

Performance-based Funding In Adult Education

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Contents

	Page
Executive Summary	ES-1
Section 1: Purpose of the Study	1
Section 2: Overview of State Adult Education Funding Systems.....	3
Indiana.....	3
Kansas	5
Missouri	6
Section 3: Rationale for System Adoption	9
Contextual Factors Influencing Formula Adoption	9
Federal Accountability Requirements.....	9
State Programmatic Factors	10
State Goals in Introducing Performance-based Funding	10
Equity	11
Efficiency.....	11
Accountability.....	12
Program Improvement	13
Section 4: Formula Design Process	15
Formula Development	16
Formula Construction	17
Resource Allocation.....	17
Performance Measures.....	17
Category 1: Core and Secondary Measures Included in the National Reporting System.....	18
Category 2: Process Measures of Program Performance	19
Category 3: Provider Attainment of Performance Standards	20
Formula Weighting	21
Educational Gain.....	21
Core Versus Secondary Measures	23
Timing of Data Collection	23

Contents

	Page
Section 5: Implementation Issues	25
Formula Rollout	25
Provider Reporting Capacity.....	26
Data Quality	27
Management Information Systems	28
Technical Assistance.....	29
Section 6: Effects of Performance-based Funding.....	31
Advantages of Performance-based Funding	31
Evidence of Performance Improvement	34
Changes in Local Adult Education Providers.....	37
Section 7: Considerations in Transitioning to Performance-based Funding	39
Key Considerations in Formula Design.....	40
How Much Funding Should Be Allocated Using Performance Criteria?.....	40
How Should Funding Formulas Be Structured?.....	40
What Factors Should Be Considered in Formula Implementation?	44
Appendix A: Indiana Case Study Report: Performance-based Funding in Adult Education	47
Section A-1: Overview of the State Adult Education Funding System.....	49
State Allocations	51
Organization of State Adult Education Services	52
Local Providers	53
Section A-2: Rationale for System Development	55
State Adoption Process	55
Goals in Introducing Performance-based Funding	56
Section A-3: Formula Design Process	57
Specification of Funding Criteria: State Funding	57
Specification of Funding Criteria: Federal Funding.....	58
Assessing Formula Effects.....	60
Section A-4: Implementation Process	61
Provider Reporting Capacity.....	61
Data Quality	62
Management Information Systems	62
Technical Assistance.....	63

Contents

	Page
Section A-5: Effects of Performance-based Funding	65
Contributions to Statewide Performance	65
Drawbacks.....	67
Effect of PBF on Adult Education Providers.....	69
Fiscal Eligibility.....	69
Program Outcomes.....	73
System Evolution	75
Appendix A Summary	77
Appendix B: Kansas Case Study Report: Performance-based Funding in Adult Education	81
Section B-1: Overview of the State Adult Education Funding System	83
State Allocations	84
Organization of State Adult Education Services	86
Local Providers	86
Section B-2: Rationale for System Development	89
Contextual Factors Influencing Formula Adoption	89
State Adoption Process	90
Goals in Introducing Performance-based Funding	91
Section B-3: Formula Design Process	93
Specification of Funding Criteria: Base Funding	93
Specification of Funding Criteria: Performance Funding.....	94
Specification of Funding Criteria: Program Quality.....	95
Assessing Formula Effect	96
Section B-4: Implementation Process	97
Provider Reporting Capacity.....	97
Data Quality	98
Management Information Systems	99
Technical Assistance.....	100
Section B-5: Effects of Performance-based Funding	101
Contributions to Statewide Performance	101
Drawbacks.....	103

Contents

	Page
Effect of PBF on Adult Education Providers.....	104
Fiscal Eligibility.....	105
Program Outcomes.....	105
System Evolution.....	108
Appendix B Summary	111
Appendix C: Missouri Case Study Report: Performance-based Funding in Adult Education	115
Section C-1: Overview of the State Adult Education Funding System.....	117
State Allocations	118
Organization of State Adult Education Services	119
Local Providers	120
Section C-2: Rationale for System Development	123
State Adoption Process	124
Goals in Introducing Performance-based Funding	124
Section C-3: Formula Design Process.....	127
Specification of Funding Criteria: Core Funding	128
Specification of Funding Criteria: Performance Funding.....	130
Assessing Formula Effect	131
Section C-4: Implementation Process.....	133
Provider Reporting Capacity.....	133
Data Quality	134
Management Information Systems	134
Technical Assistance.....	135
Section C-5: Effects of Performance-based Funding.....	137
Contributions to Statewide Performance	137
Drawbacks.....	139
Effect of PBF on Adult Education Providers.....	141
Fiscal Eligibility.....	141
Program Outcomes.....	146
System Evolution	147
Appendix C Summary	149

Contents

	Page
Appendix D: Study Methodology and Analysis Procedures.....	153
Section D-1: Study Methodology	155
Case Study Visits	155
Interviews.....	156
Site Meetings	159
Indiana.....	159
Kansas	160
Missouri	161

Tables

Table	Page
ES-1 Selected Characteristics of State Performance-based Funding Systems for Indiana, Kansas, and Missouri: FY05.....	ES-2
1 NRS Core and Secondary Measures Used in Three State Performance-based Funding Formulas, by State	18
2 Indiana Performance Standard Incentive Rates as Based on Federal Funding and Numbers of Statewide Outcomes: FY01 to FY05	21
3 Missouri Performance Outcome Rates, by Education Functioning Level: FY02 and FY03 to Present.....	22
4 Percentage of Adult Learners Nationally and in Three States Achieving Outcomes on the NRS Core Performance Measures by Types of Measure: Program Years 2000–01 to 2003–04	36
5 Selected Indicators of Indiana Adult Education Programs: Years 2000–01 to 2004–05.....	37
A-1 Indiana Adult Education Funding Allocated as Base or Performance Funding: FY05	52
A-2 Selected Characteristics of Indiana Adult Education Providers and Participants: FY00 to FY05	54
A-3 Indiana Performance Outcome Rate and Performance Goal Rate: FY01 to FY05	59
A-4 Indiana Combined Adult Education Performance and Incentive Awards, Percentage and Dollar Amount Change by Provider: FY01 to FY05	71
A-5 Total Change in Indiana Adult Education Funding, by Comprehensive Program District: FY00 to FY06	72
A-6 Indiana Statewide Adult Education Participants, Providers, and Performance Outcomes and Goals: FY01 to FY05.....	73
A-7 Total Number of Indiana Adult Education Performance Outcomes Achieved and Percentage Change, by Comprehensive Program District: FY01 to FY05	74

Table	Page
A-8 Total Number of Indiana Adult Education Performance Goals Achieved, by Comprehensive Program District: FY01 to FY05	76
B-1 Kansas Adult Education Federal and State Funding Allocated as Base or Performance Funding: FY05.....	85
B-2 Selected Characteristics of Kansas Adult Education Providers and Participants: FY99 to FY04	87
B-3 Kansas Local Provider Funding Eligibilities and Percentage Change Between Selected Fiscal Years: FY00 to FY04.....	107
B-4 Selected Performance Characteristics of Kansas Adult Education Participants, FY99 to FY04, and Percentage Change, FY01 to FY04	108
C-1 Missouri Adult Education Funding Allocated as Base or Performance Funding: FY05	118
C-2 Selected Characteristics of Missouri Adult Education Providers and Participants: FY01 to FY05	120
C-3 Missouri Contact-Hour Rate and Total State Obligation: FY02 to FY06	128
C-4 Missouri Levels of Advancement Performance Calculator Used to Award Performance-based Funding: FY02	131
C-5 Missouri Levels of Advancement Performance Calculator Used to Award Performance-based Funding: FY05	131
C-6 Missouri Adult Education Expenditures Prior to and After PBF and Percentage Change, by Provider: FY01 to FY05	142
C-7 Missouri Adult Education Core Expenditures to Providers: FY02 to FY05	144
C-8 Missouri Adult Education Performance-based Funding Expenditures, by Provider: FY02 to FY05	145
C-9 Selected Characteristics of Missouri Adult Education Level Completers: FY01 to FY05	146
C-10 Selected Participation Characteristics of Missouri Adult Education Participants by ABE, ESL, and ASE Status: FY01 to FY05.....	147
D-1 Change in Performance Award for Indiana, by Provider: FY01 to FY05	159

Table	Page
D-2 Change in Performance Award for Kansas, by Provider: FY00 to FY04	160
D-3 Change in Performance Award for Missouri, by Provider: FY01 to FY05	161

Figures

Figure	Page
A-1 Percentage of Indiana Local Provider Allocation by Funding Type: FY05	52
A-2 Ages of Indiana Adult Education Participants: FY05.....	54
B-1 Percentage of Kansas Adult Education Funding Allocated by Funding Type: FY06	85
B-2 Ages of Kansas Adult Education Participants: FY05	87
C-1 Percentage of Missouri Local Provider Allocation by Funding Type: FY05	119
C-2 Ages of Missouri Adult Education Participants: FY05	121

Exhibits

Exhibit	Page
D-1: Letter to State Directors of Adult Education Requesting Selected Information for Cross-case PBF Study.....	163
D-2: Case Study Site Visit Agenda.....	167
D-3: Audiotape Consent Form.....	169

Executive Summary

The *Adult Education and Family Literacy Act (AEFLA)*, Title II of the *Workforce Investment Act of 1998*, requires states to establish a comprehensive performance accountability system to assess the effectiveness of eligible agencies in making continuous improvement in their adult education and literacy activities. To motivate local adult education providers to improve the quality and effectiveness of their services, some states are adopting performance-based funding (PBF) systems to allocate federal, state, or both, types of adult education resources.

Performance-based funding systems are designed to distribute resources to local providers based on state-defined criteria, which may include learner, administrative, or other programmatic measures. Performance outcomes are used to determine how much money a provider receives and, in some circumstances, whether funds should be added or deducted from a provider's allocation.

To gain a better understanding of how these systems operate, the Office of Vocational and Adult Education (OVAE), U.S. Department of Education, commissioned a study of adult education fiscal policies in selected states using PBF to allocate program resources. This cross-case analysis report summarizes findings from case study site visits conducted in three states—**Indiana, Kansas, and Missouri**—which are among the most experienced in using performance-based funding to allocate federal, state, or both, types of resources. It is intended to assist state policymakers and adult education administrators in making more informed decisions when designing state allocation formulas using performance funding.

In particular, this report documents commonalities in the design and implementation of PBF systems across study states, including lessons learned and challenges faced during system start-up. The paper opens with an overview of funding approaches used in study states and the rationale for formula adoption. A description of the formula design process follows, including an account of the individuals involved in system development and the measures included in formula construction. The report next reviews implementation issues affecting formula rollout and the effects of performance funding on state adult education providers. A description of key issues state administrators should consider when making the transition to performance funding concludes the report.

Organization of State Performance-based Funding Systems

States using performance-based funding to allocate adult education resources have developed unique approaches for allocating resources among eligible providers. As documented below, states selected for this study are representative of the diverse funding approaches used in the field, both in the amount of resources allocated using performance criteria and in their types of measures and distribution approach (table ES-1).

Table ES-1
Selected Characteristics of State Performance-based Funding Systems for Indiana, Kansas, and Missouri: FY05

	Indiana	Kansas	Missouri
Adult Education Funding (\$)	\$21,055,280	\$4,458,990	\$12,040,787
Number of Providers	43	31	44
Community Colleges	1	17	10
Secondary Districts	41	11	31
Other ^a	1	3	3
Percentage of Resources Allocated Using PBF			
Total	5%	88%	19%
Federal	15%	100%	22%
State	0%	50%	10%
Performance Measures			
Core NRS ^b	15	15	11
Secondary NRS	7	3	0
Quality Criteria ^c	0	25	0
Incentive Funding	15	0	0

SOURCE: Data files provided by Indiana Department of Education, 2006; Kansas Board of Regents, 2006; Missouri Department of Elementary and Secondary Education, 2006.

^a Other includes: community-based and faith-based providers.

^b Includes 11 submeasures of educational gain in Adult Basic Education (ABE), Adult Secondary Education (ASE), and English as a Second Language (ESL) programs.

^c A set of 10 process measures encompassing 25 state-established submeasures that assess program adoption of strategies that are associated with high performance.

All three states support the funding of adult education with a base allocation combined with performance funding. State strategies for allocating federal and state resources using performance funding are outlined below.

Indiana—limits performance-based awards to federal resources, so that only a small percentage (5 percent) of total state and federal resources are allocated based on performance. Federal

Executive Summary

performance resources are allocated based on the number of adult learners achieving outcomes on each of the core and secondary measures contained within the National Reporting System for Adult Education (NRS), the accountability system for the *AEFLA*. Incentive grants also are provided for agencies meeting their state-negotiated performance levels for the core NRS measures. To align outcomes with state system goals, the amount awarded for a secondary NRS performance outcome is half that awarded for an outcome on a core NRS measure.

Kansas—allocates a large percentage (88 percent) of its total state and federal funds based on provider performance. Fifty percent of federal funds are allocated based on the number of learner outcomes on the core and selected secondary measures of the NRS, with educational gain outcomes doubled for learners in the five lowest educational functioning levels (i.e., indicators of skill attainment). Fifty percent of federal and 50 percent of state funds are allocated based on the number of quality points a program earns relative to the statewide total generated in that year. Quality points are awarded based on provider performance on 25 measures encompassing 10 state-established quality indicators.

Missouri—distributes a modest share (19 percent) of its federal and state resources using performance-based funding. Performance resources are distributed based on two core NRS measures: the number of individuals who achieved an educational gain and those who received a general equivalency diploma (GED) diploma. The state attaches different dollar amounts to provider outcomes, with additional resources provided for outcomes achieved by lower-level Adult Basic Education (ABE) and English as a Second Language (ESL) learners.

Rationale for Performance-based Funding

Before the introduction of PBF, the three case study states funded adult education primarily based on enrollment, with program eligibility determined by the total number of learner-contact hours generated during the preceding program year. During interviews, state administrators and program directors in all three states related their frustration with contact-hour formulas, suggesting that this mechanism provided educators a greater incentive to fill seats than to manage enrollments, undertake staff development, or initiate curricular reforms that could improve student outcomes.

The introduction of PBF was initiated by state directors of adult education to improve reporting on the accountability requirements contained in *AEFLA* and to address programmatic concerns about the delivery of adult education services. To guide formula drafting efforts, state administrators specified statewide goals for the adoption of PBF systems. Generally, these goals called for the creation of a more open, transparent system that would allocate resources in a fair and efficient manner. State goals fell into four broad areas:

Executive Summary

- *Equity*—Administrators sought to develop fair and equitable systems for allocating resources to ensure that all providers had equal opportunity to compete for federal, state, or both, resources.
- *Efficiency*—Performance funding systems were intended to channel resources to the most effective providers of instructional services, thereby maximizing the return on state investment.
- *Accountability*—Formula development teams selected performance measures that would support the state in achieving its federally negotiated performance targets on the NRS measures.
- *Program Improvement*—Performance funding systems were intended to motivate program directors to initiate program improvement efforts.

Formula Design Process

State administrators in all three states championed performance funding as a means of improving program effectiveness and system efficiency. Formula development typically proceeded under the direction of the state director, who provided a vision for PBF; recruited influential program directors—representative of local providers throughout the state—to serve on an advisory council; supervised formula drafting efforts; and modeled funding scenarios under different assumptions.

The construction of state funding formulas was a roughly yearlong process, with advisory committee members meeting between three to five times over a six- to 12-month period. To promote understanding and support in the field, state administrators kept local providers apprised of formula development efforts at statewide or regional adult education conferences. Advisory council members also were asked to share their experiences with their colleagues so that there would be no surprises once the formula design process was complete.

Study states have combined performance measures contained in *AEFLA* with their own state-established measures to allocate performance funding. State measures fall into three categories:

- *Core and Secondary NRS Measures*—All three states make use of the core and secondary NRS measures to allocate all or a substantial portion of their state resources.
- *Process Measures of Program Performance*—Kansas is unique in using a set of 25 subindicators of program quality to award performance funding, with points

Executive Summary

awarded based on whether a program is rated as having a high, medium, or low level of quality on each measure.

- *Provider Attainment of Performance Standards*—Indiana is the only state to award incentive funding to providers who meet or exceed their state-negotiated performance standards. Incentive funding is based on 15 performance measures associated with the core NRS measures.

To ensure that providers offer services to all students, administrators in each state assigned different weights to learner outcomes. The weights vary by state, with Kansas and Missouri attaching additional resources for lower-level and ESL achievement, while Indiana assigns a different value to learners who achieve an outcome associated with a core versus a secondary NRS measure.

Implementation Issues

States fully implemented their PBF systems in the year following formula development. To offset funding losses associated with PBF adoption, state administrators supplemented providers' initial performance allocations using additional federal resources made available to states with the adoption of *AEFLA*. Funding simulations conducted during formula development meetings in all three states also indicated that there would be few losers among providers. Those projected to experience a drop in resources were primarily larger providers that could absorb anticipated losses.

Study states were among the earliest implementers of PBF in the country, adopting performance funding concurrent with or immediately following the enactment of the *AEFLA* in 1998. During this transition period, local providers initially struggled to collect accurate NRS performance outcome data. Provider challenges included correctly administering tests of educational gain to learners so that test results were valid, and correctly using new, state-supplied management information system software intended to assist them in administering learner files and in collecting accountability data.

Although providers initially had some problems collecting performance data, state directors noted that, with time and training, reporting difficulties were surmounted. Moreover, because all three states used the NRS measures to distribute some or all of their performance funding, directors believed that initial difficulties resulted from provider misunderstanding of the new federal reporting requirements, rather than the operation of the funding formula itself. States now considering using the NRS (or other state) measures may be able to avoid much of the confusion associated with system start-up, since providers have had over half a decade of experience collecting data for the NRS.

Executive Summary

State adult education directors reported that the adoption of PBF had little effect on state-level investment in technology or personnel, since the majority of state performance measures overlap those used for the *AEFLA*. To standardize data collection for the NRS measures, state adult education administrators in all three states supplied providers with database software and guidance on entering participant data into the system. Although program directors reported that the adoption of state NRS software required that they make changes to their information systems, no additional technology costs were associated with performance reporting. That is, had performance reporting not been introduced, providers still would have been required to standardize data administration to report on *AEFLA*-mandated accountability measures.

State administrators did not explicitly provide technical assistance on the operation of performance funding formulas. Rather, state training initially focused on familiarizing local program provider staff with new *AEFLA* reporting requirements, explaining the appropriate strategies for administering tests and collecting performance data, and entering data into state-supplied management information system software. Over time, as local familiarity with reporting systems has increased, state administrators have been able to target technical assistance to address methodological issues undercutting program reporting.

Effects of Performance-based Funding

Although state personnel interviewed for this study ascribed both positive and negative consequences to performance funding, few if any data exist to substantiate their claims. In many cases, participant observations were based on general perceptions of program operations or extrapolations from a single experience. Some participants also had difficulty differentiating programmatic effects resulting from the adoption of PBF from those associated with state implementation of the *AEFLA*. As a consequence, it is difficult to draw conclusions about the effects of PBF on state adult education systems.

Participants' observations, however, suggest that performance funding helped states achieve their intended goals and also reaped unexpected benefits in terms of data quality and its use for program improvement purposes. Specific contributions included:

- *Improves Data Quality*—Linking resources to the core and secondary NRS measures appears to have given local directors a fiscal incentive to review the accuracy and completeness of information submitted to the state.
- *Increases System Effectiveness*—Compensating providers for results has focused local directors' attention on program performance, and, in particular, on making connections between programs, instructors, and learner outcomes.

Executive Summary

- *Engenders Political Support*—State directors reported that system adoption bolstered their credibility among state legislators and the public, while providing an effective way of winning legislative support for program operations.
- *Promotes Instructor Professionalism*—Program directors believed that performance funding contributes to program quality by holding instructional staff accountable for their learners’ outcomes because they now must demonstrate results to be considered effective.

State directors believe that the adoption of PBF contributed to improving state outcomes on the core NRS measures by encouraging providers to improve the quality of their instruction and administration of data. A review of national performance data conducted for this report appears to support this claim, with study states outperforming the national average on many of the NRS measures and registering substantial improvements on individual measures across years.

Unfortunately, it is not possible using existing data to ascribe causality to PBF in improving state outcomes. That is, although performance funding is associated with positive changes in state performance, it is possible that a host of other factors, such as population changes, learner access to other educational services, curricular innovations, and other education reform efforts have influenced state outcomes as well. Consequently, while state performance suggests that there may be changes in how states were performing prior to and immediately following the adoption of performance funding, it is impossible to attribute program successes directly to its use.

Considerations in Making the Transition to Performance-based Funding

Introducing PBF into state adult education funding formulas is a complicated process, one that requires that state directors and their staff commit time and resources to overseeing formula drafting and implementation efforts. States that have succeeded in adopting PBF have developed various strategies for allocating adult education resources because no one formula will work in all state contexts. Regardless of the approach used to distribute resources, all states face similar issues in designing their funding systems. Administrators in states considering using PBF can improve the likelihood of success by answering some of the following questions during the development process.

Executive Summary

- *How Much Funding Should Be Allocated Using Performance Criteria?*—Ultimately, funding allocated using PBF depends upon state conditions, including the amount of federal and state resources available, the manner in which funds are distributed, the perceived need for statewide adult education reform, and the appetite for risk among state administrators and providers. Funding levels also should account for state capacity to support providers transitioning to the new funding system, as well as state capability to increase funding concurrent with system rollout, should the state seek to hold harmless providers projected to lose funding.
- *How Should Funding Formulas Be Structured?*—On balance, the less complexity associated with PBF the easier state systems are to understand and administer. Ideally, program measures and formula operation will align with and reinforce state policy priorities that have been identified, while limiting the reporting burden on providers. Care also must be taken to ensure that providers with unique characteristics, including those serving small and rural populations or large numbers of lower-level or ESL learners, can compete for resources on a level playing field.
- *How Should Formulas Be Implemented?*—State administrators should consider whether precautionary steps are warranted to protect providers from sudden changes in their resource eligibility, such as by attaching a hold-harmless provision to initial allocations. The decision of whether or not to adopt funding “circuit breakers” should be based on state conditions, including changes in federal and state resources for adult education, the availability of held-back federal funds, and results from preliminary modeling of PBF allocations.

States also should sponsor technical assistance workshops to assist providers in understanding how the state funding formula operates, how to analyze performance data to identify areas in need of improvement, and how to initiate programmatic changes to improve their funding eligibility. Given the high stakes associated with provider data submissions, administrators considering adopting PBF also should plan to review the quality of program data and put providers on notice of the importance of submitting accurate information.

Summary

Performance-based funding has been adopted by states to improve the fairness and efficiency of state adult education resource allocation. This study of states experienced in using PBF suggests that both state administrators and local program directors believe that these systems can help improve learner outcomes and the provision of program services. Study findings suggest that

Executive Summary

state administrators face similar issues when designing and implementing these systems, and that states successful in adopting these systems involve providers in system development and in modeling system effects, and provide technical and material support to program staff.

SECTION 1:

Purpose of the Study

The *Adult Education and Family Literacy Act (AEFLA)*, Title II of the *Workforce Investment Act of 1998 (WIA)*, requires states to establish a comprehensive performance accountability system to assess the effectiveness of eligible agencies in making continuous improvement in their adult education and literacy activities. To encourage adult education service providers to improve the quality and effectiveness of their instructional programs, states are adopting performance-based funding (PBF) to allocate some or all of their federal, state, or both, adult education resources. These funding systems distribute resources to local providers based on state-defined criteria, which may include learner, administrative, or other programmatic measures. Performance outcomes are used to determine how much money a provider receives and, in some circumstances, whether funds should be added or deducted from a provider's allocation.

To gain a better understanding of how PBF systems operate, in 2004 the Office of Vocational and Adult Education (OVAE), U.S. Department of Education, commissioned a study of fiscal policies in states allocating adult education resources using performance criteria. The study findings herein can be used to assist state policymakers and adult education administrators in making more informed decisions when designing and implementing PBF systems. Research focused on four questions:

- Why have states decided to adopt PBF systems?
- How have PBF systems been designed at the state level?
- How have PBF systems been implemented at the state level?
- What effect have PBF systems had on the attainment of state-identified performance goals and the delivery of services?

To answer these questions, researchers conducted case study visits to three states—**Indiana**, **Kansas**, and **Missouri**—that were early implementers of performance funding. Site visits, conducted between January and March 2006, were used to solicit state adult education administrators' and local program providers' perspectives on the development and use of performance funding and to collect quantitative and qualitative data on system operation.¹ To

¹ See Appendix D, Study Methodology and Analysis Procedures, for a complete description of titles and positions in the nation's education system scheme (e.g., local provider, state director, state administrator, and program staff).

SECTION 1
Purpose of the Study

preserve confidentiality of respondents, names of individuals quoted in the text have been withheld, but job titles provided.

This three-state, cross-case analysis report synthesizes study findings to document lessons learned by state administrators in designing and implementing PBF systems. Effective strategies used to support development and adoption of performance-funding systems are profiled, along with formula considerations common across these states and unique to specific funding approaches. The report closes with a review of the effects of performance funding on service delivery and issues states should consider before initiating the development of a PBF system.

Detailed descriptions of state systems and the methodology used to collect and analyze data are included in the appendix of this report. Interested readers may also wish to consult the background report *Performance-based Funding in Adult Education: Literature Review and Theoretical Framework*,² which documents performance-based resource distribution approaches in adult and higher education programs, along with the conceptual and theoretical framework used to guide study activities.

² *Performance-based Funding in Adult Education: Literature Review and Theoretical Framework*. Steven Klein, MPR Associates. Prepared for U.S. Department of Education, OVAE, Division of Adult Education and Literacy. September 2005.

SECTION 2:

Overview of State Adult Education Funding Systems

States using PBF to allocate adult education resources have developed distinct approaches for allocating resources among eligible providers. To provide context for the research findings, this section briefly summarizes strategies of the three states profiled for allocating federal and state resources for adult education programs and the performance criteria used to determine provider eligibility.

Indiana

In FY01, the Indiana Department of Education updated its federal adult education finance formula to incorporate performance funding. Its existing state formula for allocating adult education funding remained unchanged. Under the revised system, local providers are funded as follows:

Base Funding: Roughly 85 percent of federal and 100 percent of state resources are allocated as base funding using the following distribution criteria:

- *Federal Resources*—Providers automatically qualify for 90 percent of the resources that were in their FY00 base budget. This base remains constant over time and is associated with a funding district, not an individual provider. Should an existing provider withdraw from the system, a new provider is identified within the district and resources transferred from the exiting to the entering agency.
- *State Resources*—Providers automatically qualify for 90 percent of their reimbursed expenditures for the summer and fall terms of 1991 and the spring term of 1992, or, for new programs, a base amount established at the close of the first full year of operation. This base remains constant unless an agency's expenditures fall below its base during a given period; when this occurs, the reduced reimbursement becomes the new base. Remaining appropriations or new state dollars are distributed on the basis of enrollments, so that over time a greater percentage of the state appropriation is based on learner demand.

Overview of State Adult Education Funding Systems

Performance Funding: Approximately 15 percent of federal resources are distributed based on provider performance on the core and secondary measures of the National Reporting System for Adult Education (NRS), the accountability system for the *AEFLA*. All states are required to report on the core measures in the NRS, which include learner outcomes, employment outcomes, and postsecondary participation measures, and states have the option of reporting on the secondary measures, which include outcomes related to family and community.

Federal performance resources are allocated based on the number of adult learners achieving outcomes on state-identified NRS measures. Incentive grants also are provided for agencies meeting their state-negotiated performance levels for 12 measures of educational gains included in the NRS. Performance funds lag one year behind recorded outcomes, meaning that a local provider's eligibility in FY06 is determined by its program performance in FY05. State measures include:

- *Performance*—Number of provider outcomes, calculated by summing the number of adult learners who achieve any of the following:
 - Completed a level or completed a level and advanced to a higher level;
 - Entered employment, retained employment, obtained a general equivalency diploma (GED) or secondary school diploma, or entered postsecondary education or training;
 - In family literacy programs, advanced an educational functioning level (i.e., an indicator of skill attainment), entered or retained employment, obtained a secondary diploma or GED, entered postsecondary education or training, or had increased involvement in their children's education or literacy activities;
 - In workplace literacy programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED, or enrolled in postsecondary education or training;
 - In corrections programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED, or entered postsecondary education or training; or
 - Achieved a work-based project learning goal, left public assistance, acquired citizenship skills, increased involvement in their children's education or literacy activities, voted or registered to vote, or increased involvement in community activities.

Overview of State Adult Education Funding Systems

Provider resource eligibility is calculated by multiplying the total number of individuals achieving a positive outcome on the identified NRS measures by a state-established rate for each measure. To align outcomes with state goals, the amount awarded for a secondary NRS performance outcome is half the amount awarded for an outcome on a core NRS measure.

- *Incentive*—Funds are awarded for providers meeting their state-negotiated performance levels for the NRS core measures, including:
 - Made an educational gain (12 levels);
 - Entered further education and training;
 - Entered employment;
 - Retained employment; and
 - Completed high school or GED.

Local provider eligibility is calculated by multiplying the total number of negotiated performance targets achieved by a state-established rate equivalent for each measure.

Kansas

In FY00, the Kansas Board of Regents overhauled its formula for allocating federal and state adult education resources among eligible providers. Under the revised system, local providers are guaranteed a base level of funding from state resources, which is equally distributed across all of these providers. Providers compete for federal and remaining state resources allocated on the basis of learner outcomes, and for quality points awarded on the basis of provider administrative and programmatic operations.

Base Funding: Each fiscal year, 50 percent of state adult education resources are evenly divided as base funding among all eligible providers in the state.

