testifying (Ways & Means): PRO: Senator Baumgartner, prime sponsor.

OTHER: Cody Eccles, Council of Presidents.