Performance-Based Funding in Adult Education
System Design and Implementation Issues

Steve Klein
MPR ASSOCIATES, INC.

Garland Hankins
FORMER STATE DIRECTOR
ARKANSAS

National Conference of State Directors of Adult Education
Bethesda, Maryland
November 15, 2006
What is Performance-Based Funding?

- Performance-based funding (PBF) systems are used in adult education to distribute federal and/or state resources to local programs.
  - Basic Grant
  - Performance award

- States have adopted PBF in response to accountability provisions contained in federal legislation.
  - Workforce Investment Act of 1998 (WIA)
  - National Reporting System for Adult Education (NRS)
Performance-Based Funding Study

**Purpose**
- To help state policymakers make more informed decisions in designing and implementing funding formulas to distribute resources to adult education providers.

**Activities**
- Literature review to document PBF resource distribution approaches in higher education and adult education programs.
- Case study site visits to 3 representative states using different approaches to distribute federal and/or state resources.
  - Interview state directors, state agency staff, & program directors
  - Standardized protocol to collect data
  - Qualitative software to code and analyze transcripts
- Cross-case analysis summarizing common themes across states and assessing strengths and weaknesses of different funding approaches.
Overview

• Rationale for System Adoption
  ○ Why was PBF introduced?

• Formula Design Process
  ○ Who participated in system design and what state goals guided development?

• Critical Elements in System Design
  ○ How were state funding systems created?

• System Effects
  ○ How has PBF affected local providers and the attainment of state goals?
## State Funding Models

### Table A: Characteristics of State Performance Funding System: FY05

<table>
<thead>
<tr>
<th></th>
<th>Indiana</th>
<th>Kansas</th>
<th>Missouri</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adult Education Funding</strong></td>
<td>$21,055,280</td>
<td>$4,458,990</td>
<td>$12,040,787</td>
</tr>
<tr>
<td><strong>Number of Providers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Colleges</td>
<td>1</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Secondary Districts</td>
<td>41</td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Percent Resources Allocated using PBF</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>5%</td>
<td>88%</td>
<td>19%</td>
</tr>
<tr>
<td>Federal</td>
<td>15%</td>
<td>100%</td>
<td>22%</td>
</tr>
<tr>
<td>State</td>
<td>0%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Performance Measures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core NRS*</td>
<td>15</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Secondary NRS</td>
<td>7</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Process Indicators</td>
<td>0</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Incentive Funding</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

* Includes 11 submeasures of educational gain in ABE, ASE, and ESL programs.
Rationale for System Adoption

- Reasons for Implementation
  - Address federal accountability requirements contained in AEFLA
    - Attain NRS core and secondary measures
    - Qualify for WIA incentive funding
  - Remedy perceived difficulties with existing state formula
    - Increase formula transparency
    - Remove contact-hour based funding
    - Gain political support

- State Goals
  - Equity
  - Efficiency
  - Accountability
  - Program Improvement
Formula Design Process

• State Director Initiated
  ○ No external pressure to develop PBF system
  ○ Director provides leadership and direction

• Providers are Involved in Formula Design
  ○ Advisory Council steers formula construction
  ○ Council members representative of state providers
    • Provider type (i.e., LEA, CC, CBO)
    • Program type (i.e., ABE, ESL, GED)
    • Provider size
    • Provider location
    • Learner demographics
Critical Elements in System Design

- Selecting a Funding Model
  - Identify funding amounts
    - Determine source of performance funds (federal/state)
    - Amount of resources committed to performance funding
  - Define funding strategy
    - Learner outcomes
    - Process indicators
    - Performance incentives
  - Assess state capacity to support implementation

- Constructing a Funding Formula
  - Select performance measures
    - NRS core measures
    - NRS secondary measures
    - Other state measures
  - Consider weighting performance outcomes
### Table B: Missouri Performance Outcome Rates, by Educational Functioning Level

<table>
<thead>
<tr>
<th>Level</th>
<th>FY02</th>
<th>FY03 to Present</th>
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</thead>
<tbody>
<tr>
<td>AEL Level 1</td>
<td>$150</td>
<td>$200</td>
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<tr>
<td>AEL Level 2</td>
<td>$100</td>
<td>$150</td>
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<tr>
<td>AEL Level 3-5</td>
<td>$50</td>
<td>$75</td>
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<tr>
<td>GED</td>
<td>$150</td>
<td>$150</td>
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<tr>
<td>ESL Level 1</td>
<td>—</td>
<td>$250</td>
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<tr>
<td>ESL Level 2</td>
<td>—</td>
<td>$175</td>
</tr>
<tr>
<td>ESL Level 3-5</td>
<td>—</td>
<td>$100</td>
</tr>
</tbody>
</table>

Source: Missouri Department of Elementary and Secondary Education.
Critical Elements in System Design (continued)

- **Linking Outcome Data to Resource Allocations**
  - Consider state and provider capacity to collect data
  - Determine timing of data collection (i.e., lag between when outcomes recorded and performance funding allocated)

- **Modeling Provider Allocations**
  - Assess funding scenarios under differing assumptions

- **Insulating Providers from Funding Decreases**
  - Use of hold-harmless provisions
  - Release of held-back federal funding
  - Addition of state resources to adult education system
Critical Elements in System Design (continued)

- Assessing Provider Reporting Capacity
  - Capability to report accurate information
  - Ability to collect specified outcome data using state management information system
  - Need for technical assistance

- Reviewing State Data Audit Capacity
  - Ability to validate provider reported information
System Effects

- **Data Quality**
  - Program directors more likely to review data prior to submission
  - Instructors pay increased attention to testing methodology

- **System Effectiveness**
  - Providers use data for program improvement purposes
  - Improved state performance on NRS measures

- **Political Support**
  - Increased credibility among state legislators and the public
System Effects (continued)

• Teacher Professionalism
  ○ Instructors held accountable for their learners’ performance
  ○ Supports removal of incompetent instructors or those unwilling to change
  ○ Motivates programs to invest in staff development