Performance Funding: Performance awards are distributed based on provider performance during the fiscal year preceding the current one, meaning that funds lag one year behind recorded outcomes. Resources are distributed based on providers' performance using the following distribution formula:

- *Learner Outcomes*—Fifty percent of federal funds are allocated based on the number of learner outcomes on selected NRS core and secondary measures. These include:

Overview of State Adult Education Funding Systems

- Completed one of the functional academic performance levels identified for Adult Basic Education (ABE), Adult Secondary Education (ASE), and English as a Second Language (ESL) learners as specified in the NRS;
- Entered employment;
- Retained employment;
- Received a GED;
- Entered postsecondary education or training;
- Acquired U.S. citizenship skills;
- Increased involvement in children’s education; and
- Increased involvement in children’s literacy activities.

Educational gain outcomes are doubled for learners in the five lowest educational functioning levels of the NRS (i.e., the two lowest ABE levels and three lowest ESL levels).

- *Program Quality*—Fifty percent of federal and 50 percent of state funds are allocated based on the number of quality points a program earns relative to the statewide total generated that year. Quality points are awarded based on provider performance on 25 submeasures encompassing 10 process indicators.³ Points are awarded based on evidence presented during a state monitoring visit, data that are in programs’ end-of-year reports or that are derived from learner follow-up surveys, and records maintained by state staff.

Missouri

In FY02, the Missouri Department of Elementary and Secondary Education adopted a performance-based funding system to allocate its federal and state adult education resources among eligible service providers. Under this system, local providers are guaranteed a base level of funding from federal and state resources, which is distributed across providers based on audited learner-contact hours. Providers compete for remaining federal and state resources that are allocated on the basis of provider performance on two NRS measures of student progress, as indicated below. Additional categorical funding is also available for state-specified uses.

Base Funding: Each fiscal year, the state establishes a base funding rate that it uses to allocate 50 percent of available resources. These funds are distributed based on a provider’s total audited

³ A complete listing of the Kansas *Indicators of a Quality Adult Education Program* can be downloaded from the Internet at: <http://www.kansasregents.org/download/adultEd/IndicatorsFY05.pdf>

Overview of State Adult Education Funding Systems

learner-contact hours in the first preceding fiscal year for which audited totals are available (i.e., FY04 for FY06). The remaining 50 percent of base resources are allocated based on a program's previous three-year average of its total audited contact hours (i.e., using FY02–04 for FY06).

Performance Funding: Performance resources are distributed based on the number of individuals who made academic progress on two measures defined in the NRS:

- Completed one of the functional academic performance levels identified for ABE, ASE, and ESL learners in the NRS; and
- Received a GED.

Performance resources also lag two years behind the recording of outcomes, meaning that local provider eligibility is determined by program performance in the fiscal year two years preceding the current one. Local provider eligibility is calculated by multiplying the total number of individuals achieving a positive outcome by a state-established rate for each measure.

Categorical Funding: Federal and state resources are earmarked for use in specific functions identified by the state. These include data collection funds to offset data entry staff salaries and computing upgrades, marketing funds to offset provider advertising expenses, technology funds to purchase computing hardware and software, and One-Stop funds to support coordination with One-Stop Career Centers. Local provider eligibility is calculated by averaging providers' three-year expenditures in each category, with a state-established, fixed dollar amount awarded based on the level of program expenditures.

SECTION 3:

Rationale for System Adoption

Performance-based funding systems distribute resources to local providers based on measurable, state-defined criteria of program performance. A review of the performance-funding literature reveals that these systems increasingly have been integrated into federal and state government programs since the early 1990s, where they have been used as a means of holding public agencies accountable for the quality, efficiency, and effectiveness of program services.

Contextual Factors Influencing Formula Adoption

Unlike the higher education sector, where early systems were imposed legislatively, often without input from postsecondary educators, adult education administrators in profiled states report that they encountered little, if any, pressure to adopt PBF from external sources. Rather, the introduction of PBF was initiated by state directors of adult education to respond to accountability requirements contained in *AEFLA* and to address programmatic concerns about the delivery of state adult education services.

Federal Accountability Requirements

Accountability provisions in the *AEFLA* catalyzed state adoption of PBF. To ensure an optimal return on federal investment, the *AEFLA* legislation requires that states negotiate levels of performance for core indicators contained in the act, and report annually on state and local progress in making continuous improvement toward achieving these targets. Performance data are used to produce state-by-state comparisons that are reported to Congress and the general public, and to establish state eligibility for incentive grants awarded through the *Workforce Investment Act (WIA)* legislation.

The locals didn't like the old formula but they didn't know why. Nobody ever got enough money. Nobody ever got as much as they should. Everybody got less money than they should, compared to what they knew their neighbor got, or suspected their neighbor got, and they knew that their neighbor wasn't working nearly as hard as they were.
—*State Director, Kansas*

State directors in study states believed that the common measures of performance contained in *AEFLA* would give adult education greater visibility, enabling policymakers to compare performance outcomes across states, as well as within states across individual providers. Although federal resources comprise a substantial proportion of program allocations, directors believed that, absent a fiscal incentive, providers would perceive new *AEFLA* reporting requirements as a bureaucratic exercise that did not need to be taken seriously. Directors

Rationale for System Adoption

assumed that attaching funding to program performance would create a high-stakes funding environment that would motivate providers to initiate instructional reforms to boost their resource eligibility, and, in so doing, increase the likelihood that their state would achieve its federally-negotiated *AEFLA* performance levels.

State Programmatic Factors

State directors played a pivotal role in introducing PBF into their state funding formula. In both Kansas and Missouri, the decision to adopt PBF coincided with leadership changes at the state director position. That is, incoming directors related that they were dissatisfied with the state-funding approach they were inheriting, believing that their existing state formulas concealed how provider resources were allocated, causing local providers to question the fairness of the process.

Before the introduction of PBF, the three case study states funded adult education providers primarily based on enrollment, with program eligibility determined by the total number of learner-contact hours generated during the preceding program year. Resource allocations were calculated by multiplying a program's contact hours by a state-established dollar amount, which varied across years based on the number of contact hours reported by providers and the availability of federal and state funds.

During interviews, state administrators and program directors in all three states related their frustration with contact-hour formulas, suggesting that this mechanism provided educators a greater incentive to fill seats than to manage enrollments, undertake staff development, or initiate curricular reforms that could improve student outcomes. The Missouri state director also voiced his belief that funding based on contact hours destabilized resource allocations because year-to-year fluctuations in program participation had implications for future year allocations. To illustrate, he described how one year of low enrollment could force institutional cuts the following year, which, in turn, could make it difficult for a provider to generate additional contact hours to earn back lost resources.

Although state administrators reported no external pressure to adopt PBF, prior to adopting performance funding, staff in Indiana recalled being asked by a new state board member whether performance was considered in determining provider allocations. This line of questioning sensitized state administrators to the lack of accountability in their existing funding system and helped to build their resolve to remedy the situation.

State Goals in Introducing Performance-based Funding

To guide formula drafting efforts, state administrators consulted with representatives of local providers to specify statewide goals for the adoption of PBF systems. Generally, these goals

Rationale for System Adoption

called for the creation of a more open, transparent system that would allocate resources in a fair and efficient manner. State goals fell into four broad areas.

Equity

Administrators sought to develop a fair and equitable system for allocating resources across providers. This translated into ensuring that all providers had equal opportunity to compete for PBF resources. Specific considerations identified by state administrators and advisory council members included:

- *Equalizing resource distribution across sites*—Adult education service providers differ within states in a number of respects, including program size, program offerings, learner demographics, and geographic location. To ensure equitable distributions, advisory council members in all three states sought to ensure that providers, irrespective of their characteristics, could compete to earn sufficient resources to maintain their existing programs. Political realities also dictated equalizing basic grant allocations across agencies in Kansas, because, according to the director, state legislators would have been unwilling to advocate for increased adult education funding unless they believed their constituents were getting a fair share of available resources.
- *Linking resources to regional delivery systems*—Learners are not evenly distributed within a state, and so advisory council members in Indiana set out to align regional allocations with population needs. That is, unlike Kansas and Missouri, Indiana associates adult education resources with a funding district rather than an individual provider. Providers within regions automatically qualify for 90 percent of the federal and state resources they received in preceding years, so that this base remains constant over time. Should an existing provider withdraw from the system, the state identifies a new provider, located nearby, so that the regional eligibility remains constant.

Efficiency

Performance-funding systems are intended to channel resources to the most effective providers of instructional services, thereby maximizing the return on state investment. At the same time, formula-drafting teams recognized that new state systems must permit providers to have an opportunity to improve, should their performance outcomes unexpectedly fall short of anticipated levels. All three states sought to promote system efficiency by:

Rationale for System Adoption

- *Guaranteeing providers a minimum level of funding*—Formula development teams in all three states set out to structure formulas so that programs would receive an adequate base of funding to maintain instructional services. In Kansas and Missouri, this support was provided through a combination of basic grant and performance funding; in Indiana, advisory council members decided that providers should start off the year with sufficient funding to maintain their core program services, even if they were unable to qualify for performance funding.
- *Differentially weighting performance outcomes*—Believing that not all learners are capable of making equal education progress, advisory council members in Kansas and Missouri structured their funding formulas to provide additional resources for outcomes achieved by lower-level learners. In Indiana, advisory members attached lower compensation to learner outcomes on the NRS secondary measures, which were not considered central to achieving state goals.
- *Allocating resources based on program quality*—State administrators in Kansas believed that successful programs followed certain administrative procedures and processes when providing program services. Accordingly, advisory council members determined that the state formula should include quality indicators, such as measures of participant outcomes, program intensity, and credentialing of instructional staff, as an integral part of the state funding formula.

We certainly have seen an improvement in our goals. We don't have a formal study to prove that it's a direct result of the performance-based funding, but I think that as the dollars get tighter and [local providers] need the performance to continue their programs. ... They're all working harder to get to that point of meeting the goals and improving.
—Assistant State Director, Indiana

Accountability

State administrators recognized that new federal reporting requirements could be used to hold programs responsible for their performance, as well as to facilitate state-by-state comparisons. Formula development teams sought to identify performance measures that would support the state in achieving its *AEFLA* performance targets by:

- *Allocating resources based on the NRS measures*—Team members in all three states employed the core NRS and, in some instances, secondary NRS measures as the criteria to award performance resources. It was anticipated that linking funding to the NRS measures would help motivate local providers to achieve outcomes on key indicators identified in the *AEFLA*, increasing the likelihood that the state would retain its eligibility for incentive funding identified in the *WIA* legislation.

SECTION 3
Rationale for System Adoption

Program Improvement

Advisory council members in all three states believed that performance-funding systems should not only reward successful providers, but also motivate program directors to initiate program improvement efforts. While advisory council members believed that the use of performance funding would lead providers to critique their program operations, the formula development team in Missouri was the only one to build program improvement incentives directly into its state formula. This was accomplished by:

- *Earmarking performance funding for improvement activities*—To encourage providers to improve upon their existing programs, advisory council members in Missouri determined that local providers should earmark a minimum of 10 percent of their programs' performance allocation for instructor stipends for planning and preparation and 25 percent for support of professional development activities. However, this provision was dropped in the second year of program operation due to complaints from program directors, particularly those with small performance allocations who objected to being told how to spend their resources.

SECTION 4:

Formula Design Process

State directors of adult education took direct responsibility for overseeing the development of state PBF formulas. To begin the design process, the state director either formed a performance-funding committee or consulted with his or her standing advisory council, a group typically composed of between 12 to 15 program directors identified as representative of the field. Considerations in selecting formula drafting members included:

- *Provider type*—representatives from secondary and postsecondary agencies, community-based organizations, and other providers eligible for federal, state, or both, types of adult education funding;
- *Provider size*—number of learners participating in program services;
- *Program type*—extent of ABE, ASE, and ESL services offered within providers; and
- *Learner demographics*—population characteristics, including education attainment and language ability, and personal characteristics, such as age, sex, and race-ethnicity.

Directors reported recruiting highly visible individuals who were respected for their judgment and communication skills, as well as for their ability to contribute to council discussions.

State directors believed that the advisory groups they created were representative of the state. For example, in Kansas, the state director’s advisory council included directors from six community college programs, four school district programs, and two community-based organizations. Directors were geographically and demographically distributed, with consideration given to their job tenure, program urbanicity and size, level of local program support, and type of program offering, with program directors including those administering programs serving predominantly ABE and ASE learners, along with those serving predominantly ESL learners.

To promote understanding and support from the field, state administrators communicated formula development efforts to local providers using a variety of approaches. To forewarn program directors, Indiana advised them of the state’s intent to adopt performance funding by placing the issue on the agenda of a statewide administrators’ conference in December 1998, two

SECTION 4
Formula Design Process

years before the state implemented performance funding. In Kansas, the state director met with all local providers for a half-day meeting the month before formula development was initiated to explain the rationale for formula development and to respond to their questions and concerns.

In all states, once development was underway, state directors updated providers on council actions during statewide or regional adult education conferences. Advisory council members also were asked to share their experiences with their colleagues so that there would be no surprises once the formula design process was complete.

Formula Development

The construction of state funding formulas was a roughly yearlong process, with advisory committee members meeting between three to five times over a six- to 12-month period. To illustrate, the state director of Kansas reported that her advisory committee met four times between October 1998 and March 1999, with each meeting lasting approximately six hours.

State directors used advisory council kick-off meetings to educate members about the operation of PBF formulas and to permit them to voice their concerns about the funding system. Before convening the first meeting of Missouri's advisory committee, the state director sent all participants a copy of the book *Who Moved My Cheese?* Written by Spencer Johnson, this motivational best seller describes strategies to help individuals cope with potentially difficult changes in their work setting.

Anticipating that team members would arrive prepared to delve into the meeting agenda, the Missouri state director was surprised to discover how deeply the book had affected people. Participants discussed personal situations and work experiences to such an extent that the first session took on the tone of a professional development seminar. But, as it turned out, these discussions helped members relieve anxiety and build trust, enabling the group to tackle difficult formula development issues at an earlier stage than they might have otherwise.

State directors used subsequent advisory council meetings to draft performance-funding goals and to consider key issues relating to formula development, such as the amount of funding and criteria that should be used to allocate resources. Once the mechanics of formula operation were formalized, advisory council members modeled how provider allocations would change under various assumptions and, based on empirical evidence, agreed to a final formula construction.

As an example, Indiana state administrators modeled resource allocations assuming base funding was set at 60 percent, 65 percent, and 70 percent of total adult education resources. These estimates were shared with committee members, who analyzed the amount of money their own

SECTION 4
Formula Design Process

and other programs would receive. Attaching dollar amounts to formula scenarios helped program directors understand the effect of different assumptions on provider resources, and in the case of Indiana, ultimately convinced advisory council members that the state should limit the amount of funding it distributed based on performance.

Formula Construction

Although states followed similar development approaches, there is considerable variation in how state funding formulas operate. This is due to philosophical differences among state administrators on the appropriate uses of performance funding to motivate local providers, as well as state policies relating to how data are collected and applied.

Resource Allocation

Among the three states studied, Kansas has instituted the most aggressive use of PBF, allocating roughly 88 percent of its combined federal and state adult education funding based on provider outcomes. This commitment to performance has driven all providers within the state to strive to maximize their funding eligibilities, since basic grant funding allocated to local providers is not itself sufficient to maintain program operations.

Missouri has opted for a more modest approach to performance funding, allocating roughly 19 percent of its FY05 resources based on learner outcomes. Unlike other states in the study, over time Missouri has increased the amount of funding it has allocated using performance criteria. When first adopted in FY02, performance funding accounted for just 6 percent of combined federal and state allocations to local providers. Over time, as state adult education resources have fallen, the state has maintained its level of spending for PBF by lowering the amount of resources allocated based on contact hours; as a result, the overall proportion of adult education funding allocated using performance criteria has increased.

Indiana has opted for the most limited use of PBF, with roughly 5 percent of its federal funds allocated on performance. Since performance funding accounts for only a fraction of overall resources, program directors report that they create their annual budgets assuming that they will only receive their guaranteed base. Directors use any performance funding they receive to provide supplemental services, such as purchasing professional development or additional equipment and supplies.

Performance Measures

Study states have combined performance measures contained in *AEFLA* with their own state-established measures to allocate performance funding. State measures fall into three categories:

SECTION 4
Formula Design Process

CATEGORY 1: CORE AND SECONDARY MEASURES INCLUDED IN THE NATIONAL REPORTING SYSTEM

All three states make use of the core and secondary NRS measures of learner outcomes to allocate PBF resources to local providers. Of the three states, Indiana has made the greatest commitment to the NRS measures, adopting all of the core and secondary measures to determine provider resource eligibility (table 1). In contrast, Missouri limits its funding criteria to evidence of learner educational gain and GED receipt.

Table 1
NRS^a Core and Secondary Measures Used in Three State Performance-based Funding Formulas, by State

	Indiana	Kansas	Missouri
Core Measures			
Made educational gain ^b	√	√	√
Received GED	√	√	√
Entered employment	√	√	
Retained employment ^c	√	√	
Entered postsecondary education or training	√	√	
Secondary Measures			
Achieved work-based project learning goal	√		
Received reduction in receipt of public assistance	√		
Achieved citizenship skills ^d	√	√	
Voted or registered to vote	√		
Increased general involvement in community activities	√		
Increased involvement in children’s education	√	√	
Increased involvement in children’s literacy activities ^e	√	√	

^a NRS—National Reporting System for Adult Education

^b Includes 11 submeasures of educational gain in Adult Basic Education (ABE), Adult Secondary Education (ASE), and English as a Second Language (ESL) programs.

^c Whether a learner who finds a job in the first quarter following program exit remains employed in the third quarter following program exit.

^d Whether a learner is has gained the skills required to pass the U.S. citizenship test.

^e Whether a learner increases his or her involvement in literacy-related activities (e.g., reading) with his or her children, as opposed to education process, which is captured by the preceding measure.

SECTION 4
Formula Design Process

To allocate resources, states multiply the number of performance outcomes that a provider achieves by a state-established performance rate or, alternatively, assign each provider a proportional share of the resources available for performance distribution (i.e., a program accounting for 5 percent of statewide learner outcomes would qualify for 5 percent of the resources allocated for this factor).

During interviews,⁴ state administrators and local program directors generally supported the use of the core measures of educational gain and GED receipt as valid outcomes of program performance. Moreover, since all providers are required to report outcome data to comply with *AEFLA* accountability requirements, state directors report that the use of the core and secondary NRS measures imposes no additional reporting burden on local providers.

Program directors in Indiana and Kansas raised some concerns, however, with the use of retained employment by learners as a program funding measure, in part, because of the difficulty in collecting post-program data, and, in part, because of the belief that instructional staff can have little effect on learners' behaviors once they had departed a program. Program directors in Indiana also did not universally support using secondary NRS measures to award performance funding. According to one program director, adult education agencies are focused on imparting basic literacy skills to prepare learners to earn a GED credential. He and others suggested that secondary NRS measures, such as registering to vote or increasing involvement in children's literacy activities, are difficult to measure and less important than those dealing with learner progress.

CATEGORY 2: PROCESS MEASURES OF PROGRAM PERFORMANCE

To encourage providers to make constructive programmatic change, Kansas has identified a set of 25 measures of program quality. Points are awarded to providers based on whether their program is rated by a state representative as having a high, medium or low level of quality for each measure. Points are awarded on the basis of evidence presented during a state monitoring visit, data in programs' end-of-year reports, data derived from follow-up surveys, and records maintained by state administrators.

Awarding points based on program quality allows smaller programs to compete on equal footing for performance-funding resources. Since providers are awarded points for achieving particular criteria, such as maintaining standardized testing protocols confirmed by random review of selected learners' permanent files, all programs have equal opportunity to earn a share of state resources. Use of program quality measures also can ensure that programs are following state-approved data collection or testing procedures.

⁴ A copy of the study methodology is included in Appendix D.

SECTION 4
Formula Design Process

Since quality points are awarded based on external reviews of program offerings, state representatives in Kansas must visit all service providers in the state annually to audit administrative records and award quality points. This need for annual monitoring visits has added a substantial, recurring cost to PBF formula operations. State expenses include paying for monitoring team salaries and travel, coordinating with team members on the conduct of visits, and administering award data to calculate performance allocations.

CATEGORY 3: PROVIDER ATTAINMENT OF PERFORMANCE STANDARDS

Indiana is the only state to award incentive funding to providers who meet or exceed their state-negotiated performance standards. Incentive funding is based on 15 performance measures associated with the NRS core measures. These include 11 measures of educational gain and four measures associated with program completion and post-program outcomes:

Measures of Educational Gain

- Beginning literacy ABE (0–1.9)
- Beginning basic ABE (2–3.9)
- Low intermediate ABE (4–5.9)
- High intermediate ABE (6–8.9)
- Low ASE (9–10.9)
- High ASE (11–12)
- Beginning literacy ESL (0–0.9)
- Low intermediate ESL (2–3.9)
- High intermediate ESL (4–5.9)
- Low advanced ESL (6–8.9)
- High advanced ESL (9–10.9)

Measures of Program Completion and Outcomes

- Completed high school or GED
- Entered further education and training
- Entered employment
- Retained employment

To calculate a program’s incentive award, state administrators multiply the number of performance targets achieved by a predetermined dollar amount equivalent across measures. For example, in FY01 providers received \$630.25 for each performance target they attained, meaning that a provider who achieved 10 targets would receive \$6,302.50. Incentive rates are set each year based on the amount of federal resources that are available and the number of statewide outcomes that are reported by providers.

This can cause the incentive rate to change over time, as illustrated in table 2, because if federal funding remains flat while the number of outcomes fluctuate, the value of a performance outcome must either rise or fall to keep expenditures constant.

SECTION 4
Formula Design Process

Table 2
Indiana Performance Standard Incentive Rates as Based on Federal Funding and Numbers of Statewide Outcomes: FY01 to FY05

Fiscal Year	Federal Funding	Number of Statewide Outcomes	Incentive Rate
2001	\$225,000	357	\$630.25
2002	\$225,000	373	\$603.22
2003	\$225,000	342	\$657.89
2004	\$224,997	349	\$644.69
2005	\$222,459	350	\$635.59

SOURCE: Data provided by Indiana Department of Education, FY01 to FY05.

As with process indicators, awarding resources based on provider attainment levels the playing field, since providers compete to meet or exceed their own negotiated performance targets. This can mean smaller providers earn as much as, or more than a larger provider. However, because the size of a performance award is a function of the number of providers achieving a positive outcome, programs are unable to accurately predict the size of their performance allocation when budgeting for the following fiscal year. Although project directors in Indiana were comfortable with this variability, its effect may be minimized in this state because only a fraction of adult education resources are allocated as incentive funding.

Formula Weighting

All three case study states assign different resources to learner outcomes. State approaches vary, however, with states attaching different levels of support for different learner or programmatic outcomes.

Educational Gain

Kansas and Missouri assign supplemental weighting for outcomes obtained by lower-level learners or those with limited English language ability. To establish funding rates, state administrators analyzed historical performance data to determine the rate at which learners made measurable advances. For example, in designing its funding formula, Kansas' administrators determined that lower-level learners took approximately 1.8 hours to make an educational gain, compared to 1.0 hour for those at higher levels. Consequently, the state opted to double the value of an outcome for learners achieving gains in the five lowest educational functioning levels of the NRS (two lowest ABE levels and three lowest ESL levels).

Administrators from Missouri also reviewed performance data when setting their performance reimbursement rates. Initial performance reimbursement rates provided differential weighting to lower-level learners participating in ABE and ASE programs, and for learners qualifying for

SECTION 4
Formula Design Process

GED award (table 3).⁵ Following PBF formula introduction, advisory committee members reconvened to consider whether outcome rates for ESL students required additional resources. As part of this exercise, state administrators compared the number of contact hours recorded for ESL students to those for other program participants. Based on a review of the relative effort required to achieve a learning gain, committee members recommended development of a separate rate for ESL students.

Table 3
Missouri Performance Outcome Rates, by Education Functioning Level: FY02 and FY03 to Present

Level	FY02	FY03 to Present
AEL Level 1 ^a	\$150	\$200
AEL Level 2	\$100	\$150
AEL Level 3–5	\$50	\$75
GED	\$150	\$150
ESL Level 1	-	\$250
ESL Level 2	-	\$175
ESL Level 3–5	-	\$100

SOURCE: Missouri Department of Elementary and Secondary Education, 2006.

^a AEL—Adult Education and Literacy

Under the current approach, adopted in FY05, providers with ESL students making a level completion are compensated at a greater rate than for ABE or ASE students making a comparable gain. Providers with lower-level learners making educational gains also are compensated at a greater rate than those at higher levels; for example, providers receive \$250 for each ESL learner making a level 1 completion, compared to \$100 for each learner making a level 3 or higher gain, as indicated in table 3.

States adopt differentiated weighting to compensate providers for the additional cost of educating lower-level or limited English proficient learners, on the assumption that these individuals take longer to achieve a positive outcome. Left unanswered is whether supplemental weighting can actually discourage providers from undertaking needed reforms that might improve learner performance. It may be, for example, that the absence of a supplemental weight might encourage providers to intensify their efforts to improve programs serving lower-level learners, because students would otherwise not make educational gains at a rate sufficient to offset the fixed cost of their instruction.

⁵ Adult Education and Literacy (AEL) levels of completion correspond to the six functional academic performance levels identified for ABE and ASE learners as specified in the NRS. Learners who complete an ASE high level are counted as attaining a GED credential. ESL levels also correspond to the six functional academic performance levels specified in the NRS. Learners who complete the advanced ESL level are included in level 3–5 for funding purposes.

Core Versus Secondary Measures

Indiana has taken a somewhat different approach to weighting program outcomes. According to the assistant state director, 75 percent of adults in state programs function below the ninth-grade level or are ESL students, so differential weighting is unnecessary because all providers serve learners with high needs. Although the state does not provide additional resources for educational gains made by learners in different programs, the state differentially weights NRS outcomes, with secondary NRS outcomes reimbursed at half the amount of a core NRS measure.

This change was justified for several reasons. First, only core NRS measures are used by the U.S. Department of Education to report to Congress, and by the Indiana Department of Education for the state's adult education report card, meaning that these measures carry somewhat greater importance. Second, it is only through achieving the core outcome measures that Indiana, or any other state, may qualify for incentive funds through *WIA*. Finally, measurement and reporting of secondary outcomes is not consistent across programs within the state, undercutting the accuracy of these measures.

Timing of Data Collection

To accommodate state reporting cycles, provider allocations are based on retrospective performance data. In both Kansas and Indiana, allocations are based on program outcomes from the preceding fiscal year, meaning that providers' eligibility in FY06 is determined by program performance in FY05. This one-year lag dictates that local program directors begin budgeting for the upcoming fiscal year without complete information on performance outcomes for the fourth quarter (April–June) of the current program year.

Kansas asks that program providers develop their budgets based on their anticipated level of base and performance funding. To minimize the effect of fourth-quarter outcomes, when the PBF formula was originally introduced the state based funding on the first three quarters of the academic year, with \$100,000 held out of the allocation formula to compensate providers for their fourth-quarter results. In the year following, the state increased this funding to \$200,000 and, beginning in FY06, this amount has been increased to \$500,000. This action was taken because many providers appeared to be cutting back services in the fourth quarter, partly because these outcomes had lower value than ones recorded earlier in the year.

Indiana also asks program directors to estimate their level of funding for the following fiscal year without information on their fourth-quarter results. However, since the state allocates only 5 percent of provider funds based on performance, programs are at little risk of losing substantial resources midyear should they fail to achieve their predicted outcomes.

SECTION 4
Formula Design Process

In contrast, program funding in Missouri is based upon performance data collected during the fiscal year two years preceding the current one. This two-year lag ensures that program directors have complete information when they begin their budgeting process near the start of the new calendar year. In return for the security that comes with full information, however, programs experience a delay between when they post outcomes and receive their resources. This can mean that programs have difficulty expanding programs to new sites, because a program experiencing substantial enrollment growth is forced to carry its increased costs for an additional year until state allocations catch up with its expanded needs.

SECTION 5:

Implementation Issues

States fully implemented their PBF systems in the year following formula development. Although states did not provide a hold-harmless clause to insulate providers from drastic funding changes during the first years of system operation, all sought to protect providers by increasing grant resources and training providers in proper data collection and reporting techniques.

A review of the relevant higher education literature suggests that adult education providers might have been expected to face additional costs in collecting performance data, although no study exists quantifying the cost of information system start-up in the adult or higher education sectors. However, as detailed below, state agencies and local providers incurred minimal costs associated with PBF introduction, in part because data collection piggybacked on federal *AEFLA* reporting requirements.

Formula Rollout

To dampen negative effects associated with PBF adoption, state administrators supplemented providers' initial performance allocations with increased federal funds made available to states following the adoption of *AEFLA*. To illustrate, the introduction of performance funding in Missouri coincided with an infusion of federal resources into the system, with statewide funding climbing from \$11.6 million to \$13.2 million with formula rollout. These additional resources helped reassure Missouri administrators that there was no need to shield providers from shifts in their resource eligibility. In Kansas, the state director also opted to release approximately \$100,000 in held-back federal resources during the first two years of formula operation.

The structure of Indiana's PBF formula provided some measure of protection to local providers as well. According to the assistant state director, the fact that such a high percentage (95 percent) of funding was released as a guaranteed base negated the need for a hold-harmless or other type of protection mechanism. Moreover, at the time that PBF was first introduced, Indiana was experiencing a significant increase in federal funds due to population changes, with resources rising from \$7.3 million in FY00 to \$8.6 million in FY01. State administrators did, however, set aside a portion of new federal resources for use as a competitive enhancement grant, for which program directors could apply to support a variety of program development activities. The combination of guaranteed base funding, increased federal resources, performance-based

SECTION 5
Implementation Issues

funding, and enhancement grants, meant that most Indiana providers were at little risk of losing resources with the shift to performance funding.

Funding simulations conducted during formula development meetings in all three states also indicated that there would be few losers among providers. Those projected to experience a drop in resources were primarily larger providers that were thought to be able to absorb anticipated losses. Although initial allocations in Indiana and Missouri proved accurate, unanticipated problems associated with the award of quality points in Kansas adversely affected provider resource eligibility. Upon calculating program allocations for FY00, Kansas' administrators discovered that they had grossly overestimated awards for many larger service providers, who were incapable of collecting data on all students or earning the median number of quality points assigned during modeling exercises.

Once the magnitude of funding losses became apparent, Kansas state personnel contacted affected providers to advise them of anticipated shortfalls and to reassure them that, with improvements to data collection and attention to service delivery, their deficits could be corrected. Administrators also provided technical assistance to train provider staff on how to enter missing data into institutional databases, how to test using appropriate assessment protocols, and how to identify performance gaps adversely affecting their eligibility. Consequently, during the second year of performance funding many large providers recaptured funding, in some cases at the expense of smaller programs unable to generate equivalent performance gains.

State administrators soon came to understand that their new funding formulas required continual review and modification. For example, in response to provider feedback that ESL programs were relatively more expensive to provide, Missouri reconvened its advisory committee in the year following PBF introduction to reconsider its formula allocation. As part of this exercise, advisory members compared the number of contact hours recorded for ESL students to those for ABE and ASE participants and, based on a review of the relative effort required to achieve a learning gain, proposed a separate, augmented rate for ESL students.

Provider Reporting Capacity

Study states were among the earliest implementers of PBF in the country, with system adoption occurring concurrent with or immediately following the adoption of the *AEFLA* legislation in 1998. During this transition period, local providers initially struggled to collect accurate NRS performance outcome data. Provider challenges included incorrectly administering tests of educational gain to learners, which invalidated test results, and misusing new, state-supplied

SECTION 5
Implementation Issues

management information system software intended to assist providers in administering learner program files and in collecting accountability data.

States compensated for provider difficulties with a variety of strategies. In Missouri, state administrators held provider eligibilities constant for the first two years of PBF adoption, using program outcome data collected prior to the introduction of *AEFLA* to allocate resources. All three states also conducted statewide trainings to instruct provider staff on appropriate methodologies for administering education tests and for collecting and reporting provider outcome data.

Providers in Missouri reportedly had difficulty assigning learner outcomes into the attainment levels of 1, 2, and 3–5 used by the state to calculate funding eligibility. While providers generally understood the difference between a level 1 and level 2 progression, staff had difficulty aggregating data to fit the levels 3–5 progressions, which were grouped by the state for formula purposes. With hindsight, state administrators reported that it would have been less confusing to have providers simply report learner progression for each level individually, with state administrators taking responsibility for combining these data to calculate program funding eligibility.

Although providers initially had some problems collecting valid performance data, state directors related that, with time and training, reporting difficulties were eventually surmounted. Moreover, because all three states used the NRS measures to distribute some or all of their performance funding, directors believed that initial conflicts were due to provider misunderstanding of new federal reporting requirements contained in the NRS, rather than to the operation of the funding formula itself. This suggests that states considering using the NRS (or other state) measures may avoid much of the confusion associated with system start-up, since providers have had over half a decade of experience collecting data for the NRS.

Data Quality

Data quality gradually improved during the first years of formula use. State administrators and program directors reported that their greatest challenge was providers misapplying testing procedures, which invalidated learner outcomes. This occurred because service providers often were not following acceptable testing protocols for measuring participant outcomes. In Kansas, for example, counts of individuals making learning gains were initially rejected for some providers after it was determined that program staff had failed to enter pretest data or had incorrectly administered Comprehensive Adult Student Assessment System (CASAS) diagnostic pretest, posttest, or both, forms.

SECTION 5
Implementation Issues

Similarly, the Missouri Department of Corrections, which had historically used its own assessment system to measure inmates' education attainment, shifted to the Test of Adult Basic Education (TABE) to assess inmates' level attainment for *AEFLA* reporting purposes. Once the prison system completed its transition to the new assessment system in the second year of PBF, its performance eligibility more than doubled.

To ensure that provider allocations are fair and accurate, state administrators audit all adult education providers every year as part of each state's official review process. In both Indiana and Missouri, provider data are subjected to an annual desk audit, which includes scrutinizing program paperwork and data submissions to ensure that program totals are consistent across years and reasonable given state administrators' knowledge of program operations. Every five years, all adult education providers in these two states are subjected to an on-site audit, which includes a review of randomly selected learner program files and contact-hour and performance-outcome records. State administrators report that these audits suggest that there is close alignment between reported data and program records, leading them to infer that providers are maintaining valid information in nonaccreditation years.

In addition to conducting annual desk audits, Kansas employs a team of program reviewers who conduct yearly monitoring visits to each service provider in the state. Annual site visits are warranted because of the state's use of program quality measures to award half of federal and state funds. Monitoring activities include auditing a sample of student files to confirm that data are properly documented and testing protocols were followed, and reviewing administrative and other program records stipulated in the standardized state monitoring instrument. Quality points used in the PBF formula are awarded as part of this review process.

Management Information Systems

State directors reported that the adoption of PBF had little effect on state-level investment in technology or personnel, since the majority of state performance measures overlap those used for the *AEFLA*. To standardize data collection for the NRS measures, state administrators in all three states supplied providers with database software and guidance for entering participant data into the system. With the exception of quality indicators used in Kansas, state administrators simply extract provider performance data from the state's NRS management information system to calculate providers' PBF eligibility. Consequently, determining statewide allocations is a routine task for a state fiscal administrator that is discharged typically in less than a day.

Although program directors report that the adoption of state NRS software required that they make changes to their information system operations, no additional technology costs were associated with performance reporting. That is, had performance reporting not been introduced,

SECTION 5
Implementation Issues

providers would still have been required to standardize data administration to report on *AEFLA*-mandated accountability measures.

Because of the high stakes associated with performance reporting, program directors relate that they now pay much closer attention to their data than if they were reporting solely for federal accountability purposes. Directors from a few large service providers in Kansas added a staff member to manage data entry and administration, while directors from smaller programs indicated that they either took on the data entry role themselves or delegated the task to existing secretarial staff. Directors in Indiana and Missouri also reported that they are more involved in the collection and review of performance data, but did not report hiring additional staff to administer data systems.

Indiana providers believe that they now invest greater time entering information into their local databases because of state-instituted electronic data checks that were recently added to the NRS reporting system. According to the assistant state director, program staff was initially frustrated because they began encountering data flags, indicating a problem, when they tried to report their data. Since error warnings did not provide detailed information on what was wrong, agency staff had to invest time reviewing and cleaning data before it could be uploaded to the state database. Again, because this information was associated with the NRS data system and not the funding formula itself, providers would likely have faced this problem irrespective of whether performance funding existed.

Technical Assistance

State administrators recounted that they did not explicitly provide technical assistance on the operation of performance-funding formulas. Rather, state training initially focused on familiarizing program staff with new *AEFLA* reporting requirements, explaining the appropriate strategies for administering tests and collecting performance data, and entering data into state-supplied management information system software. This training occurred concurrent with PBF system adoption in Kansas and in the years preceding system adoption in Indiana and Missouri.

Recognizing the importance of making statewide gains in achieving their negotiated performance targets, state administrators also provided technical assistance to equip program staff with analytic skills. For example, Missouri contracted with an education consulting firm that had helped develop the federal NRS to provide workshops on using data to make program improvement decisions. In Indiana, program directors attending statewide training meetings were given a set of performance outcomes for a fictitious district and taught how to disaggregate this data to identify issues affecting a particular program, teacher, or learner population. Professional

SECTION 5
Implementation Issues

development facilitators from the state’s regional centers also met with program staff at state association conferences, and they met individually to help providers learn how to interpret data.

It was a learning curve because at first the directors didn’t use the data, they just collected it. They didn’t know how to use it. It took a year or so to learn how to use that data, to help the teachers along, to figure out how to use it. It was a learning curve for everybody.

—Program Director, Kansas

Over time, as local familiarity with reporting systems has increased, state administrators have been able to target technical assistance to address methodological issues undercutting program reporting. For example, recognizing that there was a problem with measuring learner gains, Kansas’ administrators sponsored a series of technical assistance sessions on the proper use of CASAS assessments, including reviewing testing protocol, test selection, and data entry. More recently, with these issues resolved, the state has focused on improving lesson planning and instruction.

Although state technical assistance helped program directors understand the procedural use of existing adult education databases for NRS reporting purposes, not all directors felt supported in the rollout of the new funding system. The sudden focus on performance outcomes meant that many directors had to immerse themselves in program data to understand why students weren’t performing and whether low outcomes were due to a failure on the part of faculty to follow appropriate testing protocols or due to deficiencies in instructional quality, program curricula, or some other factor. While shifting to performance funding was credited with helping motivate providers to improve program services, it also surfaced weaknesses that required closer scrutiny. As a consequence, program directors in Missouri reported that they would have benefited from additional training in how to interpret and use data to make more informed decisions.

SECTION 6:

Effects of Performance-based Funding

During interviews, both state administrators and local provider staff commented on the effect PBF is having on adult education services. Although study participants ascribed both positive and negative consequences to performance funding, few if any data exist to substantiate their claims. In many cases, participant observations were based on general perceptions of program operations or extrapolations from a single experience. Some participants also had difficulty differentiating programmatic effects due to the adoption of PBF from those associated with the state's implementation of the *AEFLA*. Therefore, readers should be cautious in drawing conclusions about the effects of PBF on state adult education systems.

Advantages of Performance-based Funding

As originally conceived, PBF was introduced to promote the effective delivery of adult education services, while simultaneously improving the equity and transparency of state allocations. Study participants' observations suggest that performance funding has helped states achieve these intended goals, but also has reaped unexpected benefits in terms of data quality and its use for program improvement purposes. Specific contributions have included:

- *Improving Data Quality*—During the implementation period of the NRS measures, providers in all states struggled with methodological issues related to measurement and practical issues associated with entering data into state-supplied databases. Linking resources to the NRS core and secondary measures appears to have given directors a fiscal incentive to review the accuracy and completeness of information submitted to the state. Prior to this time, program directors' concentration had been on generating and maintaining contact hours, but now, with resources tied to results, directors refocused on improving reporting procedures lest they leave money on the table that they were otherwise eligible to receive.

I think PBF makes us pay much more attention to the state standards and to making sure that the teachers are reporting the information. I remember a big issue we had in our first couple of years wasn't that students weren't making progress; it was getting the teachers to fill out the forms in the data system.

—Program Director, Missouri

Reports of improved data quality were noted in all three study states, suggesting that PBF may have helped improve the reliability of data collected on federal NRS measures included in states' formulas. Moreover, because performance

Effects of Performance-based Funding

funding was not introduced in Indiana until FY01 and Missouri until FY02, it appears that PBF can play a role in improving data quality years after the adoption of *AEFLA*. As one program director in Missouri observed, although required by federal law to collect outcome data, reporting requirements alone did not motivate him to collect accurate data. His behavior changed with the introduction of PBF, however, once he realized that he was losing money because he and his staff were not taking the time to ensure entering of correct information.

- *Increasing System Effectiveness*—Compensating providers for results has focused directors’ attention on program performance, and, in particular, on making connections between programs, instructors, and learner outcomes. Before PBF, program directors reported that few of their colleagues ‘owned’ their data; that is, although information was routinely collected, few consulted it. It appears that the fiscal stakes associated with PBF compelled program directors to become more proactive in reviewing the information they collect. Perhaps the clearest evidence of this commitment came during interviews, when one Indiana director brandished a set of program outcomes that were less than two weeks old to illustrate his most recent accomplishments and to identify areas to which he was planning to devote his time in the coming weeks.

Rewarding providers for achieving targeted learner outcomes also has encouraged program staff to actively manage student enrollments and service delivery. One program director in Indiana compared the new system to working at a doctor’s office: All new learners are initially pretested to diagnose their problems, and then services are closely tailored to meet their needs. New intake and processing procedures also have allowed instructors to make learner referrals to other agencies, where warranted, and to develop more realistic goals and services for those who enroll.

Basing funding on performance has prompted most Kansas program providers to adopt managed enrollment, meaning that students may enroll and enter classes only at specific times rather than on a continuous basis (e.g., in the first three weeks of a 12-week course). According to the state director, although the state has no formal policy on management enrollment, providers voluntarily adopted the strategy because it allows them to more effectively serve the students they enroll. For example, this shift has been credited with helping to improve retention because providers realize that they must keep students enrolled if they are to achieve measurable outcomes, and because instructors are able to spend more time on instructional activities, rather than performing administrative functions (e.g., enrolling students piecemeal as opposed to altogether).

Effects of Performance-based Funding

Program directors also reported that PBF made them more likely to consult with one another to share successful practices, which are easier to identify since programs now are using similar measures to assess program outcomes.

- *Engendering Political Support*—State directors were cognizant of the state political environment when considering shifting to PBF, and, in particular, of the need to demonstrate positive returns to justify adult education’s continued support. Although state directors encountered no external pressure to introduce performance funding, following system adoption, they found that its use bolstered their credibility among state legislators and the public, while providing an effective way of countering legislative criticism of program operations.

I can take in a [performance outcome report] like this and hand it to everyone ... and it tells you how we did on every one of those outcomes. When I was showing that to the senators and legislators and congressman they were looking at that and they had no idea that adult education was touching that many people, and that they were seeing those kinds of gains ... they were amazed when I first handed that out ... at the Kansas Ways and Means Committee.

—*State Director, Kansas*

Similarly, Kansas state administrators credit PBF with increasing state and institutional investment in adult education, because legislators and the business and higher education communities in this state philosophically support allocating funding based on performance. Moreover, because accurate data on learner outcomes are now more readily available, state administrators are better able to communicate to policymakers the fiscal and social benefits of investment in adult education services.

- *Promoting Instructor Professionalism*—Program directors believe that performance funding contributes to program quality by holding instructional staff accountable for their learners’ outcomes. When system resources were allocated using only contact hours, instructors were held responsible for filling seats, meaning that an underperforming instructor could actually generate greater resources by retaining learners than by demonstrating education progress. Under the new formula, instructors are judged by the number of outcomes they achieve, meaning they must demonstrate results to be considered effective.

I think previously I would have staff that would show up, teach; they did their thing. They were here every time they were supposed to be. ... But, you know, if I had asked them at the end of the year, ‘How successful were you? How many GEDs were awarded? How many students improved their English?’ ... I don’t think they could have told me. I don’t think they, in many cases, had any idea of whether they had really made much of a difference. And I do think that the fact that funding is tied to gains ... causes a little more of that edge, push, to improve.

—*Program Director, Missouri*

State directors relate that they are more likely to deliver professional development services to instructors, in the belief that trained staff are more likely to generate additional resources. Performance funding also has motivated local directors to replace low-performing instructors with those who relate to accountability and

Effects of Performance-based Funding

achieve results. Program directors in both Kansas and Missouri report that they are more likely to release underperformers to make room for more sophisticated individuals who understand the importance of accountability. Although program directors believe PBF has contributed to increased teacher quality, the state has not conducted any formal studies to assess the relationship of performance funding and instructor quality over time.

Simply put, state administrators believe that staff at all provider levels—from program directors to classroom instructors—change how they go about their jobs in response to performance funding. In particular, program directors often spoke of the need to meet state performance targets and to obtain additional money to support program offerings, while program staff spoke of their desire to gain supplemental classroom materials or attend professional development conferences with the money they generated for their program.

Evidence of Performance Improvement

State directors believe that the adoption of PBF has contributed to improving state outcomes on the NRS core measures by encouraging providers to improve the quality of their instruction and administration of data. A review of national performance data appears to support this claim, with the three study states outperforming the national average on many of the NRS measures, as well as registering substantial improvements on individual measures across years.

Unfortunately, it is not possible using existing data to ascribe causality to PBF in improving state outcomes. Although performance funding is associated with positive changes in state performance, it is possible that a host of other factors, such as changes in the underlying population, learner access to other educational services, curricular innovations, and other education reform efforts have influenced state outcomes. Consequently, while state performance data can provide a snapshot of how states were performing prior to and immediately following the adoption of performance funding, it is impossible to attribute program successes directly to its use.

I think our outcomes are coming quicker. I think the students are seeing their progress much faster, which keeps them encouraged and very positive. It keeps the teachers more on task. It's also easier to see a weaker area that needs the fixing if you're really looking at your data and your results and kind of looking for things that you need to gather and assess.

—Program Director, Indiana

Moreover, with the exception of Kansas, the first state to introduce PBF, in FY00, there is limited data to evaluate the effect that performance funding may have had on the delivery of

Effects of Performance-based Funding

adult education services.⁶ For example, though Missouri rolled out performance funding in FY02, state administrators held provider allocations constant for the first two years of formula operation, with funding based on assessment results collected prior to or concurrent with the introduction of new *AEFLA* reporting requirements. As state allocations shifted to include actual provider performance beginning in FY04 (based on FY02 data), differences in provider outcomes first became evident.

A review of NRS outcome data indicates that between program year 2000–2001 and 2003–04, all three states improved their performance on measures used to allocate performance funding. Of the three states, Kansas has the most comprehensive data on the effects of PBF on statewide performance due to its early implementation. As illustrated in table 4, the percentage of ABE and ASE learners realizing learning gains in Kansas climbed from 53 percent in 2000–01 to 60 percent in program year 2003–04. And although outcomes have fluctuated somewhat across years, state ABE and ASE performances consistently have outpaced the national average.

Although program enrollments have fluctuated over time, Indiana adult education providers also have increased their performance outcomes achieved on the NRS measures over time. As illustrated in table 4, the percentage of participants achieving an NRS core outcome has increased dramatically; as a case in point, high school completion rates climbed from 46 percent in program year 2000–01 to 91 percent in program year 2003–04, a rate more than double the national average.

At the same time, the number of participants in Indiana achieving state-identified core or secondary performance outcome on the NRS measures also improved, with participant successes climbing from 45,290 in PY00–01 to 56,043 in PY04–05, nearly a 24 percent increase compared to a much smaller population increase of roughly 3 percent (42,135 participants in PY00–01 compared to 43,498 in PY04–05) (table 5). This suggests that the state was able to simultaneously increase its performance while expanding its participant base.

Of particular interest is that since PY02–03, when Indiana halved its reimbursement rate for the secondary NRS measures, the number of secondary outcomes has fallen from 14,314 in PY02–03 to 11,826 in PY04–05. At the same time, the number of core measures achieved climbed from 39,787 to 44,217. This suggests that providers may be shifting away from pursuing lower value, though potentially more easily obtainable, secondary measures in favor of NRS core measures.

⁶ Federal fiscal year funds are allocated to states for program operations the following year. For this reason, outcome data for federal program year 2000–01 would relate to federal resources allocated in FY00. To simplify discussion, this paper refers to state fiscal year and federal program year data, which cover the same reporting period.

SECTION 6
Effects of Performance-based Funding

Table 4
Percentage of Adult Learners Nationally and in Three States Achieving Outcomes on the NRS Core
Performance Measures by Types of Measure: Program Years 2000–01 to 2003–04^a

	PY01	PY02	PY03	PY04
	Percent			
Educational Gain ABE^b/ASE^c				
National	36	37	38	38
Kansas	53	76	58	60
Indiana	38	37	39	43
Missouri	31	31	48	35
Educational Gain ESL				
National	32	34	36	36
Kansas	42	68	55	59
Indiana	34	35	40	39
Missouri	16	29	31	31
High School Completion				
National	33	42	44	45
Kansas	50	71	61	64
Indiana	46	74	84	91
Missouri	44	33	37	54
Entered Postsecondary				
National	25	29	30	30
Kansas	25	69	62	58
Indiana	53	77	83	90
Missouri ^d	27	19	19	22
Entered Employment				
National	31	39	37	36
Kansas	50	59	52	62
Indiana	62	82	96	90
Missouri ^d	44	51	54	55
Retained Employment				
National	62	63	69	63
Kansas	53	74	54	69
Indiana	63	87	62	91
Missouri ^d	34	70	67	68

SOURCE: U.S. Department of Education, *Report to Congress on State Performance, Program Years 2000–01 to 2003–04*.

NOTE: Shaded areas reflect periods when performance funding was in use.

^a Data reported in this table refer to federal NRS data for program years 2000–01 to 2003–04. These data correspond to state fiscal year data for FY01 to FY04.

^b ABE—Adult Basic Education.

^c ASE—Adult Secondary Education.

^d Did not have performance measures addressing this indicator.

SECTION 6
Effects of Performance-based Funding

Table 5
Selected Indicators of Indiana Adult Education Programs: Years 2000–01 to 2004–05

	PY01	PY02	PY03	PY04	PY05
Participants	42,135	44,492	41,397	41,148	43,498
Providers Qualifying for Incentives	43	43	43	43	43
Performance Outcomes	45,290	50,620	54,101	54,370	56,043
Core NRS Measures	—	—	39,787	40,296	44,217
Secondary NRS Measures	—	—	14,314	14,074	11,826
Outcomes per Participant	1.1	1.1	1.3	1.3	1.3
Performance Goals^a Achieved	357	373	342	349	350
Average Goals Achieved	8.3	8.7	8.0	8.1	8.1

SOURCE: Indiana Department of Education.

^a Number of program targets achieved by local providers and statewide average targets achieved across providers.
Note: — Not applicable.

If this interpretation is accurate, it may be that states can motivate providers to achieve desired state goals by carefully selecting the type of factors included in their adult education funding formula and the value attached to a given outcome. It is also likely that the difficulty associated with collecting different types of data and the amount of funding associated with a given performance outcome will affect the degree of provider response.

Changes in Local Adult Education Providers

Performance funding was associated with changes in the number of providers in Kansas and Missouri, although state directors did not believe that PBF itself was responsible for providers leaving the service network. Instead, it was suggested that the adoption of PBF highlighted existing problems within providers, which, in turn, led state administrators to take steps to address noted programmatic deficiencies.

Before the adoption of PBF in Kansas in FY00, 36 providers were participating in the adult education system.⁷ In keeping with the state’s promise to protect programs in the first year of formula implementation, state administrators renewed funding for all providers for FY01. However, three programs were placed on probation and conditionally funded because of quality issues associated with their services. After failing to make progress in improving services, these programs were denied funding in the final year of the state’s three-year funding cycle.

⁷ Kansas instituted performance funding in FY00, which was also the beginning of a three-year funding cycle for providers, meaning that providers competed for funding in FY99. The state then moved to a new two-year funding cycle for FY03 to FY04, with providers competing in FY02.

Effects of Performance-based Funding

Of the three programs, only one qualified for funding in the FY03 to FY04 competitive funding cycle. In the estimation of the state director, provider failure to qualify for funding resulted not because the agencies lacked the finances to offer services, but because program staff failed to offer adult education services of sufficient quality to warrant continued recognition as a state program.

The state director in Missouri offered a similar assessment. Before the adoption of PBF in Missouri, 46 providers were awarded adult education funding. In the year following the adoption of PBF, which coincided with the start of a new three-year funding cycle for adult education (FY03–FY05), three providers were unsuccessful in competing for *AEFLA* funds, and one new program successfully competed and was funded. Of the three programs no longer participating, one was unable to generate sufficient contact hours or performance outcomes to offset its operational costs. According to the state director, the loss of the two remaining programs was due to errors and omissions by the provider in the application for funding, which resulted in the request being rejected.

SECTION 7:

Considerations in Transitioning to Performance-based Funding

Introducing PBF into state adult education funding formulas is a complicated process, one that requires state directors and their staff to commit time and resources to overseeing formula drafting and implementation efforts. To gain providers' approval in study states, state directors of adult education recruited directors of local program providers to serve on an advisory council that represented the views of the field in the formula drafting process. State directors were careful to select individuals who were respected for the quality of their programs, and who were not afraid to voice their opinion or to defend the system they helped to create. Directors also took care to ensure that providers were representative of the diversity of program types in the field, accounting for differences in provider type, size, learner demographics, and location.

Formula development occurred using an open, consensus-based process. Advisory council meeting agendas provided time for participants to discuss their issues and concerns and to contribute their ideas to formula design. Building buy-in helped to ensure that council members supported project work. To illustrate, the former state director of Missouri recounted how a small group of program directors differed concerning PBF at a program directors' retreat. Council members who had participated in the formula development process allayed dissent, pointing out that they had been involved in the process and had worked to ensure that providers' viewpoints were incorporated into the final formula. As he observed, "We didn't have to defend it. The people involved in the process defended it, and that was fantastic."

The most important concept in implementing or rolling out a change in funding ... is communication. Because to just put it out there and say, "Here it is," won't work. It takes continually putting it out there and saying, "This is what it is and this is what it means to you." ... Not only on a state level—from state to program directors—but program directors to staff.

—Program Director, Indiana

Although implementing PBF will likely require substantial investment of time on the part of state agency administrators, it bears repeating that states participating in this study were early implementers of PBF, and, as a consequence, faced the dual challenge of instituting new *AEFLA* reporting requirements in conjunction with PBF systems.

Key Considerations in Formula Design

States that have succeeded in adopting PBF have developed differing strategies to allocate adult education resources. This is because no one formula will work in all state contexts. Regardless of the approach used to distribute assets, all states face similar issues in designing their funding systems. Administrators in states considering using performance funding can improve the likelihood of success by answering some of the following questions during the development process. These include:

How Much Funding Should Be Allocated Using Performance Criteria?

States profiled in this report allotted different amounts of funding for distribution on the basis of performance funding. Funding levels ranged from a high of 88 percent of combined federal and state resources in Kansas to just 5 percent of available funds in Indiana. Conversations with program directors suggest that each approach was effective in changing provider behavior. As noted by the assistant state director in Indiana, even though only 5 percent of resources were allocated based on performance, providers acted as though 90 percent of their funds were at risk, so great was their desire to earn additional resources.

The central question, then, is how much money is necessary to motivate providers to accomplish state goals and, from which source—federal, state, or both—should funding be tapped? Answering this question depends on a number of factors, including the relative amount of federal and state resources available to state administrators, the manner in which existing funds are distributed, the perceived need for statewide adult education reform, and the attitude toward risk among state administrators and providers.

Funding levels also should take into account state capacity to support providers in transitioning to the new funding system. Since some providers will stand to lose resources, state administrators may wish to increase their adult education funding concurrent with system rollout. In study states, this occurred either through the addition of new adult education resources or the release of held-back federal funds. Providers also will need to be educated in how the new formula operates and how they can improve their funding eligibility; as such, when setting performance-funding levels, state administrators must consider their capacity to provide statewide and individualized technical assistance should the new formula place a substantial amount of provider resources at risk.

How Should Funding Formulas Be Structured?

Once resource levels have been established, states need to identify criteria for allocating resources among providers. This includes identifying a set of measures for formula inclusion and

Considerations in Transitioning to Performance-based Funding

determining their relative weight in the formula. State administrators also must consider provider capacity to report data in a timely manner and consider state capacity to audit program submissions for accuracy.

- *Selecting Performance Measures*—On balance, the less complexity associated with performance funding the easier state systems are to understand and administer. Ideally, program measures and formula operation will align with and reinforce state policy priorities that have been identified, while limiting the reporting burden placed on providers. Care also must be taken to ensure that providers with unique characteristics, including those serving small and rural populations or large numbers of lower-level or ESL learners, are able to compete for resources on a level playing field. Study states used the following approaches to collect performance data:

- *NRS Core and Secondary Measures*—All states relied on the NRS core and, in some instances, secondary measures to allocate performance funding. Since providers are required to annually report on NRS measures, using a common set of testing protocols and data collection procedures, the use of these measures does not add an additional data burden on local agencies. During interviews, state administrators and program staff remarked on the value of the NRS measures, believing that they were good indicators that captured their program goals. And because states are held accountable by the federal government for their performance on these measures, state administrators believed that focusing provider attention on these measures helped their states achieve negotiated performance targets.

Program directors did not support using all of the core and secondary NRS measures to award performance funding. In the case of the NRS core measures, provider dissatisfaction was due not to the measures themselves, but to the difficulty associated with collecting post-program outcomes particularly when follow-up survey methods were employed.

Study participants were less satisfied with using secondary NRS measures to award program funding. During interviews, program directors suggested that, because many of the NRS secondary measures are self-reported, these measures lack the validity to be included in the state funding formula. Providers also felt that some of the secondary NRS measures, such as achieving citizenship skills or learner involvement in children’s literacy-related activities, were less important because these measures did not always relate to programs’ education development goals.

Considerations in Transitioning to Performance-based Funding

- *State Process Indicators*—Kansas is unique in that, in addition to the NRS measures, state administrators employ a set of 25 quality indicators to assess program administrative processes and procedures. These measures, built off an existing set of state-established indicators, are believed to capture the crucial elements that underlie a successful program. And since quality measurement criteria function independent of provider size, in most cases, small and large providers have an equal opportunity to earn points. While the decision to add quality measures to the funding formula offered the state a number of benefits, their addition requires that the state conduct annual site visits to all providers, as well as to collect and administer a large amount of program information.

Conduct of annual monitoring to assess implementation of the 25 quality indicators has added a substantial, recurring cost to PBF formula operations in Kansas. State expenses include paying for monitoring team salaries and travel, and staff time spent coordinating with team members and administering quality point award data. Local program directors report that they also incur costs prepping for monitoring team visits, which include using the monitoring instrument to conduct self-assessments, updating and reviewing participant files for accuracy, and meeting with monitoring team members during the one-day visit.

- *Incentive Funding*—In an effort to even the playing field for providers, Indiana created incentive funding to allocate federal resources to providers meeting their performance targets on the NRS core measures. Here, providers qualify for a fixed dollar amount for achieving each of their state-negotiated NRS targets, meaning that all providers receive the same amount of resources for a positive result. This has helped to ensure that small and rural providers, which can have difficulty generating large numbers of participant outcomes, can effectively compete for performance funds.

Since providers are reimbursed for the performance targets they achieve, program directors tend to encourage instructors to make fundable gains. Consequently, when state goals align with federal reporting measures, the design of PBF systems can actually contribute to a state achieving its federally negotiated levels of performance. And because incentive funding is based on the NRS core, providers face no additional burden in reporting on these measures.

- *Weighting Learner Outcomes*—According to state administrators, not all learners make education progress at the same rate, meaning that instructors may have

Considerations in Transitioning to Performance-based Funding

difficulty achieving measurable gains for some students, particularly those with documented English language difficulties or learning disabilities. To ensure that providers offer services to all students, administrators in all three states assigned different weights to outcomes achieved by some populations of adult learners. The weights vary by state, with Kansas and Missouri attaching supplemental resources for lower-level and ESL learner achievements, while Indiana assigns different values to learners who complete a core versus a secondary NRS measure.

Differentially weighting learner outcomes can be a logical decision if it can be proven that some learners are relatively more expensive to educate, and that to not take such action will prohibit the state from achieving its policy objectives. Before deciding to follow this route, it is imperative that state administrators analyze existing state data, for example, by calculating the average time it takes learners to complete each of the NRS functional levels to determine whether any action is necessary. Administrators also should assess the distribution of learners across providers to ensure that differentially weighting learner outcomes does not offer any programs a competitive advantage.

If there is empirical evidence to support that there are differences in the cost of educating learners, then state administrators must assess the trade-offs of assigning supplemental weights to higher-cost learners. It may be, for example, that variation in educational gain may be due to the quality of instructors or because lower expectations are set for certain types of learners. If this is so, then adding a supplemental weight may actually discourage educators from undertaking needed reform.

- *Linking Outcome Data to Performance Allocations*—Provider allocations in all three study states are determined by program and learner performance in earlier years. In both Indiana and Kansas, program allocations are a function of outcomes from the preceding fiscal year, meaning that FY06 expenditures are based on FY05 performance. This one-year lag means that program directors begin planning for the upcoming fiscal year without complete information on their fourth quarter outcomes.⁸ Should learners fail to achieve at their predicted rate, providers may fall short of their anticipated revenue, which may force them to cut programs or services to balance institutional budgets.

⁸ For example, program directors in Indiana or Kansas would typically begin building their FY06 program budget in March 2005, before they have information on their fourth-quarter performance. Consequently, providers must estimate the number of outcomes they anticipate for the fourth quarter of FY05 in order to produce their FY06 budget.

Considerations in Transitioning to Performance-based Funding

Although a one-year lag between outcomes and resources can place providers at financial risk, immediate reimbursement reinforces the connection between performance and results. Moreover, linking funding to prior year performance enables providers to respond more rapidly to program changes, such as unanticipated growth in program enrollments. To lessen potential effects, states may opt to reduce the amount of funding associated with fourth-quarter outcomes; for example, in FY05 Kansas allocated roughly 13 percent of its PBF funding based on fourth-quarter results.

Program funding in Missouri is based upon performance data collected during the fiscal year two years preceding the current one, meaning that FY06 expenditures are based on FY04 performance. This two-year lag provides program directors with more complete information when they begin their budgeting process. However, since programs experience a delay between when they record outcomes and when they are reimbursed, a program experiencing substantial enrollment growth must carry its increased costs until state allocations catch up with its expanded needs.

Determining which data should be used to allocate performance resources depends on a number of issues, including state capacity to process provider data and provider capability of reporting information in a timely manner. Other factors also should be considered. For instance, states experiencing rapid demographic changes may wish to consider using data lagged one year, as in Indiana and Kansas, to ensure that programs undergoing substantial growth are funded based on their current conditions.

What Factors Should Be Considered in Formula Implementation?

State administrators reported that the design of their funding formulas was an iterative process, one that required that they model different funding scenarios assuming different allocation strategies. Program directors who participated in advisory council meetings reported that the use of historical data to project allocations permitted them to see the ramifications of different funding assumptions on different types of providers. For this reason, state administrators should plan to conduct formula simulations and data analyses to assess which program providers stand to lose funding, and, if so, the size of any anticipated losses.

- *Insulating Providers From Funding Decreases*—Study states introduced PBF without taking precautionary steps to protect providers from sudden changes in their resource eligibility, such as by introducing a hold-harmless provision to initial allocations. States' decision to fully-implement funding formulas were

Considerations in Transitioning to Performance-based Funding

based on a number of factors, including: funding formulas were introduced at a time of increasing federal and state resources for adult education, state administrators released held-back federal funding during the first years of formula use to augment available resources, and preliminary formula simulation suggested that few providers would be adversely affected.

To avoid penalizing programs with below-average performance, states may wish to hold harmless providers that are projected to lose funding by compensating them up to the level of their loss. However, this hold-harmless provision should be phased out over time so that providers have an incentive to change; for example, states could provide affected programs with 75 percent of their funding in the first year, 50 percent in the second year, and so on, until the fourth year in which programs would receive no offsetting compensation.

Although Missouri did not attempt to protect providers from initial changes in their funding eligibility, over time the state increased its share of resources distributed based on performance. During the first year of PBF in FY02, the state allocated 6 percent of its resources as PBF; by FY05, the state allocation had climbed to 19 percent through a combination of increasing funding for learners achieving performance outcomes and reducing rates for learner-contact hours. Ramping up performance funding in this way allows providers to experience the impact that PBF can have on programs, without putting significant program resources in jeopardy. This can give providers time to address obvious data problems and initiate program improvement efforts so that they are prepared when PBF is fully implemented.

- *Offering Technical Assistance to Support Providers*—Because states profiled in this report were early implementers of PBF, most state technical assistance activities initially focused on issues associated with NRS reporting, such as how to collect and enter program data into new, state-designed databases. Administrators also provided directors with an explanation of how the PBF formula operated so that they could understand the outcomes they would need to achieve to increase their funding eligibility. In addition to statewide trainings, outreach efforts targeted individual providers that had lost funding or that were having difficulty generating performance outcomes.

Over time, as local familiarity with reporting system operations increased, the focus of training shifted from methodological issues undercutting program reporting to teaching provider staff how to analyze program data. For example, recognizing that there was a problem with measuring learner gains, early in the PBF process Kansas held a series of technical assistance training sessions on the

Considerations in Transitioning to Performance-based Funding

proper use of CASAS assessments, including reviewing testing protocol, test selection, and data entry. More recently, the state has focused on improving lesson planning and instruction to support program improvement efforts.

Although by now most adult education providers have had experience reporting on the NRS core and secondary measures, it should not be assumed that all program staff understand or follow state reporting protocols. Consequently, states considering adopting PBF systems should plan to review data collection strategies with providers to prepare them to report accurate data that comply with state accountability provisions.

States also should sponsor technical assistance workshops to assist providers in understanding how the state funding formula operates, how to analyze performance data to identify areas in need of improvement, and how to initiate programmatic changes to improve their funding eligibilities. This can be accomplished using a variety of strategies; for example, early in the PBF implementation process, program directors attending technical assistance workshops in Missouri were supplied with fictitious program outcome data and taught how to interpret it. Later, when individual program reports were finally available from the state data system, directors were again convened, but this time supplied with their own program data for analysis.

- *Auditing State Data*—State administrators in all three study states instituted quality controls to ensure that local provider reports accurately reflect local conditions. These procedures included annual desk audits of program submissions to determine whether data were consistent across years and reasonable, given administrators' knowledge of provider operations. Staff in Indiana and Missouri also conducted field visits to 20 percent of providers, and in Kansas, to 100 percent of providers each year, using a standardized evaluation instrument to assess the reliability of program data.

Given the high stakes associated with provider data submissions, administrators considering adopting PBF should plan to review the quality of program data and educate providers on the importance of submitting accurate information. If the experience of study states is any indication, it is likely that many programs are currently reporting data that are not collected using proper testing procedures (e.g., using different pre- and posttests). Accordingly, administrators must communicate to providers how their data will be evaluated and the steps they must take to guarantee reported outcomes are valid.

APPENDIX A

Indiana Case Study Report: Performance-based Funding In Adult Education

SECTION A-1:

Overview of the State Adult Education Funding System

In FY01, the Indiana Department of Education (IDE) adopted a new formula for allocating its federal adult education funding among eligible service providers to promote program improvement, while retaining its existing formula for allocating state funding. Under the current system, local providers are guaranteed a base level of funding, drawn from federal and state resources, that is sufficient to maintain their existing programs. Providers compete for remaining federal resources based on their performance. Allocations are distributed using the following criteria.

Base Funding: Roughly 85 percent of federal and 100 percent of state resources are allocated as base funding using the following distribution criteria:

- *Federal Resources*—Providers automatically qualify for 90 percent of the federal dollars that were in their 1999–2000 fiscal year (FY) base budget. This base remains constant over time and is associated with a funding district, not an individual provider. Should an existing provider withdraw from the system, the state would identify a new provider within the district and transfer the resource allocation from the old to new agency.
- *State Resources*—Providers automatically qualify for 90 percent of their reimbursed expenditures for the summer and fall terms of 1991 and spring term of 1992, or, for new programs, a base amount established at the close of the first full year of operation. This base remains constant unless an agency’s expenditures fall below its base during a given period; when this occurs, the reduced reimbursement becomes the new base. Remaining appropriations or new state dollars are distributed on the basis of enrollments, such that over time a greater percentage of the state appropriation is based on demand (i.e., enrollment growth or decline).

Performance Funding: Approximately 15 percent of federal resources are distributed based on provider performance on the core and secondary measures of the National Reporting System for Adult Education (NRS), the accountability system for the federal *Adult Education and Family Literacy Act (AEFLA)*. Nationwide, states are required to report on the core measures in the

Overview of the State Adult Education Funding System

NRS, which include outcome, descriptive, and participation measures, and they have the option of reporting on the secondary measures, which include outcomes related to employment, family, and community.

Federal performance-based funding (PBF) is allocated according to the number of adult learners achieving outcomes on state-identified core and secondary performance measures. Incentive grants also are provided for agencies meeting their state-negotiated performance levels for 15 measures of educational gains included in the NRS core measures. Performance funds lag one year behind when outcomes are recorded, meaning that local providers' eligibility in FY06 is determined by program performance in FY05. State allocation criteria include:

- *Performance*—Number of provider outcomes, calculated by summing the number of adult learners who achieve any of the following:
 - Completed a level or completed a level and advanced to a higher level;
 - Entered employment, retained employment, obtained a secondary diploma or general equivalency diploma (GED), and entered postsecondary education or training;
 - Achieved work-based project learning goals, left public assistance, acquired citizenship skills, increased involvement in their children's education or literacy activities, voted or registered to vote, and increased involvement in community activities;
 - In family literacy programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED diploma, entered postsecondary education or training, and increased involvement in their children's education or children's literacy activities;
 - In workplace literacy programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED diploma, and enrolled in postsecondary education or training; and
 - In corrections programs, advanced an educational functioning level, entered or retained employment, obtained a secondary diploma or GED diploma, and entered postsecondary education or training.

Local provider resource eligibility is calculated by multiplying the total number of individuals achieving a positive outcome on the state-identified NRS core and secondary measures by a state-established rate for each measure. The amount awarded for a secondary NRS performance outcome is half the amount awarded for a core NRS measure. For example, in FY05, providers

Overview of the State Adult Education Funding System

earned \$16.45 for each learner outcome on a core NRS measure, and \$8.22 for each learner outcome on a secondary NRS measure.

- *Incentive*—Funding for districts meeting their state-negotiated performance levels for the following NRS core measures:
 - Completed one of 11 education levels identified for adult basic education (ABE), adult secondary education (ASE), and English as a second language (ESL) learners as specified in the core NRS measures;
 - Entered further education and training;
 - Entered employment;
 - Retained employment; and
 - Completed high school diploma or GED.

Local provider eligibility is calculated by multiplying the total number of negotiated performance targets achieved by a state-established rate that is equivalent for each measure. For example, providers earned \$630.25 for each performance measure that they met or that exceeded their state-negotiated performance target in FY05.

State Allocations

In FY05, the state allocated a total of \$21,055,280 in federal and state funding for adult education grants to providers (table A-1). Of this amount, \$7,055,280 (34 percent) came from federal and \$14,000,000 (66 percent) from state sources.

SECTION A-1
Overview of the State Adult Education Funding System

Table A-1
Indiana Adult Education Funding Allocated as Base or Performance Funding: FY05

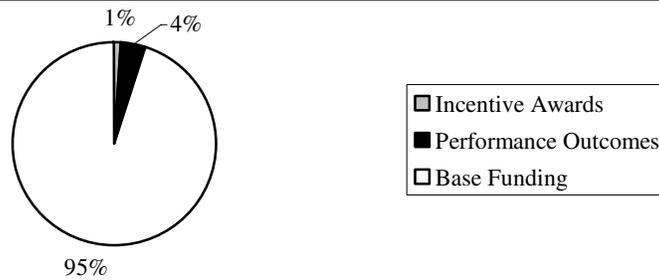
	Total Resources	Federal Resources	State Resources
Total Local Provider Allocation	\$21,055,280	\$7,055,280	\$14,000,000
Percentage of Total	100.0%	100.0%	100.0%
Base Funding	\$20,007,828	\$6,007,828	\$14,000,000
Percentage of Total	95.0%	85.2%	100.0%
Performance Funding	\$1,047,452	\$1,047,452	—
Performance Grants	\$824,993	\$824,993	—
Percentage of Total	3.9%	11.7%	—
Incentive Awards	\$222,459	\$222,459	—
Percentage of Total	1.1%	3.2%	—

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Note: — Not applicable.

Of the \$21,055,280 allocated to local providers, IDE administrators distributed \$20,007,828 (95 percent) as base funding among the 43 eligible providers in the state. The remaining \$1,1047,452 was earmarked for performance funding, with \$824,993 (4 percent) allocated as performance grants and \$222,459 (1 percent) as incentive awards (fig. A-1). Overall, this accounted for approximately 5 percent of total adult education resources distributed in FY05 to local providers in the state.

Figure A-1
Percentage of Indiana Local Provider Allocation by Funding Type: FY05



SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Organization of State Adult Education Services

The Division of Adult Education of the Indiana Department of Education administers adult education and literacy services offered by 43 local providers, including 42 comprehensive programs located in secondary and postsecondary agencies, and the Indiana Department of

Overview of the State Adult Education Funding System

Corrections. Ten program administrators work in the Division of Adult Education, two of whom directly administer the state's PBF system. These individuals include:

- *State Director of Adult Education*—The current state director, appointed in late 1996, oversees division staff and is responsible for ensuring that the state agency and local providers comply with *AEFLA* provisions. The director is also responsible for administering state funding for adult education and for supervising the state's GED testing program, the federal Even Start program, and services provided by the statutory Indiana Adult Literacy Coalition.
- *Assistant Director of Adult Education*—The assistant state director, state-employed since early 1991, manages the state's adult education funding, coordinates data collection, and is responsible for evaluating service providers under the PBF system.

Other division staff include three education consultants who provide program support services, a coordinator of the Even Start program, a GED administrator, and three support staff. Additional consultants and support staff work in the field on a part- or full-time basis directing the state's regional professional development system, or delivering training and technical assistance to program directors and their staff.

Local Providers

With the exception of one university and the state Department of Corrections, federally funded adult education services are based in secondary school districts, with providers remaining unchanged since the adoption of performance-based funding in FY01. Providers are geographically distributed throughout the state, with classes offered at more than 350 adult education sites.

State adult education enrollments have fluctuated slightly over time, with enrollment in FY05 approaching 43,500. According to state administrators, any variations in adult participation (table A-2) are likely due to fluctuations in state economic conditions and eligible populations, with the exception of FY05, when the state corrections department added facilities, thereby increasing total enrollment. The gender balance is roughly evenly split between males and females, with little variation over time. The racial profile of participants has also remained relatively stable, with participants in FY05 primarily white (53 percent), followed by black (24 percent), Hispanic (19 percent), Asian (4 percent), and American Indian/Alaskan Native and Native Hawaiian/Other Pacific Islander (1 percent) accounting for remaining participants. Finally, roughly one-third (36 percent) of participants in FY05 were between the ages of 25–44 years, with those aged 19–24 accounting for a quarter (26 percent) of enrollments (fig. A-2).

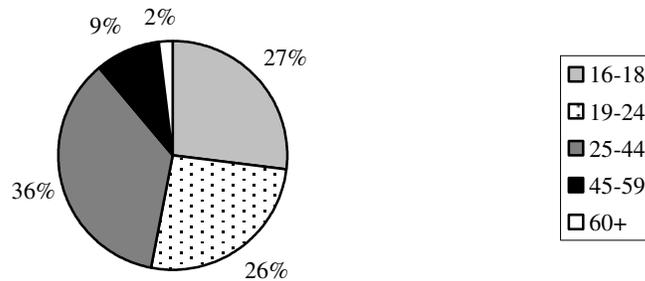
SECTION A-1

*Overview of the State Adult Education Funding System***Table A-2**
Selected Characteristics of Indiana Adult Education Providers and Participants: FY00 to FY05

	FY00	FY01	FY02	FY03	FY04	FY05
Providers^a	43	43	43	43	43	43
Unified School Districts	41	41	41	41	41	41
Universities	1	1	1	1	1	1
Corrections	1	1	1	1	1	1
Participants	41,760	42,135	44,492	41,397	41,148	43,498
<i>Gender</i>						
Male	53%	52%	51%	51%	50%	54%
Female	47%	48%	49%	49%	50%	46%
<i>Race-Ethnicity</i>						
White	57%	55%	55%	54%	54%	53%
Black	22%	21%	21%	21%	21%	24%
Hispanic	16%	19%	19%	20%	20%	19%
Asian	4%	4%	4%	4%	4%	4%
American Indian/Alaskan Native	<1%	<1%	<1%	<1%	<1%	<1%
Native Hawaiian/ Other Pacific Islander	<1%	<1%	<1%	<1%	<1%	<1%

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 1999–2000 to program years 2004–05. <http://www.doe.state.in.us/adulted/performance.html> (last accessed June 18, 2007).

^a Provider data included in this table is limited to Comprehensive Program Providers participating in the PBF system. The state also provides a small number of grants of federal resources to community-based organizations and state funding to small school corporations based on enrollment. Statewide totals for all providers are included in participants' data.

Figure A-2
Ages of Indiana Adult Education Participants: FY05

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 1999–2000 to program years 2004–05. <http://www.doe.state.in.us/adulted/performance.html> (last accessed June 18, 2007).

SECTION A-2:

Rationale for System Development

Unlike other states profiled in this study, both the Indiana state director and assistant state director of adult education predated *AEFLA*. Therefore, the decision to implement performance funding in Indiana was not associated with a turnover in state leadership, but rather came as a calculated response to the new federal performance reporting provisions in *AEFLA*. Believing that the new legislation called for holding local providers accountable for their learners' outcomes, state leaders opted to introduce PBF into their federal funds allocation formula as a way to improve their federal reporting capacity.

The introduction of performance funding also was seen as a way to address statewide concerns about the way adult education funds were distributed. Although administrators reported feeling no legislative pressure to adopt PBF, they did recall questions in 1997 from a new state board member about whether performance was considered in the provider allocation. This question raised administrators' awareness and contributed to their decision to introduce an accountability mechanism into the federal allocation formula.

When you get the question, "How is money allocated?" and you say, "In part by performance," that seems to be the end of discussion. When stakeholders out there hear the word "performance," there isn't really a lot of other questions that follow.
—Indiana Assistant State Director of Adult Education

During interviews, program directors reported dissatisfaction with the existing contact-hour formula, with one questioning whether distribution of resources based on seat-time was the best method for holding programs accountable. Instead, some directors favored a funding formula that would reward more productive programs, believing that educators would be more likely to undertake staff development and curricular reforms if given financial incentives to improve. Directors also reported that many of their peers were resistant to making sweeping changes to the funding formula without a promise that any new system would be at least as fair as the current one, as well as simple to use, because directors were averse to adding yet another reporting burden to their workload.

State Adoption Process

To initiate discussion about PBF, the state director placed the issue of federal performance funding on the agenda of the statewide administrators' conference in December 1998. Meeting discussions served to forewarn program directors of coming changes and provide initial

Rationale for System Development

information on state planning efforts. In retrospect, state administrators and program directors did not recall any significant opposition to the planned adoption of performance funding in Indiana, although not all directors were enthusiastic about its introduction. Lack of resistance was attributed to state administrators' efforts to communicate the need for formula change to the field (i.e., local providers) and a positive relationship between state administrators and program directors that helped dilute local opposition to the plan.

Provider acceptance of PBF also may have reflected a growing awareness of the need for better information to promote the benefits of adult education. As the state director observed, studies at the time documented that many adult education and literacy programs were plagued by poor attendance and high dropout rates, evidence often used by critics to suggest that funding based on contact hours was not effective. State administrators also were beginning to anticipate legislative challenges to continued state, and even federal, adult education funding. Integrating performance funding into the state's adult education funding formula was seen as a defensible alternative to status quo operations, because it promised to steer resources toward agencies that warranted support.

Goals in Introducing Performance-based Funding

The rationale for introducing performance funding in Indiana stems from language contained in Title II of the *Workforce Investment Act of 1998*, in which agencies administering adult basic education funds were directed to consider the past effectiveness of eligible providers in meeting or exceeding the performance measures contained in *AEFLA*. In interpreting this language, the division of adult education set out to create a new comprehensive federal funding formula that included performance indicators collected by the U.S. Department of Education for its annual report to Congress.

Although formal goals for introducing PBF were not elaborated, state administrators sought to improve state capacity to report on the NRS measures. Administrators also focused on improving the quality of adult education programs offered in the state. In doing so, an overriding concern was that the new formula be based on a fair and equitable distribution of available resources.

SECTION A-3:

Formula Design Process

State and federal adult education resources are allocated using two discrete formulas. Although both formulas distribute a majority of resources based on learner-contact hours, state administrators reported that development committees sought to incorporate performance-funding criteria into both systems.

Specification of Funding Criteria: State Funding

The existing formula for allocating state resources dates back to 1991, when the state board of education assembled an adult education funding study committee, appointed by the superintendent of public instruction, to consider how state adult education funds were allocated to local school corporations. The study committee consisted of approximately 15 members, and included department of education personnel, adult educators, a school superintendent, and other school administrators. Committee members met several times during 1991 and later submitted a series of recommendations, including a new state funding formula for adult education, which the board adopted in 1992.

Committee members opted to distribute roughly 90 percent of state funding in FY93 as a base grant dependent on agencies' reimbursed FY92 expenditures for the summer and fall terms of 1991 and spring term of 1992, with the remaining 10 percent based on program enrollments. The committee further stipulated that any remaining state appropriations or additional state funding for adult education was to be allocated based on enrollments. This was intended as a form of performance funding, since agencies losing or gaining students would be penalized or rewarded based on their ability to attract learners. Panelists reasoned that successful programs would be more likely to attract students, thereby creating an incentive for programs to undertake efforts to improve service quality.

State resources continue to be allocated based on local providers' FY92 expenditures, with funding appropriated by the Indiana legislature as part of its biennial budget. That is, because maintaining resources at FY92 levels is in keeping with the state's goal of providing a fair and equitable distribution of available resources, in part, because each adult education district within the state is guaranteed a base level of funding that, when combined with federal resources, is sufficient to allow a provider to open their doors to offer a minimum level of program services.

SECTION A-3
Formula Design Process

At the time, program directors were willing to earmark 90 percent of state funding as a guaranteed base to protect small rural providers unable to generate large enrollments. As one committee member noted, although it would have been easy for larger agencies to support contact-hour allocations, that would ultimately drive small agencies out of existence or force them to cut services to adults in need. In keeping with the goal of developing a fair and equitable formula, larger providers were willing to concede resources to ensure that no community was left out of the service network.

Specification of Funding Criteria: Federal Funding

In FY99, to introduce performance funding into the state’s adult education formula, Indiana state administrators formed an advisory committee of 12 program directors, selected by the state director to represent the views of the field. Committee members met periodically throughout 1999 to discuss potential federal funding mechanisms and to assess the effect of different measures on provider eligibility. Although willing to integrate PBF into the federal formula, members were reluctant to make radical changes to the allocation mechanism, believing that an effective adult education program faced fixed costs (e.g., facilities, teacher salaries, and benefits) regardless of the number of learners served or outcomes achieved.

Ultimately, the committee decided to allocate a majority of federal resources—roughly 85 percent—as a base grant conditioned on an agency’s 1999–2000 program year budget. Allocating such a large percentage of federal funding as base funding minimizes the risk of decreased funding to providers. Since providers are assured they will receive 90 percent of their federal resources in the coming fiscal year, they can budget realistically to support most of their program services.

Committee members also adopted two approaches to allocating performance resources. Roughly 80 percent of performance funds are awarded based on the number of learners who achieved an outcome on one of the NRS core or secondary measures. The remaining 20 percent is distributed as incentive funding, based on how many of the 15 state-negotiated NRS performance goals a program achieves. To reward programs for their performance, committee members agreed to award a majority of performance funds based on learner outcomes, ensuring that larger agencies would be able to generate sufficient resources to compensate them for serving more students.

Indiana includes performance awards for all of the NRS measures, including so-called “soft” measures, which include entering another academic or vocational program, becoming a U.S. citizen, registering to vote or voting for the first time, exiting from public assistance rolls, reading more to children, and becoming more involved in children’s schooling. These NRS secondary outcomes are included because committee members were concerned that not all

SECTION A-3
Formula Design Process

programs had equal capacity to achieve core NRS measures; for example, those serving institutionalized individuals may have difficulty showing learning gains or finding students employment. Consequently, members favored including alternative measures to give all programs the opportunity to achieve performance outcomes.

To calculate a program’s performance award, state administrators multiply the number of outcomes or performance goals a provider achieves by a fixed dollar amount established by the state. An example of this fixed amount would be a learner who achieved a performance outcome in FY01, such as completing an education level, generated \$23.74 for their local provider. Similarly, a local provider that attained one of 15 state-negotiated performance goals in FY01, such as demonstrating education gains for at least 20 percent of its Beginning Literacy ABE learners, earned \$630.25 for each measure.

Each year performance and incentive rates are adjusted to account for the level of federal support available and the number of outcomes reported by local providers. For example, between FY01 and FY02, the funding rate for a performance outcome for an adult learner fell from \$23.74 to \$16.51, and for a performance goal it fell from \$630.25 to \$603.22, as a result of declining federal resources and statewide increases in provider performance (table A-3).

Table A-3
Indiana Performance Outcome Rate and Performance Goal Rate: FY01 to FY05

Fiscal Year	Performance Outcome Rate	Performance Goal Rate
2001	\$23.74	\$630.25
2002	\$16.51	\$603.22
2003	\$17.81 core/\$8.90 secondary	\$657.89
2004	\$17.66 core/\$8.83 secondary	\$644.69
2005	\$16.45 core/\$8.22 secondary	\$635.59

All performance outcomes and performance goals were initially equally weighted, meaning that a student who advanced a level in a core or secondary performance measure generated the same amount as one identified as entering employment. Moreover, no adjustment was made based on student ability. According to the assistant state director, 75 percent of the adults served by state programs function below the ninth-grade level or are ESL students, so no effort was made to weight outcomes differentially, because all providers were serving learners with high needs. This decision initially troubled some program directors, particularly those serving relatively large populations of limited-English-proficient adults or those with documented disabilities.

Beginning in FY03, the state modified its funding formula to offer differentiated payments for adults achieving core or secondary NRS performance outcomes. This change was justified for several reasons. First, only the core NRS measures are tracked by the U.S. Department of

SECTION A-3
Formula Design Process

Education for reports to Congress and by the Indiana Department of Education for the state's adult education report card, meaning that these measures carry somewhat greater importance. Second, it is only through achieving the core outcome measures that a state may qualify for incentive funds through the *Workforce Investment Act*, suggesting that programs should focus on tracking and reporting core outcomes to increase the likelihood of the state getting its award. Finally, measurement and reporting of secondary outcomes was not consistent across programs, undercutting the accuracy of these measures.

Assessing Formula Effects

To determine the effect of different scenarios on local providers, state administrators modeled how provider allocations would change under different assumptions. As an initial exercise, administrators looked at models in which base funding was set at 60 percent, 65 percent, and 70 percent. Resource estimates were shared with committee members, who immediately focused on the amount of money their own and other programs would receive. According to the assistant state director, much of the debate focused upon how much risk program directors were willing to incur.

You have to provide [program directors] some direction and you have to provide them some models to look at and to consider. You have to place these models on the table for them to react ... when it comes down to working with our local providers, they want to know about dollars and cents.

**—Indiana Assistant State Director
of Adult Education**

Since few directors proved to be risk-takers, the final model placed greater emphasis on allocating resources based on prior-year funding than on enrollment or performance outcomes. As one committee member pointed out, the existing system was too large to change overnight; although members supported the use of PBF in the abstract, it was felt that securing buy-in would require a slower, evolutionary process.

SECTION A-4:

Implementation Process

Indiana fully implemented performance funding in the 2000–01 program year. According to the assistant state director, although the state did not introduce a hold-harmless provision in the formula, the fact that such a high percentage of funding was released as a guaranteed base protected providers. Moreover, at the time that PBF was first introduced, the state was experiencing a significant funding increase in its allocation of federal funds due to demographic changes, with resources rising from \$7.3 million in FY00 to \$8.6 million in FY01.

To ensure further that providers were insulated from sudden funding shifts following formula adoption, state administrators set aside a portion of new federal resources for use as a competitive enhancement grant, for which program directors could apply to support a variety of activities. The combination of guaranteed base funding, increased federal resources, performance funding, and enhancement grants meant that most providers were exposed to very little risk of losing resources with the shift to performance funding.

Provider Reporting Capacity

Indiana was an early implementer of computerized record keeping, with local providers electronically tracking program outcomes since 1993. According to the assistant state director, the introduction of *AEFLA* reporting requirements simply validated this existing system—although the state had not been actively using all of the information compiled by providers, data for most NRS measures were already being collected. So the introduction of *AEFLA* did not change the mechanics of reporting, only the importance attached to the information that already existed.

Prior to performance-based funding, the Indiana Department of Education already had other criteria that they were looking at, so it was not a big switch in the sense of their setting new criteria for us or new standards for us to meet. The standards were already there, and now they were going to attach dollars to them.
—*Indiana Program Director*

Because state administrators wanted programs to receive immediate feedback for their performance, the state structured the funding formula to provide current year resources based on prior year outcomes. This requires that local providers quickly process and report data, so that state staff have the information needed to calculate provider eligibility. Some program directors have complained that this has required that they invest additional time to perform the extensive data entry required.

Data Quality

Each year, state administrators perform a desk audit of program-reported data and conduct on-site reviews of 20 percent of providers as required by law. Desk audits consist of a review of program paperwork and data submissions to ensure that program totals are consistent and reasonable given state administrators' knowledge of program operations. Field visits are conducted using a standardized evaluation instrument to ensure reliable assessments across sites. Programs failing to meet their state-negotiated performance targets are placed on probation and offered technical assistance to improve their outcomes. Underperforming agencies must demonstrate gains within a state-established time period or face defunding.

Concurrent with the introduction of PBF, state administrators increased the number of data checks for the desk audit system to ensure that program reports were internally consistent. For example, providers were required to demonstrate that they had a performance goal and associated outcome, such as program exit, to receive credit for their data submission. Program evaluators also placed greater weight during field visits on performing spot checks of a sample of student records to ensure the accuracy of local data.

During interviews, program directors suggested that poor performance is not always indicative of inadequate programs, but sometimes only reflects a temporary deficiency in the quality of data reported to the state. In particular, directors described the problems associated with "losing data in their systems," meaning that fundable outcomes are lost because learner records are not properly updated, invalidating the file. To illustrate, one provider described how his program went from being one of the best to one of the worst in the state within two years. In retrospect, he determined that the reason for this decline had nothing to do with his program; instead, his data entry person was found to be suffering from a brain tumor that interfered with her ability to maintain program data accurately.

Management Information Systems

In FY00, to support programs in collecting NRS data, the state supplied providers with computing software and technical assistance in its use. Providers already had an existing data collection system in place when Indiana initiated performance funding in FY01. Since PBF reporting piggybacked on existing federal NRS measures, neither the state nor local providers incurred any additional technology costs in shifting to performance funding.

Although providers incurred no quantifiable hardware or software costs related to the adoption of PBF, program directors reported that they and their staff now spend considerable time collecting and monitoring local program data. This increased attention is a direct result of the state attaching funding to agency performance on the NRS measures. As one state administrator

SECTION A-4
Implementation Process

noted, before PBF, program directors often gave only perfunctory attention to their data; linking money to the NRS measures motivated directors to pay greater attention to their outcomes.

Providers also were forced to invest greater time entering data because the state instituted electronic data checks in the reporting system. According to the assistant state director, program staff were initially frustrated because they encountered data flags, indicating a problem, when they tried to report their data. Since error warnings did not, at the time, provide detailed information on what was wrong, agency staff had to invest time reviewing and cleaning data so that it could be uploaded to the state database.

Technical Assistance

State administrators reported that they did not explicitly provide technical assistance to improve the collection of performance funding data. Instead, state technical assistance focused on assisting providers in using approved procedures for assessing student progress using the NRS measures and entering observed outcomes into their local databases. Training was targeted to different audiences, including program directors, lead teachers, veteran teachers, and data entry staff. Individualized training and one-on-one consultations also were provided.

State administrators did, however, conduct roundtable sessions at semiannual statewide meetings to outfit program directors with data analysis skills. For example, directors were given a set of performance outcomes for a fictitious district and taught how to disaggregate data to identify issues affecting a particular program, teacher, or learner population. Professional development facilitators from the state's regional centers also met with program staff at annual state association conferences and individually to help providers learn how to interpret data.

SECTION A-5:

Effects of Performance-based Funding

The introduction of PBF in Indiana was intended to add a level of performance accountability to adult education programs. Although focus group participants ascribed both positive and negative outcomes to the adoption of performance funding, few, if any, data exist to substantiate these claims. In many cases, participant observations were based on general perceptions of program operations or extrapolations of a single experience. Some participants also had difficulty differentiating programmatic effects due to the adoption of PBF from those associated with the state’s implementation of *AEFLA*. Consequently, readers should be cautious in drawing conclusions about the effects of PBF on state adult education systems.

Contributions to Statewide Performance

During site-visit interviews, both state administrators and local provider staff suggested that the adoption of PBF has contributed to achieving state goals, and, in particular, to the following:

- *Improving the Accuracy of Adult Education Data*—Aligning state PBF measures with those in the NRS has been credited with improving data quality, because program directors now have a financial incentive to review the information they report. As one program director observed, although providers were required by federal law to collect program data, reporting requirements alone would not have motivated directors to monitor their program outcomes or train staff to collect accurate data.

Every annual performance report for every program is posted. That has a very interesting effect at the local level. ... To have that information accessible 24 hours a day, 365, is very powerful. Peer pressure to improve that program is probably more than anything that we could have said or [the federal government] could have ever done.
—Indiana Assistant State Director of Adult Education

Associating funding with the NRS core and secondary measures has caused directors to institute formal data collection procedures to ensure that information accurately captures program performance.

Because of the resources and publicity associated with their data, program directors reported that they are more proactive in reviewing the information they report to the Indiana Department of Education. This has helped to create a “culture of data” within the state; that is, program directors are more likely to understand and proactively use data to manage program operations. Perhaps the clearest example of directors’ commitment to performance came during field

Effects of Performance-based Funding

interviews, when one director brandished a set of program performance measures that were less than two weeks old, pointing out his most recent program accomplishments and identifying specific areas in which he was planning to focus his attention in the coming weeks.

- *Insulating Programs From Year-to-Year Fluctuations*—Since the state allocates only a relatively small amount of funding based on performance, programs are better positioned to weather unanticipated enrollment or performance downturns. For example, one program director reported that rather than have to close a single site due to one year of unexpectedly poor performance, she was able to make small cutbacks across multiple sites to maintain program offerings. This enabled her to serve the same number of students and, thus, retain her enrollment eligibility.

There are advantages to small rural providers, because only a small portion of their funding is contingent on learner outcomes. During case study interviews, program directors reported that they budgeted for programs using their base eligibility; performance funds were reserved for supplemental student services, and textbooks and supplies that could be suspended if performance funding were to drop.

Providers did not believe, however, that increasing the amount of PBF resources would help to improve performance. As one program director explained, “It doesn’t matter if you put out 5 percent or you put out 50 percent, these people are still going to be out there hustling and trying to do what they are going to do for the students.” In the opinion of directors interviewed for the study, although there is a clear benefit to attaching some money to provider performance, there is a diminishing return to attaching too great a sum because of the potential for creating hardships from which programs may have difficulty recovering.

- *Improving Teacher Effectiveness*—Rewarding providers for achieving learner outcomes has led program staff to manage student enrollments and service delivery more actively. One program director compared the new system to working at a doctor’s office: All new students are initially assessed to diagnose their problems, and then services closely tailored to their needs are provided. Monitoring intake and processing procedures also have allowed instructors to make referrals to other agencies, where warranted, and to develop more realistic goals and services for those who are enrolled. For one program, performance funding was credited with halving the dropout rate, as instructors became more adept at targeting services to program participants.

Effects of Performance-based Funding

As one director commented, performance funding “made our teachers more professional because they had to track the attendance records. They had to do the adult learning plan. They had to make sure that the goals were realistic.” Simply put, staff at all provider levels—from program directors to classroom instructors—changed how they went about their jobs in response to performance funding, although the motivations may have differed across groups. For example, program directors often spoke of the need to meet state performance targets to obtain additional money to support program offerings, while program staff spoke of their desire to gain supplemental classroom materials or attend professional development conferences with the money they earned for their program.

I think our outcomes are coming quicker. I think the students are seeing their progress much faster, which keeps them encouraged and very positive. It keeps the teachers more on task. It's also easier to see a weaker area that needs fixing, if you're really looking at your data and your results.

**—Indiana Adult Education
Instructor**

Drawbacks

Interviews with state administrators and local program directors indicate that PBF has been effectively institutionalized in Indiana. However, not all providers initially supported the new funding system or currently support all aspects of the funding formula enthusiastically.

Drawbacks associated with implementing PBF include:

- *Large Base Undercuts Effect of Performance Award*—A majority of state resources are awarded as base funding, with any additional resources provided by the legislature distributed based on enrollment. Since the state has not had an increase in funding in eight years, the assistant state director believes that formula allocations are, “just reshuffling the pot”—that is, very little money actually changes hands year-to-year since most providers are able to maintain their level of expenditure from the initial 1992 program year funding. Moreover, if state enrollment were to grow substantially, providers would face a potential loss of resources even if they maintain current enrollment, since the dollar amount attached to an adult learner would decrease.

Since performance eligibility is not calculated until well after the fiscal year has started, state administrators are somewhat constrained in the amount of funding that can be awarded based on performance. For instance, if the state were to allocate 50 percent of its federal funding based on performance, programs would be at risk of losing a substantial amount of funding midyear, after annual expenditures have already been adopted, which could force program directors to make drastic cuts to balance their budgets.

Effects of Performance-based Funding

Although directors interviewed for this study reported that the existing performance allocation motivated them to achieve outcomes, in discussions they pointed out that underperforming programs also are able to remain in the provider system because they are guaranteed a substantial amount of base funding if they maintain enrollments. Since programs are assured of their survival, it was suggested that some directors might be less likely to focus on performance, particularly if they were busy with other obligations.

- *Secondary NRS Measures Lack Utility*—Program directors did not universally approve of using both core and secondary NRS measures to award performance funding. As one director pointed out, adult education agencies are not postsecondary institutions charged with providing advanced academic or technical skills, but rather instructional programs focused on imparting basic literacy skills to prepare learners to earn a GED credential. Providers felt that some of the secondary NRS measures, such as registering to vote or reading more to children, were less important than those dealing with learner progress.

Directors also complained that follow-up efforts to report on some NRS measures consume a great deal of staff time, often with little payoff. Since some adult learners are highly mobile—one provider described one participant who reported four different addresses in a single week—many providers, and particularly those with highly mobile populations, may be disadvantaged in the funding formula. Although participants acknowledge that follow-up data can produce information useful for program planning purposes, a majority felt that post-program performance indicators should not be a basis for allocating funding.

Core and secondary NRS performance measures initially were all counted equally in Indiana, meaning that a provider received equal funding whether a student completed a GED level or registered to vote. In some cases, this led some providers to focus program improvement efforts on secondary measures that were less difficult to document or achieve. Beginning in FY04, the state has halved payments on NRS secondary measures, which has helped to address this issue

- *High-needs Populations Are Not Differentially Weighted*—Providers raised concerns with the equal weighting attached to the core NRS measures in the state funding formula. Since local programs may have to invest greater resources to produce outcomes for high-needs populations, such as those with limited English proficiency or disabilities, some directors felt that they were penalized for their student demographics. Providers also may have less incentive to operate high-cost programs. For example, one program instructor described how her program dropped a specialized program for developmentally disabled adults because, in

Effects of Performance-based Funding

her estimation, these individuals were unlikely to achieve outcomes recognized in the performance funding formula. This observation, however, was the exception; program directors were unanimous in reporting that they served all students who entered their facility, regardless of their skills or abilities.

- *The Monetary Value of a Performance Outcome Cannot Be Predicted*—The value of a performance outcome has fluctuated over time, making it difficult for providers to project their performance-funding eligibility for the subsequent fiscal year. For example, state payments for a learner outcome have fallen from \$23.74 per adult learner in FY01 to \$16.45 in FY05, due, in part, to a decline in federal performance funding and, in part, to increases in the performance outcomes agencies have achieved (40,877 outcomes in FY01 compared to 44,217 in FY05). The valuation of performance outcomes and goals are set retrospectively by the state each fiscal year, with rates determined by available funding. Since agencies do not know ahead of time what the valuation will be, providers only have a ballpark estimate of their likely funding eligibility.

Similar issues apply in the allocation of funds using state resources. Since enrollment rates are based on the amount of state resources remaining after basic grants are awarded, the value of a learner enrollment is a function of the total number of statewide enrollments recorded in the fiscal year. Therefore, if state enrollments were to substantially increase in a given year, a provider would have to increase enrollments by the statewide average increase simply to maintain stable resources. This also presents a challenge to annual budgeting.

Effect of PBF on Adult Education Providers

The number of program providers has remained unchanged since the adoption of performance-based funding in FY02. Although program directors described closing or moving some service locations, these changes were attributed to demographic shifts in the adult population rather than to the performance-funding formula.

Fiscal Eligibility

A review of program funding data indicates that federal allocations used to support PBF fell 18 percent between FY01 and FY05, declining from approximately \$1.27 million in FY01 to \$1.05 million in FY05 (table A-4). Of the 43 comprehensive program districts qualifying for performance funding in FY05, roughly two-fifths (18 of 43 providers) lost funding relative to the statewide average. However, since FY02, federal PBF has remained relatively stable, in keeping with the state's goal of maintaining the amount of resources allocated using performance criteria.

Effects of Performance-based Funding

Although funding changes have been pronounced in some sites, when PBF is expressed as a percentage of total adult education resources, the actual dollar amounts have been relatively small for most providers. For example, the New Albany area realized a 33 percent decline (\$12,614) in performance funding in the five years since PBF was adopted; however, when expressed as a percentage of its total adult education funding in FY00—the year before the adoption of performance funding—the agency actually lost less than 6 percent of its budget (see table A-5). Moreover, enrollment increases associated with increased state funding resulted in the area actually increasing its overall funding eligibility for FY06 by 14 percent, negating any losses due to diminished performance. Of the 19 providers losing performance funding between FY01 and FY05, half experienced a gain in overall resources as compared to the statewide average.

Generally, although PBF appears to have reallocated resources from lower- to higher-performing providers over time, its effect is tempered by the relatively small proportion of federal resources distributed based on performance. As illustrated in table A-4, the total amount of funding for adult education has risen by 10 percent between FY00 (the last year of contact-hour funding) and FY06 (the most current year for which data are available). These funding increases are due to changes in the state eligibility for federal resources, as state funding has remained unchanged over the last eight years.

SECTION A - 5

*Effects of Performance-based Funding***Table A-4****Indiana Combined Adult Education Performance and Incentive Awards,^a Percentage and Dollar Amount Change by Provider: FY01 to FY05**

District / Program	Total Combined Performance and Incentive Award					Percentage Change FY01 to FY05	Dollar Amount Change
	FY01	FY02	FY03	FY04	FY05		
Statewide Total	\$1,271,873	\$1,060,974	\$1,060,968	\$1,060,893	\$1,047,452	-18%	-\$224,421
Richmond area	28,126	16,954	17,714	21,025	8,689	-69%	-19,437
Crawfordsville area	27,860	17,015	21,194	15,639	8,675	-69%	-19,185
Gary area	35,616	21,456	21,800	21,811	12,567	-65%	-23,049
Central Nine area	40,340	37,057	20,002	18,041	16,187	-60%	-24,153
North White area	20,549	8,526	8,958	6,173	9,343	-55%	-11,206
Warren Twp. Area	45,461	27,874	13,069	20,186	20,878	-54%	-24,583
Evansville area	62,464	24,752	29,899	29,996	30,028	-52%	-32,436
Wayne Twp. Area	61,963	46,388	45,334	37,423	34,695	-44%	-27,268
Portage area	75,268	58,905	66,276	60,072	46,098	-39%	-29,170
Kokomo area	24,814	17,113	14,891	10,208	15,408	-38%	-9,406
IPS area	130,618	133,865	132,009	136,239	85,494	-35%	-45,124
Michigan City area	39,047	32,621	30,808	29,086	25,760	-34%	-13,287
New Albany area	38,325	32,069	12,906	17,466	25,711	-33%	-12,614
Putnam Co. area	11,108	8,178	8,158	8,725	7,773	-30%	-3,335
Vigo Co. area	31,732	9,704	15,417	12,027	22,307	-30%	-9,425
Lafayette area	79,472	65,718	62,519	51,630	56,854	-28%	-22,618
Blue River area	18,719	14,025	12,032	8,892	13,721	-27%	-4,998
Columbus area	40,416	29,081	27,441	32,107	30,985	-23%	-9,431
North Adams area	6,593	6,435	2,847	2,384	5,161	-22%	-1,432
Muncie area	32,712	26,412	25,711	28,230	27,528	-16%	-5,184
South Bend area	81,965	66,473	69,538	68,355	69,262	-15%	-12,703
Four Co. area	27,000	23,934	23,682	23,939	22,982	-15%	-4,018
Connersville area	17,978	15,321	9,714	15,365	15,346	-15%	-2,632
Logansport area	14,407	9,738	12,466	10,164	12,791	-11%	-1,616
Heartland area	8,104	6,708	5,710	8,001	7,504	-7%	-600
Elwood area	11,677	10,466	11,692	11,348	11,032	-6%	-645
Monroe Co. area	29,985	28,270	28,381	26,720	28,385	-5%	-1,600
Fort Wayne area	46,796	32,622	48,227	46,632	45,783	-2%	-1,013
Elkhart area	35,817	28,968	26,750	26,853	37,567	5%	1,750
New Castle area	21,046	19,054	24,786	20,045	22,381	6%	1,335
Hammond area	31,974	24,058	18,769	23,338	34,005	6%	2,031
Vincennes area	23,812	23,502	27,051	19,258	29,017	22%	5,205
Washington Twp. area	21,860	30,616	33,330	33,317	27,683	27%	5,823
Warsaw area	9,802	8,872	10,294	6,190	13,278	35%	3,476
South Vermillion area	5,203	3,452	4,776	4,812	7,274	40%	2,071
Southeastern area	10,499	5,839	8,410	15,912	16,457	57%	5,958
DOC	26,513	42,850	17,398	36,575	45,355	71%	18,842
North Spencer area	6,535	9,021	7,037	7,532	13,148	101%	6,613
Anderson area	8,761	5,178	14,178	21,502	18,296	109%	9,535
Plymouth area	3,302	6,254	6,280	5,369	7,451	126%	4,149
12 Benton Co. area	1,105	66	5,087	4,044	2,895	162%	1,790
Marion area	4,652	12,290	14,870	20,090	16,769	260%	12,117
East Chicago area	0	13,272	14,670	9,096	9,594	—	9,594
Lake Ridge area	0	0	3,312	3,320	1,934	—	—
Goshen area	0	0	4,755	6,834	6,550	—	—
Huntington area	0	0	1,104	1,086	2,057	—	—
Frankfort area	0	0	3,953	4,724	4,048	—	—
Jay County area	0	0	2,867	2,190	3,909	—	—
Edinburgh area	0	0	12,893	10,922	10,837	—	—
Mt. Vernon area	0	0	0	0	0	—	—

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Performance funding includes federal resources distributed based on outcomes achieved, while incentive awards are based on outcomes achieved by providers.

SECTION A-5

*Effects of Performance-based Funding***Table A-5****Total Change in Indiana Adult Education Funding, by Comprehensive Program District:^a FY00 to FY06**

District / Program	Total Funding		Percentage Change FY00 to FY06
	FY00	FY06	
Statewide Total	\$17,522,107	\$19,345,212	10%
Richmond area	175,537	175,590	0%
Michigan City area	237,703	238,846	0%
Columbus area	230,932	232,371	1%
Warsaw area	122,551	123,389	1%
Marion area	103,159	104,017	1%
Connersville area	112,986	113,945	1%
DOC	9,711,734	9,852,319	1%
East Chicago area	131,526	133,459	1%
Vigo Co. area	159,135	162,085	2%
Blue River area	73,741	77,225	5%
New Castle area	223,461	234,025	5%
Gary area	901,079	945,571	5%
Southeastern area	108,933	116,479	7%
Wayne Twp. Area	325,576	349,425	7%
Heartland area	35,741	38,534	8%
Evansville area	193,563	211,589	9%
Vincennes area	512,283	560,666	9%
Central Nine area	149,553	165,539	11%
IPS area	954,491	1,062,548	11%
North Adams area	34,937	39,181	12%
Logansport area	161,459	181,570	12%
Portage area	429,182	482,972	13%
South Vermillion area	32,161	36,218	13%
Anderson area	145,893	164,496	13%
Benton Co. area	37,821	43,059	14%
New Albany area	220,557	251,610	14%
Muncie area	188,977	219,371	16%
South Bend area	299,533	348,474	16%
Fort Wayne area	273,938	319,810	17%
Warren Twp. Area	150,660	179,836	19%
Lafayette area	244,669	328,329	34%
Elwood area	45,975	64,189	40%
Hammond area	187,350	268,402	43%
Monroe Co. area	133,450	197,691	48%
Elkhart area	199,976	301,753	51%
Four Co. area	87,262	132,819	52%
North White area	37,734	57,478	52%
Putnam Co. area	31,551	55,241	75%
Crawfordsville area	43,671	77,328	77%
Washington Twp. Area	71,667	151,211	111%
Plymouth area	0	46,330	—
Kokomo area	0	128,401	—
North Spencer area	0	371,820	—

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Comprehensive program districts include providers competing for performance funding grants.

Effects of Performance-based Funding

Program directors report that they typically budget based on the 90 percent of funding that they are assured of receiving, using performance and incentive money to provide supplemental services, such as aides and professional development. Since performance-funding eligibility is not determined until late in the budgeting process, providers typically budget on the assumption that they will get approximately the same amount as in the preceding year and later make changes at the margins to align their budgets with final state allocations.

Program Outcomes

Although program enrollments have fluctuated over time, Indiana adult education providers have increased the number of performance outcomes achieved on the NRS measures since the adoption of performance funding in FY01. As illustrated in table A-6, the number of participants achieving a state-identified core or secondary performance outcome on the NRS measures climbed from 45,290 in FY01 to 56,043 in FY05, nearly a 24 percent increase compared to a participant population increase of roughly 3 percent (42,135 participants in FY01 compared to 43,498 in FY05).

Table A-6
Indiana Statewide Adult Education Participants, Providers, and Performance Outcomes and Goals: FY01 to FY05

	FY01	FY02	FY03	FY04	FY05
Participants	42,135	44,492	41,397	41,148	43,498
Providers Qualifying for Incentives	43	43	43	43	43
Performance Outcomes	45,290	50,620	54,101	54,370	56,043
Core NRS Measures	—	—	39,787	40,296	44,217
Secondary NRS Measures	—	—	14,314	14,074	11,826
Outcomes per Participant	1.1	1.1	1.3	1.3	1.3
Performance Goals Achieved^a	357	373	342	349	350
Average Goals Achieved	8.3	8.7	8.0	8.1	8.1

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Negotiated performance targets achieved by the local provider.

Of particular interest is that since FY03, when the state halved its reimbursement rate for the secondary NRS measures, the number of secondary outcomes has fallen from 14,314 in FY03 to 11,826 in FY05. At the same time, the number of core measures achieved climbed from 39,787 to 44,217. This indicates that providers may be shifting away from pursuing lower value, though potentially more easily obtainable, secondary measures in favor of NRS core measures. Detailed provider data are available in table A-7.

SECTION A-5

*Effects of Performance-based Funding***Table A-7****Total Number of Indiana Adult Education Performance Outcomes Achieved and Percentage Change, by Comprehensive Program District:^a FY01 to FY05**

District / Program	Performance Outcomes					Percentage Change
	FY01	FY02	FY03	FY04	FY05	FY01 to FY05
Statewide Total	45,290	50,620	54,101	54,370	56,043	23.7%
Gary area	1,235	1,007	1,334	1,052	667	-46.0%
Lake Ridge area			189	188	119	—
Hammond area	1,055	1,055	1,491	1,804	2,385	126.1%
East Chicago area	0	621	872	487	775	—
Portage area	2,879	3,092	3,419	3,125	2,496	-13.3%
Michigan City area	1,353	1,610	1,678	1,744	1,477	9.2%
South Bend area	3,347	3,879	4,411	4,092	4,274	27.7%
Elkhart area	1,270	1,608	1,589	1,977	3,075	142.1%
Goshen area			332	387	398	—
Plymouth area	86	123	132	128	244	183.7%
Warsaw area	174	245	388	286	487	179.9%
Four Co. area	872	1,084	1,076	1,059	1,158	32.8%
Fort Wayne area	1,706	1,537	2,489	2,454	2,700	58.3%
Huntington area			62	67	126	—
Benton Co. area	20	4	64	47	68	240.0%
North White area	494	151	209	131	196	-60.3%
Logansport area	368	334	482	320	498	35.3%
Heartland area	129	114	99	161	147	14.0%
North Adams area	145	134	93	62	147	1.4%
Lafayette area	3,003	3,468	3,326	2,740	3,145	4.7%
Frankfort area			246	287	281	—
Kokomo area	833	744	693	426	584	-29.9%
Elwood area	253	305	394	371	421	66.4%
Marion area	196	452	543	752	710	262.2%
Anderson area	316	277	577	792	745	135.8%
Muncie area	1,033	1,161	1,046	1,184	1,330	28.8%
Jay County area			161	124	259	—
Crawfordsville area	802	592	739	583	334	-58.4%
Putnam Co. area	229	203	200	202	203	—
Wayne Twp. Area	2,345	2,261	2,479	2,224	2,400	2.3%
Washington Twp. Area	682	1,379	1,372	1,477	1,604	135.2%
Warren Twp. Area	1,517	1,213	672	827	794	-47.7%
IPS area	5,261	7,704	8,867	9,261	4,886	-7.1%
Central Nine area	1,434	1,696	757	779	863	-39.8%
Edinburgh area			727	629	667	—
Blue River area	470	484	485	414	633	34.7%
Connersville area	545	599	243	624	674	23.7%
Richmond area	946	844	810	862	528	-44.2%
New Castle area	807	825	999	815	1,058	31.1%
Vigo Co. area	1,151	478	713	426	953	-17.2%
Monroe Co. area	865	1,310	1,415	1,568	1,662	92.1%
Columbus area	1,331	1,213	1,302	1,491	1,611	21.0%
Vincennes area	897	1,277	1,321	978	1,513	68.7%
Southeastern area	283	244	328	683	780	175.6%
Evansville area	2,313	1,097	1,459	1,533	1,675	-27.6%
Mt. Vernon area						
New Albany area	1,296	1,467	548	674	1,009	-22.1%
South Vermillion area	113	136	91	90	133	17.7%
DOC	1,117	2,412	977	1,706	2,756	146.7%
North Spencer area	116	181	202	277	395	240.5%

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Comprehensive program districts include providers competing for performance funding grants.

Effects of Performance-based Funding

Provider attainment of negotiated performance targets on the NRS core measures has remained relatively stable since the adoption of performance funding, with programs achieving an average of 8.1 of 15 goals in FY05. Since the number of performance outcomes achieved by providers has increased over the same period, it may be that providers are succeeding in achieving performance outcomes in program areas in which they are already meeting their performance goals. Detailed data disaggregated by provider are available in table A-8.

A review of statewide performance targets and actual performance levels indicates that the state has consistently achieved its NRS performance targets since FY01, for example, achieving 14 of its 15 targets in FY03. Given that providers, on average, are attaining only 8 of 15 measures, it is likely that state success can be attributed to larger providers or those enrolling a disproportionate number of students in a given program area. Low rates of achievement on performance goals observed in some providers may be due to a lack of program offerings corresponding to some measures.

While it is not possible to attribute statewide success directly to the adoption of PBF, state administrators reported that the adoption of PBF has supported the state in improving program services, and data show that the state has made substantial gains in the number of learners achieving outcomes on the core NRS measures.

System Evolution

In FY03, in response to provider concerns about the equivalent weight attached to both core and secondary NRS outcome measures, the state modified its funding formula to halve the weight of secondary outcomes reported in the 2002–03 program year. This change was intended to align state performance funding more closely with the operation of the NRS system, given that only core outcome measures are tracked by the U.S. Department of Education for federal reporting purposes or to award federal incentive funds through the *Workforce Investment Act*. Perhaps as importantly, state administrators recognized that the measurement and reporting of secondary outcomes had not been as consistent or definitive across programs as those associated with the NRS core measures.

This funding formula, while it appears on the surface to be fairly constant over the last five years ... is not constant. We have to continue to look at how we fund programs. ... We have to continue to look at performance, and we have to wrestle with the question of, "What is an effective program and how do we deal with it?"

—Indiana Assistant State Director of Adult Education

*Effects of Performance-based Funding***Table A-8****Total Number of Indiana Adult Education Performance Goals^a Achieved, by Comprehensive Program District:^b FY01 to FY05**

District / Program	Measures				
	FY01	FY02	FY03	FY04	FY05
Statewide Total	357	373	342	349	350
Average Goals Achieved	8.3	8.7	8.0	8.1	8.1
Gary area	10	8	6	9	5
Lake Ridge area					
Hammond area	11	11	0	3	11
East Chicago area	9	5	4	4	0
Portage area	11	13	14	14	13
Michigan City area	11	10	8	4	6
South Bend area	4	4	10	10	14
Elkhart area	9	4	6	3	2
Goshen area					
Plymouth area	2	7	6	5	6
Warsaw area	9	8	8	4	11
Four Co. area	10	10	11	13	12
Fort Wayne area	10	12	14	12	8
Huntington area					
Benton Co. area	1	0	6	5	3
North White area	14	10	8	6	10
Logansport area	9	7	8	7	10
Heartland area	8	8	6	8	8
North Adams area	5	7	2	2	5
Lafayette area	13	14	13	10	14
Frankfort area					
Kokomo area	8	8	5	5	10
Elwood area	9	9	8	8	7
Marion area	0	8	8	11	8
Anderson area	2	1	6	12	10
Muncie area	13	12	12	12	10
Jay County area					
Crawfordsville area	14	12	15	11	5
Putnam Co. area	0	8	7	8	7
Wayne Twp. Area	10	15	14	8	6
Washington Twp. Area	9	13	15	14	5
Warren Twp. Area	15	13	2	9	13
IPS area	9	11	9	10	8
Central Nine area	10	15	14	12	9
Edinburgh area					
Blue River area	12	10	6	3	6
Connersville area	8	9	9	8	8
Richmond area	9	5	5	9	0
New Castle area	3	9	11	9	8
Vigo Co. area	7	3	5	8	12
Monroe Co. area	15	11	14	9	11
Columbus area	14	15	10	14	11
Vincennes area	4	4	8	5	10
Southeastern area	6	3	4	9	8
Evansville area	12	11	9	7	5
Mt. Vernon area					
New Albany area	12	13	5	9	15
South Vermillion area	4	2	5	5	8
DOC	0	5	0	10	0
North Spencer area	6	10	6	5	12

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

^a Negotiated performance targets achieved by the local provider.^b Comprehensive program districts include providers competing for performance funding grants.

Appendix A Summary

In FY04, Indiana allocated just 5 percent of its combined federal and state adult education resources based on provider performance. This low commitment to PBF can be traced, in part, to providers' hesitancy to make radical changes to the existing state allocation mechanism. Believing that an effective adult education program faced fixed costs (e.g., facilities, teacher salaries and benefits) regardless of the number of learners served or outcomes achieved, program providers participating in the state director's PBF advisory committee recommended limiting the amount of funding distributed based on performance criteria.

Restricting the use of PBF is a logical decision given the manner in which the state funding system operates. Performance funding in Indiana lags one year, meaning that providers are funded for outcomes they achieved in the preceding academic year. Since final data on program performance are not available until well after the program year has begun, providers typically budget on the assumption that they will get approximately the same amount as in the preceding year and later make changes at the margins to align their budgets with final state allocations.

The decision to implement performance funding in Indiana was not associated with a turnover in state leadership, but rather came as a calculated response to new federal performance reporting provisions contained in the *AEFLA*. Believing that the new legislation called for holding local providers accountable for their learners' outcomes, state leaders opted to introduce PBF into their federal funds allocation formula as a way to improve their federal reporting capacity. As noted in other case study states, the decision to adopt PBF was based almost entirely on programmatic decisions; state administrators reported no political or other external pressures to adopt performance funding.

To allocate federal resources using PBF, the state director and her staff convened an advisory committee of 12 program directors to represent the views of the field. These members collaborated with state administrators to create a state allocation formula. In retrospect, state administrators and local program directors did not recall any significant opposition to the planned adoption of performance funding, although not all directors were enthusiastic about its introduction. Lack of resistance was attributed to state administrators' efforts to communicate the need for formula change to the field and a positive relationship between state administrators and program directors that helped dilute local opposition to the plan.

Appendix A Summary

To allocate resources, Indiana uses a fairly complex formula that includes three components. (1) All state and approximately 85 percent of federal funds are distributed as a base grant, with providers automatically qualifying for 90 percent of their budgets in prior program years (FY92 for state and FY00 for federal resources). (2) Remaining federal resources are distributed based on provider performance on the core and secondary measures contained within the NRS, with the amount awarded for a core NRS outcome valued at twice the amount awarded for a secondary NRS measure. (3) Incentive grants also are provided for programs meeting their state-negotiated performance levels for 15 measures of educational gains included in the NRS core measures.

Indiana fully implemented PBF in the 2000–01 program year. Although the state did not introduce a hold-harmless provision in the formula, the fact that such a high percentage of funding was released as a guaranteed base protected providers. Moreover, at the time that PBF was first introduced, the state was experiencing a significant increase in federal funds; to protect providers, state administrators set aside a portion of these new federal resources for use as a competitive enhancement grant, for which program directors could apply to support a variety of activities. The combination of guaranteed base funding, increased federal resources, performance funding, and enhancement grants meant that most providers were exposed to very little risk of losing resources with the shift to performance funding.

Although case study participants ascribed both positive and negative outcomes to the adoption of performance funding, few, if any, data exist to substantiate these claims. Participant observations suggest that PBF improved the accuracy of adult education data, because financial incentives motivated program directors to review information more closely before submitting it to the state. Performance funding also was credited with helping to improve the effectiveness of instructional services. Moreover, the relatively small amount of funding distributed based on performance helped to insulate programs from year-to-year fluctuations in resources, since so little funding was at risk.

Because state performance measures parallel those contained in the NRS, neither the state nor local providers incurred additional costs in collecting performance data. The number of program providers also has remained unchanged since the adoption of performance-based funding in FY02. Though program directors described closing or moving some service locations, these changes were attributed to demographic shifts in the adult population rather than to the PBF formula.

Although directors interviewed for this study reported that PBF motivated them to achieve outcomes, they pointed out that underperforming programs also were able to remain in the provider system because they were guaranteed a substantial amount of base funding if they maintained enrollments. Providers also reported dissatisfaction with using the secondary NRS

Appendix A Summary

measures to award performance funding, in part because follow-up efforts to report on some NRS measures consume a great deal of staff time. Because the value of a performance outcome fluctuates depending upon available resources and the number of outcomes reported by providers, program directors do not know ahead of time the value of a positive outcome, making it difficult to project their resource eligibility in future years.

A review of statewide performance goals and actual performance levels indicates that the state has consistently achieved its NRS performance targets since FY01, for example, achieving 14 of its 15 targets in FY03. While it is not possible to attribute statewide success directly to the adoption of PBF, state administrators believe that PBF has supported the state in improving program services, and data show that the state has made substantial gains in the number of learners achieving outcomes on the core NRS measures.

APPENDIX B

Kansas Case Study Report: Performance-based Funding In Adult Education

SECTION B-1:

Overview of the State Adult Education Funding System

In FY00, the Kansas Board of Regents (KBOR) adopted a new formula for allocating its federal and state adult education resources among eligible service providers. This change was driven in part by state bureaucratic reorganization, and in part by the introduction of the federal *Adult Education and Family Literacy Act (AEFLA)*. Under the current system, local providers are guaranteed a base level of funding, drawn from state resources, which is equally distributed across all providers. Providers compete for federal and remaining state resources allocated based on provider performance. Performance is assessed by the state by measuring specific effects of programs, including learner outcomes and other administrative and programmatic outcomes. Allocations to local providers are distributed using the following criteria.

Base Funding: Each fiscal year, 50 percent of state adult education resources are evenly divided as base funding among all eligible programs in the state.

Performance Funding: Performance awards are distributed based on provider performance during the fiscal year preceding the current one, meaning that funds lag one year behind recorded outcomes. Resources are distributed based on providers' performance using the following distribution formula:

- *Learner Outcomes*—Fifty percent of federal funds are allocated based on the number of successful learner outcomes on selected core and secondary measures contained within the National Reporting System for Adult Education (NRS), the accountability system created to monitor learner outcomes as specified in *AEFLA*. States are required to report on the core measures in the NRS, which include outcome, descriptive, and participation measures, and they have the option of reporting on the secondary measures, which include outcomes related to employment, family, and community. Resources are distributed based on providers' performance on the following student indicators:
 - Completed one of the functional academic performance levels identified for adult basic education (ABE), adult secondary education (ASE), and English as a second language (ESL) learners as specified in the NRS;

Overview of the State Adult Education Funding System

- Entered employment;
- Retained employment;
- Received GED;
- Entered postsecondary education or training;
- Acquired U.S. citizenship skills;
- Increased involvement in children's education; and
- Increased involvement in children's literacy activities.

Educational gain outcomes are doubled for learners in the five lowest educational functioning levels of the NRS (two lowest ABE levels and three lowest ESL levels).

- *Program Quality*—Fifty percent of federal and 50 percent of state funds are allocated based on the number of quality points a program receives relative to the statewide total of quality points generated that year. Quality points are awarded based on provider performance on 25 measures encompassing 10 quality indicators that are believed to be associated with program success. A complete listing of the Kansas *Indicators of a Quality Adult Education Program* can be downloaded from the Internet at:
<http://www.kansasregents.org/download/adultEd/IndicatorsFY05.pdf>. Points are awarded based on evidence presented during a state monitoring visit, data in programs' end-of-year reports, data derived from follow-up surveys, or records maintained by KBOR staff.

To illustrate, a program accounting for 5 percent of statewide learner outcomes in FY04 would qualify for 5 percent of the 50 percent of federal resources allocated for this factor in FY05. Similarly, a provider accounting for 3 percent of the statewide quality points awarded in FY04 would qualify for 3 percent of the combined 50 percent of federal and 50 percent of state resources allocated for this factor in FY05.

State Allocations

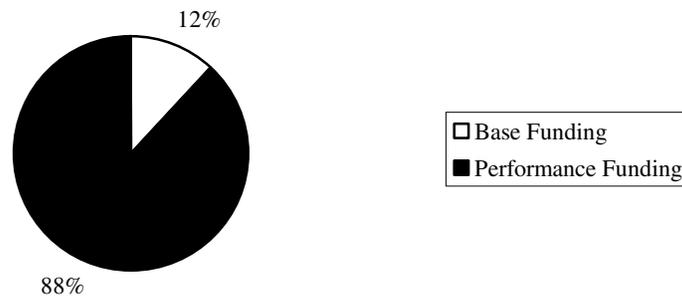
In FY05, the state allocated to local providers a total of \$4,458,990 in federal and state funding for the provision of adult education services. Of this amount, \$3,410,002 (76.5 percent) came from federal and \$1,048,988 (23.5 percent) from state sources (table B-1).

*Overview of the State Adult Education Funding System***Table B-1****Kansas Adult Education Federal and State Funding Allocated as Base or Performance Funding: FY05**

	Total Resources	Federal Resources	State Resources
Local Provider Allocation	\$4,458,990	\$3,410,002	\$1,048,988
Percentage of Total	100.0%	100.0%	100.0%
Base Funding	\$524,499	\$0	\$524,499
Percentage of Total	11.8%	0.0%	50.0%
Performance Funding	\$3,934,501	\$3,410,002	\$524,499
Percentage of Total	88.2%	100.0%	50.0%

SOURCE: Kansas Board of Regents, 2006. Funding data provided by state.

Of the \$4,458,990 allocated to local providers, KBOR administrators earmarked \$524,499—half of its FY05 state adult education funding—for distribution as base funding among the 31 local providers approved to offer instructional services. This accounted for roughly 12 percent of total adult education resources distributed to local providers in the state (fig. B-1). Each provider in FY05 qualified for \$16,919 as a base grant, regardless of program size or type of instructional services offered.

Figure B-1**Percentage of Kansas Adult Education Funding Allocated by Funding Type: FY06**

SOURCE: Kansas Board of Regents, 2006. Funding data provided by state.

The remaining \$3,934,501 in state and federal funds—accounting for 88 percent of statewide resources for local providers—was released as performance funding. This included \$524,499 (50 percent) of state and \$3,410,002 (100 percent) of federal resources.

*Overview of the State Adult Education Funding System***Organization of State Adult Education Services**

Adult education programs are directly administered by the KBOR's office of adult education, which has four staff, two of whom directly administer the state's performance-based funding (PBF) system. Individuals interviewed for this report include:

- *State Director of Adult Education*—Appointed as acting director in August 2000 and state director in August 2001, the state director provides statewide oversight of adult education services. This includes offering policy guidance and technical assistance to service providers, reviewing state and provider data for accuracy and to allocate resources, and compiling federal and state accountability reports.
- *Associate Director of Adult Education for Professional Development*—Hired in October 2005, the associate director oversees the professional development of faculty and staff from local programs. These duties include reviewing provider performance data and program improvement plans and providing technical assistance to underperforming providers.

Other state office staff includes a state administrator for Kansas GED testing and a senior administrative assistant. The state also subcontracts with a team of independent consultants to conduct annual monitoring visits to audit local provider data and assign program quality points used to award performance funding. The site-visit team consists of a former local program director and her husband, both of whom were interviewed for this report.

Local Providers

Program services were offered in FY04 in 31 local agencies, including 17 community colleges, 11 technical colleges and unified school districts, two community-based organizations, and one private, faith-based university (table B-2). Providers were geographically distributed throughout the state, with services offered at more than 80 locations. Within sites, adult participants have access to a range of services, including ABE, ASE, and ESL instruction.

Although the number of adult education participants has steadily declined since FY99, state administrators do not believe that the adoption of performance funding was related to this decline. According to the state director, enrollment declines reflect providers' efforts to retain learners until they reach their goals or are better prepared to reach their goals, rather than simply enrolling whomever walks in their door.

*Overview of the State Adult Education Funding System***Table B-2****Selected Characteristics of Kansas Adult Education Providers and Participants: FY99 to FY04**

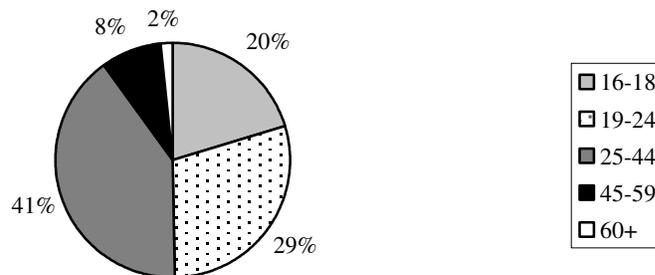
	FY99	FY00	FY01	FY02	FY03	FY04
Providers	35	34	35	33	31	31
Community Colleges	19	19	19	18	17	17
4-year Private College	1	1	1	1	1	1
School Districts/Technical Schools	11	11	12	11	11	11
Community-based Organizations	4	3	3	3	2	2
Participants	16,461	11,410	11,248	10,725	10,386	9,788
<i>Gender</i>						
Male	NA	45%	46%	46%	44%	44%
Female	NA	55%	54%	54%	56%	56%
<i>Race-Ethnicity</i>						
White	NA	38%	39%	39%	38%	39%
Black	NA	14%	13%	13%	11%	10%
Hispanic	NA	37%	38%	38%	40%	41%
Asian ^a	NA	9%	8%	8%	9%	8%
American Indian/Alaskan Native	NA	2%	2%	2%	2%	2%

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 1999–2000 to program years 2003–04; and data provided by the Kansas Board of Regents.

Note: NA—Not available.

^a In FY00, Pacific Islanders were included with Asians. In subsequent years they were reported in a separate category.

According to the most recent state data available, in FY05, adult education providers enrolled 9,475 individuals, with roughly two-fifths (41 percent) of participants between the ages of 25 to 44 years (fig. B-2). Adult participants tended to be Hispanic (42 percent) or white (38 percent), with black (10 percent), Asians (7 percent), and American Indians or Alaskan Natives (3 percent) accounting for the remainder of program participants (table B-2).

Figure B-2**Ages of Kansas Adult Education Participants: FY05**

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 1999–2000 to program years 2003–04; and data provided by the Kansas Board of Regents.

SECTION B-2:

Rationale for System Development

State bureaucratic reorganization, coupled with the introduction of the federal *AEFLA*, helped catalyze state efforts to introduce performance funding into adult education. Change began with the adoption of the *Kansas Higher Education Coordination Act of 1999* (SB 345), which shifted state oversight of community colleges, technical schools and colleges, and adult education services from the Kansas State Department of Education to the KBOR.

This organizational restructuring coincided with state efforts to develop a four-year state plan for adult education, as mandated by *AEFLA*. Under *AEFLA*, states were required to report on a consistent set of program outcome measures, which were used to hold local providers accountable for service delivery. The state administrator, at the time, who is the current state director of adult education, was given primary responsibility for devising the new state plan.

Contextual Factors Influencing Formula Adoption

Unlike in the case of the higher education sector, where state legislators initially pressed for the introduction of PBF, the impetus for performance funding within Kansas came almost entirely from within the KBOR and, in particular, through the vision and leadership of the current state director. Believing that the existing state funding system was failing to deliver resources in a fair and efficient manner, state administrators used the new federal reporting requirements as a springboard for introducing PBF into the state adult education funding formula.

Recognizing that the new federal reporting system could impose a substantial data collection burden at the local level, the state director surmised that the state would need some sort of leverage to motivate providers to collect accurate program data and to use this information for program improvement. Believing that performance funding could fulfill these purposes, state administrators set out to link provider funding to the core measures contained in *AEFLA*. Fearing that basing funding on outcomes alone would disadvantage small and rural providers, which would be unable to generate a sufficient number of outcomes to offset their fixed program costs, the formula drafting committee also decided to incorporate a set of process indicators into the formula to allocate resources based on program quality.

These process indicators, aligned with state adult education goals, were intended to assess whether local providers were employing state-identified practices and activities associated with

Rationale for System Development

high-quality programs. Constructed to permit all providers to compete for resources irrespective of their size, it was anticipated that these measures would help to level the playing field.⁹ It was also felt that incorporating these measures would drive providers to develop the infrastructure and supports critical to program success.

Upon obtaining approval to introduce PBF into the new adult education funding formula, state administrators reached out to program directors to build support for the formula change. To secure buy-in, providers' annual eligibilities were publicized—calculated using learner-contact hours—when allocating resources in FY99. Before this, program allocations were not routinely shared among providers. During case study interviews, program directors reported that though they were generally aware of the performance of their rivals, they did not know the actual dollar amounts that others received. Publicizing funding permitted local directors to compare their allocations to those of their neighbors, helping to raise awareness of funding inequities and to demystify the state funding process.

State Adoption Process

Before the adoption of PBF in FY00, adult education resources were allocated based on learner-contact hours reported by local providers. Although program directors reported that they preferred this system to its predecessor of the 1980s—in which the state director set program eligibility at his own discretion—during interviews, program directors questioned the fairness of this approach, believing that some providers were inflating their contact hours to qualify for additional funding. During interviews, the state director also reported that some providers were using inappropriate methods to quantify learner contact hours, such as counting homework hours or student time spent in GED testing, toward their contact totals.

Program directors also suggested that the contact-hour funding system was not in the best interest of their learners. Since contact hours were the sole criterion used to award funding, providers believed that staff often had a greater incentive to fill seats than to manage enrollments, with little attention paid to achieving positive learner outcomes. As one program director observed, “Under the previous formula ... directors were much more concerned with getting hours, simply because they had to get the funds ... and so their attention wasn’t necessarily focused where you want it focused, on actual student achievement.”

⁹ For example, programs were awarded points for serving participants at the lowest levels of education attainment, with 8 points awarded for serving 35 percent or more of participants at one of the five beginning levels (Levels 1=ABE Beginning Literacy; 2=ABE Beginning Basic; 7=ESL Beginning Literacy; 8=ESL Beginning; or 9=ESL Intermediate Low); 4 points for serving 25–34 percent of participants; and 0 points for serving less than 25 percent of participants. Since points are awarded based on the relative percentage of performance, and not the number of participants, all providers are able to compete for performance points.

Rationale for System Development

KBOR administrators capitalized on provider dissatisfaction with the existing funding formula and their positive relations with local directors to leverage support for change. Early on, state administrators made it clear that local providers were expected to be equal partners in the PBF formula development process, with their viewpoints communicated through the state director's advisory council, a group of 12 program directors drawn from throughout the state. To ensure state views were represented, these program directors acted on behalf of the range of providers and programs in the state, with members selected based on their program type and size, population demographics, and program offerings. This advisory council met over a roughly yearlong period to consider different funding approaches.

Although initially there was a great deal of provider resistance to PBF, positive relations between the state director and local program directors contributed to state adoption efforts; simply put, program directors trusted the state director and believed that she would treat them fairly when distributing state and federal funds earmarked for performance allocation. This point was underscored during focus group interviews by one program director who commented, "I think she deserves the credit and I think she's taken a lot of heat for doing this. We've got a good strong relationship."

State efforts to introduce PBF were also strengthened by stable administrative leadership. In August 2000, soon after the introduction of the new formula, the state staffer overseeing development was promoted to acting state director of adult education, and, in August 2001, to her current position as state director. This continuity helped convince local providers that the newly introduced PBF system would be a permanent addition to the state allocation process.

Goals in Introducing Performance-based Funding

Performance-based funding was introduced in Kansas to encourage local programs to provide better services to their adult learners. As originally crafted, the state formula was intended to accomplish three broad goals:

1. To build into funding decisions the core performance measures and state-established *Indicators of a Quality Adult Education Program*, including participant outcomes, intensity of learner participation, instructional staff credentials, and local support;
2. To establish a minimum level of funding so that all adult education programs have an adequate base from which to maintain and enhance quality services; and
3. To recognize the difference between urban and rural centers in cost per participant-hour to serve those participants at the five lowest education levels.

Incorporating core performance measures and indicators of program quality into funding decisions was seen as a way of motivating service providers to pay more attention to their

Rationale for System Development

program outcomes and operations, while providing incentives to institute reforms. It also was anticipated that overlap with federal *AEFLA* core indicators would increase the likelihood that the state would attain its federal performance targets.

To protect providers from severe funding shifts, advisory council members also determined that the new formula should provide all agencies achieving a minimal level of program success with a base level of resources sufficient to maintain program operations. Although the final formula allocates more than four-fifths of funds based on performance, members crafted quality indicators to ensure that all programs generated additional funding, beyond the base grant, to maintain program operations.

Finally, given the relatively high costs of serving individuals in rural areas, it was felt that the funding formula should explicitly recognize and compensate providers for the costs associated with serving more disadvantaged learners. According to the state director, this goal was intended to encourage rural providers to continue serving lower-level learners, considered to be among the most expensive to educate.

SECTION B-3:

Formula Design Process

Kansas state administrators employed a collaborative, consensus-based approach to creating a new state funding formula for adult education. The development of the state PBF formula was supervised by members of the state director’s advisory council, a group of 12 local program directors selected by the state director to represent the views of the field.¹⁰ Directors met periodically beginning in late 1998, with state administrators taking responsibility for convening and facilitating council meetings and for summarizing and acting on recommendations raised during group discussions. Council findings were shared with program directors at annual state meetings and in routine correspondence issued by the state agency.

Advisory council discussions were designed to secure statewide consensus on the components and operation of the new funding formula. As an initial activity, program directors were asked to describe the characteristics of a quality adult education program, including the types of resources and supports needed to provide instruction. Directors also were asked to summarize the types of outcomes a program might be expected to produce and to differentiate those over which providers had control from those that they could not directly affect.

Now, can you get a formula that is fair to everybody? Probably not—I don’t think it’s possible. But can you get one that we can live with? ... You can probably get one we can live with. You can have clear indicators of what a quality program is.
—Kansas State Director of Adult Education

Specification of Funding Criteria: Base Funding

Early on, local directors supported moving away from contact hours to look at learner outcomes and other program characteristics. To ensure that all providers were guaranteed some funding, it was agreed that the state should guarantee a base level of funding—equivalent to 50 percent of state adult education resources—with all institutions allocated an equivalent amount regardless of program size or population demographics. Given that Kansas had limited state resources to the 25 percent match mandated in *AEFLA*, just under \$550,000 was available for base distribution across 36 providers participating in FY00, meaning that each agency qualified for a grant of roughly \$15,275.

¹⁰ During interviews, it was observed that state directors often convene an advisory council of program directors with whom they can work. Although there is no evidence to support the representativeness of this handpicked group, program directors observed that all program providers in the state were consulted in formula development, and, in particular, that 75 percent of the quality indicator model came directly from negotiations with program directors throughout the state.

SECTION B-3
Formula Design Process

Although this guaranteed base was not sufficient to fully offset the minimal cost of operations for any provider, equalizing resources did provide an advantage to smaller programs, which otherwise would have qualified for only a small amount of funding if resources were allocated based on student-contact hours or other criteria accounting for program size. Larger providers were willing to grant this concession because other aspects of the funding formula, which rewarded learner outcomes, ensured that larger programs could generate greater eligibility for funding.

Political realities also may have supported equalizing allocations across agencies. According to the state director, state legislators would have been unwilling to advocate for increased state funding unless they believed their constituents were getting a fair share of available resources.

Specification of Funding Criteria: Performance Funding

To allocate performance funding, council members agreed to award 50 percent of federal funding based on the number of learner outcomes a program achieved, using eight core and secondary measures paralleling those contained in the NRS. Points were to be awarded based on the following criteria:

- NRS Core Measures
 - Made lower educational level gain—all with outcomes doubled (completion of levels 1=ABE Beginning Literacy, 2=ABE Beginning Basic, 7=ESL Beginning Literacy, 8=ESL Beginning, or 9=ESL Intermediate Low);
 - Made higher educational level gain (completion of levels 3=ABE Intermediate Low, 4=ABE Intermediate High, 5=ASE Low, 6=ASE High, 10=ESL Intermediate High, or 11=ESL Low Advanced);
 - Entered employment;
 - Retained employment; and
 - Received GED.
- NRS Secondary Measures
 - Entered postsecondary education or other training;
 - Acquired U.S. citizenship skills (skills needed to pass the U.S. citizenship exam); and
 - Increased involvement in children’s literacy.

SECTION B-3
Formula Design Process

Council members recognized that basing funding on learner outcomes would steer a substantial percentage of the roughly \$550,000 in federal resources available in FY00 to larger programs. Smaller providers were willing to support this approach because of the compromise guaranteeing them base funding equal to that of larger providers and their ability to compete for state resources based on program quality and other criteria unrelated to size.

Advisory council members also agreed to double-weight educational gains for students in the two lowest levels in ABE and three lowest levels of ESL (i.e., a completion by a lower-level learner counts twice as much as one by a higher-level learner). This was a response to data supplied by the state indicating that students at lower levels took approximately 1.8 hours to make a learning gain, compared to 1.0 hour for those at higher levels. Double-weighting lower-level learners was seen by council members as a way of compensating providers serving relatively larger populations of lower-level learners, while avoiding financial disincentives that could cause some providers to curtail remedial instruction.

Specification of Funding Criteria: Program Quality

Since basing performance funding on outcomes alone could have a detrimental effect on smaller providers, council members agreed to the state director's proposal to integrate a quality component into the funding formula. Working from a set of existing quality indicators used to evaluate state programs before adoption of *AEFLA*, participants went through four draft proposals before agreeing on nine program indicators encompassing 20 program quality measures. Quality criteria ranged from process measures used to capture how an agency went about implementing its programs, to outcome measures used to assess the percentage of participants who completed an achievement level in a program year.

Council members agreed to weight quality indicators based on their perceived importance to adult education programs. For example, measures with a student focus were generally given a point value of between 8 and 10 points (10 points being the highest), while those dealing with administrative outcomes, such as the documentation of a program technology plan, were assigned lower point values (e.g., between 2 to 4 points). Care also was taken to ensure that all providers, regardless of program or learner characteristics, had an equal opportunity to attain similar point totals.

Since not all programs were capable of earning points on each quality indicator, program directors also negotiated to assign point values that accounted for their differing administrative capabilities. This has meant that some programs do not attempt to earn quality points for all measures. For example, during case study focus group interviews, two directors of large urban agencies reported that they do not attempt to earn points for serving learners with documented

SECTION B-3
Formula Design Process

disabilities because a high proportion of their participants are classified as ESL learners—a population for which disabilities are seldom reported. Rather than devote substantial resources to identifying student disabilities, these directors relinquish these points, since they can successfully compete for points in other areas.

Assessing Formula Effect

To assess the potential impact on local providers, state administrators modeled how program allocations would change under different versions of the formula. Although historical provider data on many of the eight NRS program outcome measures were available, analysts lacked information to estimate provider point allocations across the 20 quality measures council members had developed; consequently, for modeling exercises, programmers assumed that all providers would earn the median level of points. This reflected the belief that, because program directors had negotiated an equitable distribution of points, all providers would earn similar point totals.

Final PBF allocation models suggested that, with the exception of some large providers, most agencies would realize only a modest change in their overall funding eligibility. This was due, in part, to the careful deliberation that went into formula design and, in part, to a state commitment to allocate additional, held-back federal funding in the first two years of the PBF formula operation. At the close of the formula development process, state administrators and advisory council members believed that they had created a workable formula that would account for the diverse needs of providers throughout the state.

SECTION B-4:

Implementation Process

Kansas fully implemented PBF in the 1999–2000 program year. Although the new state funding formula did not contain any provisions to insulate providers from dramatic shifts in their resource eligibility, program directors were assured that their programs would not be shut down as long as they showed continued improvement on performance measures. To reduce initial potential negative effects, as stated previously, the state also decided to release approximately \$100,000 in federal funds held back during the first two years of PBF formula operation.

It was anticipated that local providers might have difficulty obtaining accurate participant outcome data in the first year of formula use, since program staff would be in the midst of shifting to a new data collection system and set of performance indicators. Accordingly, the state based its initial performance allocation of federal funds on the number of participant hours for those at the five lowest achievement levels (i.e., the two lowest levels in ABE and three lowest levels in ESL) times a program-size factor. Beginning in the second program year, this portion of the funding formula changed to reflect actual participant outcomes.

Provider Reporting Capacity

To prepare providers to report required *AEFLA* performance measures, in FY99 the state provided each program with Access database software and instructions on how to enter student performance data into state reporting frameworks. Although the state made a concerted effort to train program staff on database use, many providers initially were unable to collect valid information for key outcomes measures used to allocate PBF resources, undercutting their program funding eligibility. This occurred because service providers often were not following state testing protocols for measuring participant outcomes; for example, counts of individuals making learning gains were initially rejected for some providers because program staff had failed to enter pretest data or had incorrectly administered Comprehensive Adult Student Assessment System (CASAS) diagnostic pretest, posttest, or both, forms.

Unanticipated problems associated with the award of quality points also adversely affected provider resource eligibility. Upon calculating program allocations for FY00, state administrators discovered that they had grossly overestimated awards for many larger service providers, who were incapable of earning the median level of quality points assumed during modeling exercises.

SECTION B-4
Implementation Process

The combination of incomplete performance outcome data and inaccurate quality data meant that some providers experienced unexpected funding losses.

Once the magnitude of funding losses became apparent, state personnel contacted affected providers to advise them of anticipated shortfalls and to reassure them that, with improvements to data collection and attention to service delivery, funding deficits could be corrected.

Administrators also provided technical assistance to local providers throughout the 2000–01 program year to train them to enter missing data into institutional databases and to identify performance gaps adversely affecting their eligibility. Consequently, during the second year of performance funding, many large providers regained funding, in some cases at the expense of smaller programs unable to generate equivalent performance outcome gains.

Data Quality

To validate local program data and award quality points, the state conducts annual monitoring visits to each service provider. Monitoring activities entail auditing individual student files to confirm that data are properly documented and testing protocols followed and reviewing administrative and other program records stipulated in the standardized state monitoring instrument. Quality points were initially based on provider performance on 20 measures of program operations, but over time the number of measures has increased to 25 to better align with state goals.

During the first year of PBF, state staff performed local program visits. This approach was abandoned because it was found that program staff were unwilling to request technical assistance for fear of exposing program flaws. In the second year, the state tried contracting with program monitors from other states, but found that it took too long to train external evaluators to use the state measurement tool.

Beginning in the third program year and continuing to the present, the state director has contracted with an in-state team to conduct program quality reviews. Because these in-state monitors understand how state adult education programs operate, they are able to audit performance and administrative data effectively to award quality points during a one-day site visit.

To encourage statewide improvement, the monitoring team meets each year with the state director before initiating local visits. At these meetings, the state director identifies issues of concern and areas in which she would like the monitoring team to focus. For example, during the initial stages of PBF system adoption, the monitoring team was directed to concentrate on provider testing protocols to ensure that instructors were following appropriate procedures to

measure participant gains (e.g., not administering the same form within six months of its first use).

Management Information Systems

Because Kansas' shift to performance funding occurred along with the state's rollout of new federal reporting requirements under *AEFLA*, program directors had difficulty differentiating technology changes due to the adoption of PBF from those due to the *AEFLA* requirements. For example, the four program directors interviewed agreed when a researcher observed, "It's difficult to differentiate how much of the change and the discomfort was due to the performance-based funding system and how much was due to the NRS and performance funding piggybacking on it."

You show me any business or company that doesn't have somebody who is collecting that data, how they're doing it, I'll show you somebody who is in bankruptcy ... because you can't do your job if you don't have that data.
—**Kansas Program Director**

To standardize data for the NRS measures, the state office supplied all providers with Access database software and guidance for entering participant data into the system. State administrators also worked to clarify data entry instructions as it became apparent that local staff needed additional support; over time, these instructions were compiled into a state policy manual to structure annual data collection. The effort required to compile detailed guidelines had not been anticipated by state staff, who found themselves simultaneously devoting substantial resources to policy development and to providing technical support.

Although providers were forced to make substantial changes to their management information systems, program directors reported that they did not incur any direct technology costs associated with performance reporting. That is, had performance reporting not been introduced, providers would still have been required to standardize data administration to comply with *AEFLA*-mandated accountability measures.

Because high stakes were now associated with performance, program directors reported that the new PBF formula forced them to pay much closer attention to their data than if reporting was solely for federal accountability purposes. During focus group interviews, directors from large service providers were more likely to report adding a staff member to manage data entry and administration, while directors from smaller programs reported that they either took on the data entry role themselves or delegated the task to existing staff.

Your job as an educator is [to do] whatever it takes to provide quality services. And if part of what you do is making sure the data you're entering is correct, so you can really have good data to make decisions later on, then that's what it takes. You may not like it—it may not be what you thought education was about—but that is part of your job now.
—**Kansas State Director of Adult Education**

Technical Assistance

To help provider staff understand how to use their new Access software, the state held statewide and regional training sessions throughout FY00. These technical assistance meetings were aimed at different audiences, with training directed toward data entry staff on how to use database software and toward program directors on how to interpret data to guide program improvement efforts. Smaller regional meetings also were held to allow providers to bring multiple staff for training and to address site-specific issues.

Program directors credited the state agency for its efforts to assist them in the transition to the new reporting system. One particularly valuable resource was the hiring of an Access database expert who conducted statewide training sessions at statewide summer institutes and who was available for one-on-one consultation via phone or e-mail. State administrators also provided on-site technical assistance to resolve provider data issues. This frustrated some program directors, who reported that they were often unable to obtain timely feedback from state administrators, including the state director, because individuals were seldom in the office or were too busy to return telephone messages.

Over time, as local familiarity with reporting system operations increased, state administrators were able to target technical assistance to methodological issues undercutting program reporting. For example, recognizing that there was a problem with measuring learner gains, the state held a series of technical assistance training sessions on the proper use of CASAS assessments, including reviewing testing protocol, test selection, and data entry. More recently, the state has focused on improving lesson planning and program instruction.

SECTION B-5:

Effects of Performance-based Funding

During interviews, both state administrators and local provider staff commented on the effect of PBF on adult education program services. Although case study participants ascribed both positive and negative outcomes to the adoption of performance funding, few, if any, data exist to substantiate these claims. In many cases, participant observations were based on general perceptions of program operations or extrapolations of a single experience. Some participants also had difficulty differentiating programmatic effects due to the adoption of PBF from those associated with the state's implementation of *AEFLA*. Therefore, readers should be cautious in drawing conclusions about the effects of PBF on state adult education systems.

Contributions to Statewide Performance

As originally conceived, PBF was introduced in Kansas to promote more effective adult education services, while simultaneously improving the equity and transparency of state allocations. According to the state and local directors, the adoption of PBF has contributed to achieving state goals, particularly to:

- *Improving the Validity and Reliability of Adult Education Data*—Linking resources to provider performance has helped to increase the quality of locally reported data. During the first year of implementation, state administrators primarily focused on getting local providers to enter participant outcomes, which typically were obtained from teacher reports. State analysis of quarterly data submitted by providers revealed that a great deal of this information was inaccurate, in part, because program staff were not yet familiar with new NRS reporting requirements, and, in part, because no importance had been attached yet to the submitted data.

Monitoring visits to service providers, which were used both to audit administrative files and to award PBF quality points, helped to ensure that locally reported data were accurate and representative. In particular, since quality points were awarded based on whether randomly selected learners' permanent files revealed any evidence of irregularities, service providers were motivated to improve their file administration and testing protocols.

We have better teachers right now at our center than we had ten years ago. We have better programs. ... We have people who take pride in what they do. We have very little turnover at our program.
—*Kansas Adult Education Program Director*

Effects of Performance-based Funding

- *Professionalizing the Teaching Force*—Performance funding has been credited with helping program directors assess instructor performance in relation to state goals. Since a substantial amount of funding is tied to student achievement, local directors reported that they were more motivated to provide professional development to individuals with a demonstrated need and, in cases where staff were unwilling to change, to release such staff to make room for more sophisticated individuals who understood the importance of accountability. Program directors also report that PBF made them more likely to collaborate with one another, because they are now able to identify successful programs to which they can turn for consultation and support.
- *Improving the Effectiveness of Instructional Services*—Before the introduction of performance funding, providers were compensated for the number of contact hours generated, irrespective of whether a participant benefited from program services. Basing funding on performance has encouraged local agencies to shift to managed enrollment, meaning that students may only enroll and enter classes at specific times rather than on a continuous basis (e.g., in the first three weeks of a 12-week course).

This shift has helped improve retention because providers have realized that they must keep students enrolled if they are to achieve measurable outcomes, and because providers are more likely to focus intensive services on lower-level learners to support them in reaching their education goals. Indeed, since the introduction of PBF in FY00, the mean hours of attendance per learner have increased nearly 85 percent, rising to an average of 78 hours per participant in FY05, from roughly 42 mean hours in FY00.

- *Attaining Federal Reporting Targets*—The state did not initially meet its negotiated *AEFLA* performance targets because program directors did not understand new federal reporting requirements or the importance of collecting accurate data. However, because state PBF measures overlapped those in the NRS, statewide performance increased as program directors worked to generate learner outcomes to qualify for additional performance resources. Consequently, Kansas made remarkable improvement on the NRS measures as program directors improved data collection and instituted program improvement strategies.

It made my institution step forward with more cash. For years, the 10 percent minimum is what my institution provided. And with performance-based funding ... now my institution is kicking up to 20 percent. So it's made an impact on my host agency to say this is worth keeping, this is worth subsidizing.
—**Kansas Program Director**

Effects of Performance-based Funding

To illustrate, in the second year of NRS reporting (FY01), Kansas reported that 53 percent of adults enrolled in basic literacy programs succeeded in acquiring the skills needed to complete one or more levels of instruction in which they were initially enrolled. In the third year (FY02), the statewide percentage soared to 73 percent. While statewide performance in basic literacy fell to 58 percent in the following year, overall state performance in all measures continues to exceed that of other states.

- *Contributing to Political and Fiscal Support for Adult Education*—Performance funding has been credited with increasing state and institutional investment in adult education because legislators and the business and higher education communities philosophically support allocating funding based on performance. Moreover, because accurate data on learner participation and outcomes are now more readily available, state administrators are better able to communicate to policymakers the fiscal and social benefits of investment in adult education services.

Drawbacks

Interviews with state administrators and local program directors indicated that PBF has been effectively institutionalized in Kansas. However, not all providers initially supported the new funding system or enthusiastically support all aspects of the current funding formula. Drawbacks associated with implementing PBF include:

- *Costs Associated With Awarding Program Quality Points*—Basing funding on multiple measures of program quality has required that state representatives visit all service providers in the state annually to audit administrative records and award quality points. This need for annual monitoring visits has added a substantial recurring cost to PBF formula operations. State expenses include paying for monitoring team salaries and travel, coordinating with team members on the conduct of visits, and administering award data to calculate performance allocations.

Local provider staff also spend time preparing for monitoring team visits, including using a monitoring instrument to conduct self-assessments, updating and reviewing participant files for accuracy, and meeting with monitoring team members during the one-day visit. This focus on collecting data can steer resources away from instructional programs, as one program director observed, “We are devoting time and effort to collecting data and assessments. ... It’s possible that we’re losing a lot of clientele due to its structure.”

Effects of Performance-based Funding

- *Challenges in Maintaining Small and Rural Programs*—Since only a relatively small percentage of adult education funding is awarded as a basic grant, small and rural providers have had difficulty generating sufficient resources using the performance formula to maintain services at multiple locations in their service area. This occurs because smaller agencies are both unable to generate large numbers of participant outcomes and unable to effectively compete for quality points due to economies of scale. For example, smaller providers have had difficulty offering computerized instruction at all locations and providing services at a cost per outcome that conforms to the state average cost per outcome. Rural programs also may struggle to retain participants once service cuts are made. Because of distances between service centers, when one location is closed, learners are often unwilling or, with the increasing cost of gas, unable to drive long distances to continue course work or to take posttest exams to document their learning gains.
- *Focus on Funding Criteria Over Instructional Goals*—Program directors suggested that performance funding can lead instructors to become overly conscious of achieving state-identified outcomes at the cost of other, nonquantifiable student skills. Complex data reporting guidelines also require that teachers invest time learning state data collection requirements, which can come at the expense of lesson planning or instructional support. It also was suggested that performance funding does little to promote student learning, since program participants are more concerned with achieving an end goal, such as earning their GED, then in attaining intermediate goals, such as making gains on the CASAS exam.

Effect of PBF on Adult Education Providers

Before the adoption of PBF in FY00, 36 providers were eligible to receive federal and state adult education funding. In keeping with their promise to protect programs in the first year of implementation, state administrators renewed funding for all 36 providers for FY01, although three programs—Let’s Help, Elkhart Unified School District, and Pratt Community College—were placed on probation and conditionally funded because of quality issues associated with their services.

After failing to make progress in FY01, these programs were denied funding for FY02, the final year of a three-year funding cycle for all programs. Of the three programs, only Let’s Help reapplied for funding in the next two-year competitive funding cycle (FY03 and FY04), and, since grant reviewers approved its application, the Let’s Help agency returned as an *AEFLA* program in FY03.

Effects of Performance-based Funding

Since the introduction of PBF, a total of five providers have been dropped from the adult education provider network: two community colleges, two community-based organizations, and one school district program. In the estimation of the state director, provider withdrawal resulted not because the agencies lacked the finances to offer services, but rather because program staff failed to offer adult education services judged of sufficient quality to warrant continued recognition as an *AEFLA* program. Programs failing to make annual gains received low marks from grant reviewers during the two-year competitive funding cycle and consequently were denied eligibility to return as an *AEFLA* program.

Fiscal Eligibility

State administrators reported that the implementation of the new PBF formula produced unexpected resource gains and losses for many providers; however, since pre-PBF allocation data are no longer available, it is impossible to quantify changes in provider allocations for the last year of contact-hour funding in FY99 and the first year of PBF in FY00.¹¹ Analysis of existing data indicates that between the first two years of program implementation, 25 of 35 providers that existed in both years (70 percent) experienced resource losses of 25 percent or more of their base funding (see table B-3). Resource losses were greatest among larger providers who were, in the estimation of program directors interviewed for this study, unable to report valid participant outcomes in the initial stages of PBF implementation.

Although many larger providers in FY04 were still below their PBF allocation levels in FY00, the first year of performance funding, with some exception, most had been able to gain back some of the resources they had lost in earlier years (not adjusted for inflation). For example, Labette Community College lost roughly 40 percent of its funding between the first and second years of the new formula, as it struggled to adopt to new funding requirements; however, by FY04 the college had posted a 56 percent gain over its FY00 allocation.

Program Outcomes

According to the state director, increases in statewide performance are directly attributable to the introduction of PBF and reflect a combination of increased performance by providers and improved collection of performance data. In particular, in FY03 the state instituted a policy of checking learners' files to ensure the correct assessment was given, both pretest and posttest. In the director's estimation, had the state originally introduced the same high standards for

¹¹ State administrators originally believed that they could provide funding data preceding and immediately following PBF introduction. State policy is to maintain two years of hard copy data on-site and to store records off-site for five years before their destruction. When they sought to retrieve hard copy files, state administrators were informed that paper records no longer existed at the state level, and that, due to changes in state data systems, electronic files were no longer available. Therefore, funding data are available only for the years immediately following PBF introduction.

Effects of Performance-based Funding

assessment instituted in FY03, the trend of increasing percentages of level completers would have been steady over time.

As illustrated in table B-4, the percentage of participants realizing learning gains increases substantially beginning in FY01, and although outcomes have fluctuated somewhat across the years, state performance in FY04 is nearly double that posted in FY00, the second year of performance funding. The number of students achieving outcomes also has increased in absolute terms. For example, a total of 5,593 learners were reported as completing an ABE, ASE, or ESL level in FY04, up from 5,377 in FY01.

Given the differential weighting of student outcomes whereby lower-level ABE and ESL student gains are doubled, it is possible that local providers might choose to target services to students with relatively higher point awards or to drop services to high-cost students. Indeed, declining enrollments over the years could be a result of providers shifting services away from specific student populations. However, since students who are more resource-intensive to serve also earn higher point awards in the state system, it does not appear that providers have great incentive to game the system to increase their resource eligibility, nor are they facing a disincentive for serving students requiring greater investment.

SECTION B - 5

*Effects of Performance-based Funding***Table B-3****Kansas Local Provider Funding Eligibilities and Percentage Change Between Selected Fiscal Years: FY00 to FY04**

	Funding in					Percentage change	
	FY00	FY01	FY02	FY03	FY04	FY00	FY00
	1st Year of PBF FY00	2nd Year of PBF FY01	3rd Year of PBF FY02	4th Year of PBF FY03	5th Year of PBF FY04	to FY01	to FY04
Total	\$3,591,514	\$3,938,890	\$4,244,996	\$4,640,551	\$4,782,816	9.7%	33.2%
Kansas City Kansas Com. College	276,863	152,808	180,244	181,533	156,579	(44.8)	(43.45)
Dodge City Com. College	227,930	162,621	167,591	128,389	131,311	(28.7)	(42.39)
Wichita Area Technical College	370,335	266,917	273,079	251,217	303,618	(27.9)	(18.02)
Emporia USD	210,753	185,744	197,751	181,175	190,030	(11.9)	(9.83)
Seward County Com. College	319,703	228,261	276,998	325,681	299,718	(28.6)	(6.25)
Butler County Com. College	90,712	88,003	93,322	118,275	97,623	(3.0)	7.62
Independence Com. College	107,321	79,934	87,221	103,275	117,478	(25.5)	9.46
Highland Com. College	101,264	93,033	91,971	124,232	132,352	(8.1)	30.70
Garden City Com. College	196,570	210,461	278,396	285,287	280,692	7.1	42.79
Salina Adult Education Center	110,046	131,870	121,740	151,782	160,911	19.8	46.22
Labette Com. College	118,951	71,951	104,141	156,138	183,211	(39.5)	54.02
Johnson County Com. College	254,306	239,337	404,233	371,060	397,932	(5.9)	56.48
University of St. Mary Outfront	78205	84,117	92867	118457	127155	7.6	62.59
Colby Com. College	84,170	107,157	128,892	119,529	146,154	27.3	73.64
Topeka KATS	99,462	114,894	134,251	145,395	176,149	15.5	77.10
Coffeyville County Com. College	58,957	100,354	93,215	101,976	106,534	70.2	80.70
Wichita Indochinese Center	73,198	116,496	146,407	140,324	133,360	59.2	82.19
Manhattan Adult Learning Center	64,600	105,034	104,338	117,737	122,956	62.6	90.33
Osawatomie Learning Center	47,005	81,919	75,892	101,571	92,254	74.3	96.26
Hutchinson Com. College	69,435	80,117	88,359	124,391	142,301	15.4	104.94
Allen County Com. College	56,133	72,456	82,109	123,528	120,159	29.1	114.06
Lawrence Adult Learning Center	61,689	77,867	93,839	133,230	133,018	26.2	115.63
Newton Cooper Education Center	46,364	79,927	77,616	103,307	102,076	72.4	120.16
Cowley County Com. College	53,715	60,548	79,518	110,587	123,187	12.7	129.33
Barton Co C	58,352	93,024	109,220	136,900	139,148	59.4	138.46
Paola Adult Education Center	44,924	84,490	81,772	103,131	123,660	88.1	175.26
Let's Help, Inc.	43,363	88,093	NF	106,603	121,615	103.2	180.46
Ottawa Adult Education Center	29,638	73,201	69,753	84,957	91,107	147.0	207.40
Neosho County Com. College	26,753	59,131	83,912	112,785	91,894	121.0	243.49
Pittsburg Adult Education Center	32,473	91,155	94,798	121,304	132,149	180.7	306.95
Cloud County Com. College	16,667	59,374	82,894	66,120	106,485	256.2	538.90
Fort Scott Com. College	57,336	77,567	75,050	NF	NF	35.3	—
Junction City/Hauge Alt. Center	54,557	94,694	87,989	90,675	NF	73.6	—
Osborne Adult Literacy Project	31,043	87,159	85,618	NF	NF	180.8	—
Pratt Com. College	18,721	75,513	NF	NF	NF	303.4	—
Elkhart	—	63,661	NF	NF	NF	—	—

SOURCE: Kansas Board of Regents, 2006. Funding data provided by state.

Note: NF—Not funded.

Note: — Not applicable.

*Effects of Performance-based Funding***Table B-4****Selected Performance Characteristics of Kansas Adult Education Participants, FY99 to FY04, and Percentage Change, FY01 to FY04^a**

	FY99	FY00	FY01	FY02	FY03	FY04	% Change FY01–FY04
Participants	16,461	11,410	11,248	10,725	10,386	9,788	-13.0%
Completed Education Level	53%	33%	49%	74%	58%	61%	NA
Entered Employment	5%	47%	50%	59%	52%	62%	NA
Retained Employment	6%	40%	53%	74%	54%	69%	NA
Entered Postsecondary	5%	29%	25%	69%	60%	58%	NA
Passed GED	31%	39%	50%	71%	61%	64%	NA
Program Participation							
Adult Basic/Secondary Education	NA	7,070	6,976	6,577	6,326	5,915	-15.2%
English Literacy	NA	4,340	4,272	4,148	4,060	3,873	-9.3%
Level or Outcome Completion			5,377	7,677	5,737	5,593	4.0%
Adult Basic/Secondary Education	NA	NA	3,592	4,842	3,492	3,310	-7.9%
English Literacy	NA	NA	1,785	2,835	2,245	2,283	28%

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 1999–2000 to program years 2003–04. <http://www.doe.state.in.us/adulted/performance.html> (last accessed June 18, 2007).

Note: NA—Not available.

^a Initial years of PBF adoption.

As evidence, state administrators reported that their own internal analyses reveal that providers with large ESL populations appear to be flourishing in the system, indicating that formula weighting, on average, adequately compensates providers for their instructional costs. Indeed, a review of state participation data indicates that enrollment rates for ESL students have declined at a slower pace than for other populations. Specifically, ESL participation rates have fallen by approximately 9 percent between FY01 and FY04 (falling from 4,272 to 3,873, respectively). In contrast, participation rates have declined by approximately 15 percent for participants in ABE or ASE populations over the same period. Moreover, the proportion of adults completing an ESL program actually has increased over time, perhaps indicating that providers are making improvements in their ability to serve limited-English populations. To illustrate, the percentage of adults completing an ESL level climbed by 28 percent between FY01 and FY04, compared to an 8 percent decline in program completion among ABE or ASE populations.

System Evolution

To standardize the collection of federal data, Kansas supplied all providers with Access database software and data entry instructions to guide local reporting. During the first few years of system implementation, providers were required to submit a quarterly performance report to the state. To improve data timeliness, in the last quarter of FY05 the state introduced a Web-based

Effects of Performance-based Funding

reporting system, known as PABLO, to permit providers to enter data directly into state data systems. Modeled after the state's Access database, the PABLO system was developed by the state with the assistance of an outside consultant. Following a one-quarter fiscal year implementation period, in which agencies maintained dual information systems, the PABLO system was fully implemented in the FY06 program year.

The state also makes continual updates to the performance benchmarks included in its funding formula. To motivate providers to make continuous improvement, each year the state evaluates its performance levels and, in some cases, increases performance benchmarks so that programs have an incentive to continue to review data and undertake reforms.

Process indicators used to assess program quality also are reviewed constantly, with the state making changes to address perceived problems in program measures. As originally conceived, the *Indicators of a Quality Adult Education Program* included nine indicators and 20 measurable standards; over time, the state has added measures to align the monitoring instrument better with state goals.

I know some people aren't going to like me to say this, but our Kansas program is not perfect. That's why we continue to modify it and tweak it all the time.
—Kansas State Director

Recent changes include adding a program cost-effectiveness measure to reward providers who operate efficient programs and eliminating the process requirement that programs update their professional development plans annually. Here, in response to feedback from local providers, the state modified the quality measure to require local agencies simply to meet their negotiated program improvement plan objectives, based on the assumption that an agency achieving its objectives must be doing something correct.

Finally, to motivate providers to achieve learning gains throughout the year, the state has increased the amount of funding it awards for performance outcomes recorded in the fourth quarter of each academic year. When the PBF formula was originally introduced, the state based funding on the first three quarters of the academic year, with \$100,000 held out of the allocation formula to compensate providers for their fourth-quarter results, which are not available until after the start of the subsequent fiscal year. In the year following, the state increased this funding to \$200,000, and, beginning with FY06, this amount has been increased to \$500,000. This action was taken because many providers were cutting back services in the fourth quarter, in part, because these outcomes were not seen as having as much value as those earlier in the year.

Appendix B Summary

With 87 percent of its adult education resources in FY06 distributed based on provider performance, Kansas leads the nation in using PBF to allocate federal and state resources. This commitment illustrates state administrators' belief, in particular, that of the state director of adult education, that performance funding can effectively motivate local program providers to collect accurate program data and to use this data for program improvement purposes. Unlike in the higher education sector, the decision to adopt PBF was made almost entirely based on programmatic decisions; state administrators reported no political or other external pressures to adopt performance funding.

To build support for PBF and to design an allocation mechanism, the state director worked with members of her state advisory council, a group of 12 program directors drawn from throughout the state. These members worked with state administrators, in a collaborative, consensus-based approach to measure development. This support was crucial in winning statewide support for the adoption of PBF. Although initially there was a great deal of provider resistance to PBF, public support from council members combined with positive relations between the state director and local program directors contributed to state adoption efforts.

To allocate resources, Kansas uses a fairly complex formula that draws on eight core and secondary performance outcome measures mandated in the federal NRS, along with 25 state-established indicators of program quality. Quality points are based on a system applied uniformly across programs, irrespective of size or population demographics. To award points, the state contracts with a team of program monitors, who visit each provider in the state yearly to assess program operations. Although the use of quality indicators adds a sizeable cost to program operations, state administrators believe that the data collected provide useful information that can support program directors in improving student and program performance.

State administrators place considerable weight on the use of program quality points, allocating 50 percent of both federal and state resources based on provider quality. Half of remaining state funds is distributed as a guaranteed base, provided equally to all qualified providers, and half based on provider performance on the selected NRS measures. The state also double-counts outcomes for learners in the five lowest educational functioning levels of the NRS to compensate providers for the additional costs associated with achieving learning gains with these groups. This decision was made based upon a review of state data that indicated that lower-level learners required nearly twice the investment of time to achieve a positive outcome.

Appendix B Summary

Kansas fully implemented PBF in the 1999–2000 program year. Although the new state funding formula did not insulate providers from shifts in their resource eligibility, program directors were assured that their programs would not be shut down as long as they showed continued improvement on performance measures. To reduce potential negative effects, the state director also decided to release approximately \$100,000 in federal funds held back during the first two years of PBF formula operation. This infusion of additional resources helped to soften the impact of system adoption.

Although state administrators attempted to model formula effects prior to its implementation, unanticipated problems associated with the award of quality points and the collection of local data adversely affected provider resource eligibility. The combination of assumptions about program quality that proved, upon assessment, to be inaccurate and incomplete performance outcome data meant that some providers, particularly large ones, experienced unexpected funding losses. State personnel worked with affected providers to advise them of anticipated shortfalls and to provide them with technical assistance to remedy identified problems. Consequently, during the second year of performance funding, many large providers regained funding, in some cases, at the expense of smaller programs unable to generate equivalent performance gains.

Although case study participants ascribed both positive and negative outcomes to the adoption of PBF, few, if any, data exist to substantiate these claims. Participant observations suggest that PBF contributed to improvements in the validity and reliability of adult education data, because program directors were more likely to review information for accuracy prior to submission. Performance funding also was credited with helping to professionalize the teaching force and improve the effectiveness of instructional services, to support the state in attaining federal *AEFLA* reporting targets, and to contributing to political and fiscal support for adult education.

Due to the labor-intensive process used to award program quality points, state adoption of PBF has added a substantial cost to the collection of performance data, as well as imposed a burden on local provider staff, who must invest time to prepare for monitoring visits. Since only a relatively small percentage of adult education funding is awarded as a basic grant, small and rural providers have had difficulty generating sufficient resources using the performance formula to maintain services at multiple locations in their service area. Some program directors interviewed also commented that the focus on funding criteria over instructional goals can cause instructors to become overly conscious of achieving state-identified outcomes at the cost of other, nonquantifiable student outcomes.

Since the introduction of PBF, a total of five providers have been dropped from the adult education provider network. In the estimation of the state director, provider withdrawal resulted

Appendix B Summary

not because the agencies lacked the finances to offer services, but rather because program staff failed to offer adult education services judged of sufficient quality to warrant continued recognition as an *AEFLA* program.

Review of state performance data indicates that, compared to other states, Kansas scores well above the national average on most NRS measures. According to the state director, increases in statewide performance are directly attributable to the introduction of PBF and reflect a combination of increased performance by providers and improved collection of performance data.

APPENDIX C

Missouri Case Study Report: Performance-based Funding In Adult Education

SECTION C-I:

Overview of the State Adult Education Funding System

In FY02, the Missouri Department of Elementary and Secondary Education adopted a performance-based funding (PBF) system to allocate its federal and state adult education resources among eligible service providers. Under this current system, local providers are guaranteed a base level of funding, drawn from federal and state resources, which is distributed across providers based on audited learner-contact hours. Providers compete for remaining federal and state resources that are allocated based on provider performance on two measures of student progress contained in the National Reporting System for Adult Education (NRS). Allocations to local providers are distributed using the following criteria.

Base Funding: Each fiscal year, the state establishes a base funding rate used to allocate resources based on a provider's total audited contact hours. For example, in FY06, the state established a base funding rate of \$2.40 per audited contact hour, with half of the rate (\$1.20) distributed based on a program's total number of audited contact hours in the first preceding fiscal year for which audited totals are available (i.e., FY04 for FY06). The remaining half of base resources (\$1.20) are allocated based on a program's previous three-year average of its total audited contact hours (i.e., using FY02–04 for FY06).

Performance Funding: Performance resources are distributed based on the number of individuals who made academic progress on two measures defined in the *Adult Education and Family Literacy Act (AEFLA)*:

- Received GED.
- Completed one of the functional academic performance levels identified for adult basic education (ABE), adult secondary education (ASE), and English as a second language (ESL) learners as specified in the NRS.

Performance resources lag two years behind the recording of outcomes, meaning that local provider eligibility is determined by program performance in the fiscal year two years preceding the current one. Local provider funding eligibility is calculated by multiplying the total number of individuals achieving a positive outcome by a state-established rate for each measure.

Overview of the State Adult Education Funding System

Categorical Funding: Federal and state resources are earmarked for use in specific functions identified by the state. These include data collection funds to support data entry salaries and computing upgrades, marketing funds to offset provider advertising expenses, technology funds to purchase computing hardware and software, and One-Stop program funds to support coordination with One-Stop Career Centers. Local provider eligibility is calculated by averaging providers' three-year average of total expenditures in each category and awarding a fixed dollar amount based on their expenditures.

State Allocations

In FY05, the state allocated a total of \$12,040,787 in federal and state funding for the provision of adult education services. Of this amount, \$8,437,216 (70 percent) came from federal and \$3,603,571 (30 percent) from state sources.

Of the \$12,040,787 allocated to local providers, state administrators earmarked \$8,666,383 for distribution as base funding among the 44 local providers approved to offer instructional services (table C-1 and fig. C-1). An additional \$1,123,279 also was distributed as categorical funding to support data collection, technology purchases, and One-Stop program services. The remaining \$2,251,125 in state and federal funds—accounting for 19 percent of statewide resources for local providers—was released as performance funding.

Table C-1
Missouri Adult Education Funding Allocated as Base or Performance Funding: FY05

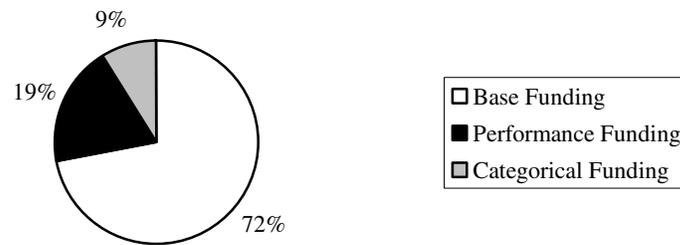
	Total Resources	Federal Resources	State Resources
Local Provider Allocation	\$12,040,787	\$8,437,216	\$3,603,571
Percentage of Total	100.0%	100.0%	100.0%
Base Funding	\$8,666,383	\$6,295,091	\$2,371,292
Percentage of Total	72.0%	74.6%	65.8%
Performance Funding	\$2,251,125	\$1,878,600	\$372,525
Percentage of Total	18.7%	22.3%	10.3%
Categorical Funding ^a	\$1,123,279	\$263,525	\$859,754
Percentage of Total	9.3%	3.1%	23.9%

SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

^a State resources earmarked for specific functions by state.

Overview of the State Adult Education Funding System

Figure C-1
Percentage of Missouri Local Provider Allocation by Funding Type: FY05



SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

Organization of State Adult Education Services

Adult education and literacy programs are overseen by the Division of Career Education, which has eight administrators, four of whom manage the state's PBF system. Individuals interviewed for this report include:

- *State Director of Adult Education*—Appointed in February 2005, the state director's primary responsibility is to ensure that the state agency and local service providers comply with provisions of the Missouri state plan for adult education. This includes tracking expenditures of federal and state resources and supervising adult education staff in the administration of program activities.
- *Adult Education Supervisor*—Employed by the state for 11 years and within the Division of Career Education for seven years, the adult education supervisor is responsible for evaluating service providers and administering the state's invitation for bid procedures for the special education and English literacy and civics education programs.
- *Finance Supervisor*—Joining the division in January 2001, the finance supervisor generates budgets and reimburses providers for program expenditures according to data submitted to the state. He also administers the state's PBF formula, and is responsible for calculating providers' resource eligibility based on their contact hours and performance outcomes.
- *Management Information System Supervisor*—Hired in March 2004, this staff member designed and administers the state's Adult Computer Enrollment System (ACES), which is used to track provider performance on accountability measures contained in *AEFLA* and to award performance funding based on program outcomes.

Overview of the State Adult Education Funding System

Other office staff include the supervisor of GED online and teacher certification programs; a supervisor of Family Literacy and Adult Education Coordination and Planning pilot projects; and two administrative secretaries. Researchers also interviewed the former state director of adult education and current director of employment training, who introduced PBF to the adult education system, and the division coordinator for the Adult Education and Employment Training Unit, who also helped spearhead the PBF adoption effort.

Local Providers

As illustrated in table C-2, services were offered in FY05 by 44 local providers, including 10 colleges, 31 unified school districts, two community-based organizations, and the Department of Corrections. With the exception of three providers that were defunded and one provider added at the start of the FY03 funding cycle, the number of adult education programs has remained constant over time.

Table C-2
Selected Characteristics of Missouri Adult Education Providers and Participants: FY01 to FY05

	FY01	FY02	FY03	FY04	FY05
Providers	46	46	44	44	44
Community Colleges	10	10	10	10	10
Unified School Districts	33	33	31	31	31
Community-based Organizations	2	2	2	2	2
Corrections	1	1	1	1	1
Participants	41,089	39,821	41,928	37,729	37,052
<i>Gender</i>					
Male	50%	53%	53%	55%	52%
Female	50%	47%	47%	45%	48%
<i>Race-Ethnicity</i>					
White	53%	54%	52%	52%	55%
Black	28%	28%	28%	28%	31%
Hispanic	12%	12%	13%	21%	15%
Asian	6%	6%	6%	6%	6%
American Indian/Alaskan Native	1%	1%	1%	1%	1%

SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 2000–01 to program years 2004–05. <http://www.doe.state.in.us/adulted/performance.html> (last accessed June 18, 2007).

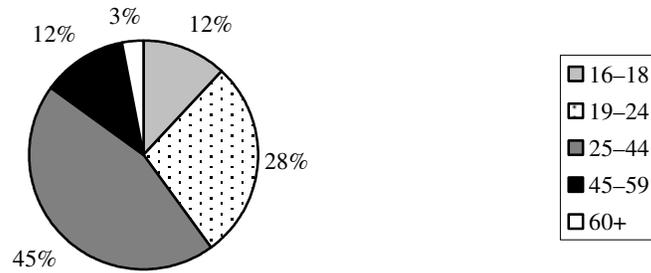
Providers are geographically distributed throughout the state, with classes offered at more than 700 locations. Within sites, adult participants have access to a range of program services, including ABE, ASE, and ESL instruction.

Program enrollments have fluctuated since the introduction of PBF, although state administrators did not believe there is any relationship between the introduction of performance funding and

Overview of the State Adult Education Funding System

learner participation. Roughly two-fifths (45 percent) of participants in FY05 were between the ages of 25 to 44 years, with those ages 19–24 accounting for another 28 percent. This supports provider reports indicating that they are serving a predominantly older population (fig. C-2).

Figure C-2
Ages of Missouri Adult Education Participants: FY05



SOURCE: U.S. Department of Education, *Report to Congress on State Performance*, program years 2000–01 to program years 2004–05. <http://www.doe.state.in.us/adulted/performance.html> (last accessed June 18, 2007).

Adult participants in FY05 tended to be white (55 percent) or black (31 percent), with Hispanic (15 percent), Asian (6 percent), and American Indian/ Alaskan Native (1 percent) accounting for the remaining participants (table C-2).

SECTION C-2:

Rationale for System Development

Unlike in the case of the higher education sector, where state legislators initially pressed for the introduction of PBF, the impetus for performance funding stemmed from the appointment of a new state director of adult education in November 2000. Believing that budgeting based on contact hours made it difficult for providers to predict their annual funding eligibility or to recover from sudden enrollment drops, the new director decided to reform the state's existing contact-hour formula and, concurrently, to introduce a performance-funding component to the system. His plans also reflected a deeper concern that year-to-year fluctuations in system enrollments were undermining legislative efforts to provide stable resources for adult education.

The adoption of *AEFLA* and federal efforts to improve statewide reporting on the core measures contained in the NRS also influenced his decision. Following his appointment, the director increased his contact with administrative staff of the U.S. Department of Education, Office of Vocational and Adult Education, who, in his estimation, underscored the importance of injecting accountability into state systems. Convinced that the existing state funding formula did not promote accountability at the local level, because student-contact hours and not outcomes were driving resource allocations, he came to believe that performance funding was one means of motivating local providers to pursue federal priorities.

State administrators also were concerned about the possibility of jeopardizing state eligibility for federal incentive grants provided by the *Workforce Investment Act* (*WIA*). To qualify for a grant award, Missouri needed to exceed performance levels for outcomes in three programs: *AEFLA*, vocational education (*Carl D. Perkins Vocational and Technical Education Act of 1998*), and *WIA*, Title I. Two of these programs were based in the Missouri Division of Career Education, and administrators feared that it would reflect poorly on the division if adult education providers failed to reach state performance goals. Accordingly, in the state plan submitted under *AEFLA*, administrators indicated that they were planning to set aside 10 percent of state funding for PBF purposes.

The direction that contracts [administration is] going from state governments to local governments—everybody seems to be looking very heavily at ... performance-based contracting. It just seemed like a normal step for our adult education program.
—Missouri State Director

*Rationale for System Development***State Adoption Process**

To build support for the adoption of PBF, the state director used the state's Adult Education Report Card to focus providers' attention on program performance. Developed in FY01, report cards on each local provider present learner demographic and outcome data in a graphical format, using statewide averages and percentages to document comparative results. This information was used to raise provider awareness that the state had room for improvement.

Program directors' dissatisfaction with the existing contact-hour formula also helped diminish statewide opposition. According to providers interviewed for this study, year-to-year fluctuations in program enrollments could have dramatic effects on program funding, since one year of low enrollment could force cuts in subsequent years, which, in turn, would make it difficult to generate additional contact hours to earn back resources. Although fear of the unknown sparked some resistance to PBF among providers, there was sufficient frustration with the current system to support change.

Provider opposition also was muted somewhat because the PBF component was introduced at a time of increasing federal funding for adult education and because the state offered assurances that federal carryover funding would be infused into the system. Since initial modeling indicated that performance funds would supplement program resources in most agencies, providers did not believe PBF would put them at risk of losing resources. Over time, as the amount of core funding distributed based on contact hours has declined, provider enthusiasm for PBF has dampened with the realization that some will receive less funding unless they initiate programmatic change.

Goals in Introducing Performance-based Funding

The statewide committee charged with developing a fair and equitable formula recommended that the state set aside performance funds to support six objectives:

1. Sustaining instructional effectiveness;
2. Improving student performance and progress;
3. Assisting customers and partners in reaching their goals;
4. Providing incentives to promote professional development;
5. Enhancing financial support of instructional planning and preparation; and
6. Fulfilling federal accountability requirements.

Rationale for System Development

These goals underscored providers' desire to improve the quality of adult education programs, while providing support services to assist staff in achieving performance objectives. Given the overlap between state performance measures and federal *AEFLA* core indicators, committee members also recognized the possible contribution that PBF could make in helping the state to attain its federal performance targets.

SECTION C-3:

Formula Design Process

Creation of the state PBF funding formula was supervised by a committee of approximately 20 program directors convened by the state director to represent the views of the field. Directors met periodically beginning in January 2001, with state administrators taking responsibility for establishing a timeline for the formula review process, surveying program directors to determine statewide attitudes, convening and facilitating committee meetings, and running funding simulation models. Committee findings were shared with program directors at each of two annual statewide directors' meetings and through representatives participating in the development committee.

Before convening the first committee meeting, the state director sent all participants a copy of the book *Who Moved My Cheese?* Written by Spencer Johnson, this motivational best seller describes strategies to help individuals cope with potentially difficult changes in their work setting. Anticipating that everyone would arrive prepared to delve into the meeting agenda, the state director was surprised to discover how deeply the book had affected people. Participants discussed personal situations and work experiences to such an extent that the first session nearly became a professional development seminar. As it turned out, these discussions helped team members relieve anxiety and build trust, enabling the group to tackle difficult formula development issues at an earlier stage than they might have otherwise.

Buy-in among committee members would later pay huge dividends for the state in reducing provider resistance to the new formula. Near the end of the formula development process, as the new system was being readied for implementation, a small group of program directors expressed concern regarding PBF at a program directors' retreat. Although state administrators were not present at the meeting, committee members who had participated in the formula development process allayed concerns, pointing out that they had been involved in the process and had worked to ensure that providers' viewpoints were incorporated into the final formula. As one state official observed, "We didn't have to defend it. The people involved in the process defended it, and that was fantastic."

There's an old saying: "Pay me now or pay me later." You either go through all this trouble up front, put lots of effort into facilitation or you just go ahead and do it ... and then pay the price later. And I think what impresses me to this day is [the field committee] was the best example I've ever seen of involvement, facilitation that resulted in [their] support.
—Missouri Division Coordinator

SECTION C-3
Formula Design Process

Specification of Funding Criteria: Core Funding

Historically, contact hours had been the sole criterion used to allocate provider resources, and although program directors were willing to rework this formula, some members of the state advisory committee were hesitant to make substantial changes to the existing system. Following group deliberations, which included a review of funding systems in other states, committee members agreed to allocate 80 percent of combined federal and state resources as core funding at a rate of \$3.00 per audited contact hour for FY02.

Since core funding was intended to support basic program operations, the formula development committee conducted a survey of all directors in the state to rate their program expenditure priorities. Committee members used directors' responses to questions regarding key expenditure categories, including teacher and support staff salaries, instructional supplies, and testing supplies and equipment, to define a program funding core.

To address directors' concerns about year-to-year fluctuations in student enrollment, committee members agreed to the use of a three-year rolling average to allocate half of the core funding resources. Accordingly, the new formula for allocating core funding implemented for FY02 was specified as:

- Fifty percent based on a program's total number of audited contact hours from the immediate previous year (FY01); and
- Fifty percent based upon a program's previous three-year average of its total audited contact hours (FY98, FY99, FY00).

To shift programs gradually away from core funding and into PBF, it was proposed that contact-hour rates be based on a sliding scale so that, by FY06, allocations would be equivalent to 80 percent of FY02 funding. See table C-3 for the contact-hour rate and state total obligation for FY02–06.

Table C-3
Missouri Contact-Hour Rate and Total State Obligation: FY02 to FY06^a

Fiscal Year	Contact-Hour Rate	Total Obligation
2002	\$3.00 (baseline FY02)	\$10,000,000
2003	\$2.85 (95% of FY02)	\$9,500,000
2004	\$2.70 (90% of FY02)	\$9,000,000
2005	\$2.55 (85% of FY02)	\$8,500,000
2006	\$2.40 (80% of FY02)	\$8,000,000

^a Changes in resources has negated the FY06 proposed rate.

SECTION C-3
Formula Design Process

Although the state has reduced its contact-hour rate over time, unanticipated changes in available federal and state resources have prevented the state from adhering to this schedule. Recently, rates for FY06 were fixed at \$2.70 for general population and a rate of \$2.20 for institutionalized learners. However, the overall amount of resources earmarked for core funding has kept pace with committee plans. As evidence, in FY05 the state allocated \$8,666,383 in core funding, equivalent to roughly 72 percent of total adult education expenditures.

Recognizing that PBF could cause structural changes, the committee also conducted a second survey in FY01 asking providers to identify the types of support they would need to incorporate performance funding into their institutional budgets. Locals requested additional financial assistance in three areas:

- *Data collection*—support in building an electronic adult data collection system, including resources for data entry staff salaries, hardware and software upgrades, and materials and supplies;
- *Marketing*—support in publicizing adult education programs and services, including resources for supplies, activities, and personnel; and
- *Technology*—support for improving instructional technology, including resources for purchasing instructional software, operational software, and other materials and supplies.

Accordingly, the state director earmarked just over 10 percent of FY02 provider funds for support in these areas, with data collection and marketing resources based on a rolling three-year average of a program’s enrollment, and technology-based on a rolling three-year average of a program’s total expenditures. Therefore, of adult education funds allocated in FY02, 3.6 percent was earmarked for data collection, 2.2 percent for marketing, and 4.6 percent for technology. Providers also were required to develop a local plan, containing a proposed budget and expenditure narrative, to qualify for resources. The availability of these funds varies from year to year; for example, in FY03 the state dropped the marketing component from the funding formula to compensate for reductions in funding.

The formula that we have evolved is pretty straightforward. It’s simple in design. It takes data that is already there—the contact hours, the progression, the GED award, ... the matching for employment and retention. So we’re using systems that are already in place.
—Missouri State Director

To address other identified concerns, in FY03 the state earmarked funding to support programs offered in One-Stop Career Centers and created an Expansion and Enhancement grant program to support agencies in improving services. These grants were relatively modest, with funding for

One-Stop programs amounting to just 0.67 percent and Expansion and Enhancement grants to 3.9 percent of total FY03 funding.

Conducting a statewide survey added to the formula development process, and it was suggested that providing opportunities for director feedback offered a number of advantages. Soliciting input strengthened formula design by ensuring that all providers were able to share their insights and concerns with the formula drafting committee. Involving providers also helped promote buy-in and short-circuit complaints. With additional funding, providers would not be justified in either complaining that the state was instituting PBF as an unfunded mandate or fighting categorical spending requirements, since they themselves had identified program priorities.

Specification of Funding Criteria: Performance Funding

Committee members identified two measures of student progress for performance funding that were most closely aligned with state objectives: GED attainment and literacy level advancement. Since these measures were included in *AEFLA* and providers had been collecting information on them since FY01, their selection meant that the state did not have to alter existing data collection procedures to generate local program performance eligibility.

To support attainment of formula objectives, the statewide committee recommended that a portion of providers' performance funds be set aside to support priorities identified through the FY01 statewide survey. Consequently, committee members recommended that a minimum of 25 percent of each program's local performance allocation be reserved for professional development and a minimum of 10 percent for instructional stipends for planning and preparation. This requirement was dropped in FY03 due to complaints from program directors, particularly those with small performance allocations who objected to being told how to spend their resources.

Recognizing that lower-level learners often take longer to advance a level, committee members adopted a graduated funding scale, with supplemental resources attached to students making gains at the lowest learning levels.¹² To establish rates, the state modeled resource allocations based on the number of outcomes recorded by providers in FY01 and the amount of performance funding available for distribution in FY02. Accordingly, provider performance funding eligibilities in FY02 were estimated using the calculator in table C-4.

¹² AEL levels of completion correspond to the six functional academic performance levels identified for ABE and ASE learners as specified in the NRS. Learners who complete an ASE high level are counted as attaining a GED credential. ESL levels also correspond to the six functional academic performance levels specified in the NRS. Learners who complete the Advanced ESL level are included in AEL levels 3–5 for funding purposes.

SECTION C-3
Formula Design Process

Table C-4

Missouri Levels of Advancement Performance Calculator Used to Award Performance-based Funding: FY02

Levels of Advancement	Amount	Students Advancing	Total
AEL ^a Level 1 Completion	\$150	0	\$ ---
AEL Level 2 Completion	\$100	0	\$ ---
AEL Level 3–5 Completion	\$50	0	\$ ---
GED	\$150	0	\$ ---

^a Adult Education and Literacy

In the year following PBF introduction, committee members reconvened to consider whether outcome rates for ESL students required additional resources, since providers believed that ESL services were relatively more expensive to provide. As part of this exercise, state administrators compared the number of contact hours recorded for ESL students to those for ABE and ASE participants. Based on a review of the relative effort required to achieve a learning gain, committee members recommended development of a separate rate for ESL students. This new rate was added to the funding calculator in FY05, supported with resources transferred from an existing state-funded ESL grant program. Reimbursement rates for non-ESL students also were recalibrated. Since FY05, local agencies have qualified for PBF based on the number of students advancing in ESL as well as Adult Education and Literacy (AEL) and GED (table C-5).

Table C-5

Missouri Levels of Advancement Performance Calculator Used to Award Performance-based Funding: FY05

Levels of Advancement	Amount	Students Advancing	Total
AEL ^a Level 1 Completion	\$200	0	\$ ---
AEL Level 2 Completion	\$150	0	\$ ---
AEL Level 3–5 Completion	\$75	0	\$ ---
GED	\$150	0	\$ ---
ESL Level 1 Completion	\$250	0	\$ ---
ESL Level 2 Completion	\$175	0	\$ ---
ESL Level 3–5 Completion	\$100	0	\$ ---

^a Adult Education and Literacy

Assessing Formula Effect

To assess potential effects on local providers, state administrators modeled how program allocations would change under different resource assumptions prior to formula rollout in FY02. These calculations were shared with committee members to provide context for their discussions. For example, to initiate discussions about an appropriate level of support for core funding, the

SECTION C-3
Formula Design Process

state developed a budget simulation assuming that 70 percent of total state funding was allocated based on contact hours, using a rate of \$3.10 per hour. Differential rates for performance outcomes also were proposed. Subsequent iterations of the core and performance components eventually resulted in adoption of the FY02 funding model.

Final PBF allocation models suggested that most providers would realize an initial increase in their total resource eligibility in the first year of performance funding. This was due, in part, to the committee's decision to distribute most federal and state resources as core funding, partially to categorical funding for data collection, marketing, and technology functions, and due, in part, to the release of federal carryover funding. Consequently, at the close of the formula development process, state administrators and committee members believed that they had created a realistic formula that would account for the diverse needs of providers throughout the state.

SECTION C-4:

Implementation Process

Missouri fully implemented performance funding in the 2001–02 program year (FY02). Because the introduction of performance funding coincided with a slated infusion of federal and state resources into the system—statewide funding climbed from \$11.6 million to \$13.2 million with formula rollout—the state did not attempt to insulate providers from shifts in their resource eligibility. This may have been because no action was needed: Simulations indicated that there would be few losers, and those projected to experience a drop in resources were generally larger providers with budgets big enough to offset any loss.

Initial effects also may have been small because the state opted to phase in PBF gradually so that local providers would have time to adjust to the new formula. When introduced in FY02, PBF resources were limited to roughly 9 percent of total funding. Over time, as the state has cut back on its contact-hour rate while increasing the value of performance outcomes, the proportion of funding allocated based on performance has risen. In FY05, performance-related allocations amounted to nearly 19 percent of total adult education funding.

Provider Reporting Capacity

In FY01, to support providers in reporting federally mandated accountability data, the state rolled out ACES, its new management information system. Each provider was supplied with a state-developed database to be used to collect and administer program performance data. Each quarter, providers sent disk copies of their files to the state for use in NRS reporting. To support providers in using the ACES system, the state held a number of statewide technical assistance sessions, provided site-level support, and offered individual consultations via telephone.

As in other states, not all providers were able to collect comprehensive data on student outcomes initially, most often because of technical issues related to testing. For example, the Missouri Department of Corrections had historically used its own assessment system to measure inmates' education attainment. Although the prison system was required to shift to using the Test for Adult Basic Education (TABE) to assess inmates' level attainment for *AEFLA* reporting purposes, this transition took time. Consequently, not all FY01 outcomes were recorded. After the prison system completed its transition to the new assessment system in FY02, its performance funding eligibility more than doubled in subsequent program years.

Implementation Process

It was observed that local providers have had some difficulty aggregating learner outcomes to fit the different attainment categories used in the funding calculator (i.e., AEL-ESL level 1, AEL-ESL level 2, AEL-ESL levels 3–5). While providers understand the difference between a level 1 and level 2 progression, provider staff have difficulty aggregating data to report on levels 3–5 progressions. It was suggested that it would be simpler to have providers report learner progression for each level individually and then combine these data at the state level for formula purposes.

Data Quality

Adult education providers are audited every year as part of the state’s official school review process. To validate adult education program data, the local auditor completes a form that includes a reference to contact hours reported by the agency. While auditors make a conscientious effort to review existing data, the audit is only a spot check that traces back through a sample of time slips to see if contact-hour reports are accurate. Programs also are required to submit an annual written evaluation of program performance.

*Having a good solid data collection system and the ability to let them [local program providers] see the data, whether electronically or on paper, that’s the key thing.
—Former State Director of Adult Education*

Additionally, every five years, as part of the secondary accreditation cycle, adult education providers housed in secondary districts are subjected to an intensive audit, which includes a review of contact-hour and performance-outcome records. Providers located in postsecondary institutions also are reviewed on a five-year cycle. State administrators report that these audits suggest that there is close alignment between reported data and program records, indicating that providers are maintaining valid contact and performance data in nonaccreditation years.

Management Information Systems

Missouri’s shift to performance funding occurred in FY02, the year following the state’s rollout of new federal reporting requirements. Although the current state information system supervisor was not present at the time the system was introduced, during interviews he suggested that the adoption of PBF did not add any additional hardware or software costs to formula adoption at the state level, because state performance measures simply duplicated those contained in *AEFLA*.

In FY04, the state hired the current information system supervisor to update the ACES database. Until this time, the ACES data system was not designed to support agencies in undertaking program improvement efforts. Although providers collected and reported data on outcomes specified in the NRS core measures, local staff could not disaggregate their data to associate learner progressions with specific programs or teachers as needed for the ACES database. Unless providers were maintaining dual information systems (i.e., ACES along with a locally developed

Implementation Process

database), they were unable to discern how they were performing in different program areas. The updated ACES system enables providers to produce more detailed reports and analyze their data, so that they can initiate improvement efforts with underperforming programs or teachers.

Although reprogramming ACES entailed making software changes funded by the state, these changes were intended to provide program directors with better information for program management purposes. While some of this cost could be related to the operation of the state's PBF system, state administrators believed it likely that database changes would have occurred irrespective of whether or not the state adopted performance funding to allocate resources.

During case study interviews, however, one program director suggested that the rollout of PBF had placed an additional burden on his administrative aides and taken up a significant amount of his own time. Although much of this burden was associated with learning the new ACES software and compiling data required for the NRS, he and his staff also spent considerable time reviewing contact hours and tracking individual learning outcomes to qualify for performance funding. In his estimation, his focus on accurately quantifying fundable outcomes would not have occurred had the emphasis been on collecting and reporting federal data for NRS purposes alone.

Although the state did provide additional funding in categorical areas to support providers in collecting data, these resources were based on program enrollment totals averaged over a three-year period, with funding distributed based on nine different program sizes. For example, programs with 300–499 students qualified for an allocation of \$2,500, while those with 1,500–2,499 students qualified for \$20,000. This meant that smaller programs were unable to hire even a part-time administrative aide to collect data, forcing existing staff to take on additional duties.

Technical Assistance

To support directors in using data to improve programs, the state hired an education consulting firm, which had helped develop the federal NRS, to provide workshops on using data to make program improvement decisions. Initial meetings were structured around fictitious data: Directors were supplied information and given strategies for interpreting it. Later, when program level reports finally were available from the state data system, directors were again convened, but this time given their own program data.

A couple years ago, we were finally ... getting good reports out of ACES and ... we were going through this exercise and [directors] thought, "Oh no, dummy data again." But when we gave them the real data, it was quiet. They were really looking and they were really starting to analyze their own data.

—Former Missouri State Director

Implementation Process

Although the state provided technical assistance to help providers understand the ACES database and how to use data for program improvement, not all directors felt supported in the rollout of the new funding system. The sudden focus on performance outcomes meant that many directors had to immerse themselves in program data to understand why students were not performing and whether low outcomes were due to a failure on the part of faculty to follow appropriate testing protocols, instructional quality, program curricula, or some other factor. While shifting to performance funding was credited with helping motivate providers to improve program services, it also uncovered weaknesses in the state system that required closer scrutiny. That is, some directors reported that the state could have provided additional training in how to interpret and use data to make more informed decisions.

SECTION C-5:

Effects of Performance-based Funding

During case study interviews, both state administrators and local provider staff commented on the effect that PBF was having on adult education program services. Although focus group participants ascribed both positive and negative outcomes to the adoption of performance funding, few if any data exist to substantiate these claims. In many cases, participant observations were based on general perceptions of program operations or extrapolations of a single experience. Some participants also had difficulty differentiating programmatic effects due to the adoption of PBF from those associated with the state's implementation of *AEFLA*. Consequently, readers should be cautious in drawing conclusions about the effects of PBF on state adult education systems.

Contributions to Statewide Performance

As originally conceived, PBF in Missouri was introduced to promote more effective adult education services, while simultaneously improving instructor professionalism and the state's ability to respond to federal *AEFLA* reporting requirements. According to the state and local directors, the adoption of PBF has contributed to achieving state goals, and, in particular, to motivating providers to use data to improve their instructional effectiveness, to achieving student performance and instructor professional development goals, and to fulfilling federal accountability requirements. Specific benefits included:

- *Improving the Accuracy of Adult Education Data*—Linking resources to performance has motivated providers to align their assessment and data collection systems with state criteria and to do so more rapidly than if no funding were attached. Program directors reported that they were more willing to review data collection processes because improved reporting capacity translated into additional resources. In particular, it appears that performance funding helped improve data reliability in Missouri by ensuring that all providers conscientiously followed accepted state testing protocols when measuring learner progress.

Evidence of changes in testing protocols is illustrated in data from larger programs, including Kansas City, St. Louis City, and the Department of Corrections, all of which might be expected to face greater challenges in standardizing assessment in a large number of sites. These three agencies registered substantial gains in their performance eligibility between FY03 to

Effects of Performance-based Funding

FY05, which, because funding lags two years behind, correlates with the introduction of new PBF measures. For example, performance eligibility in Saint Louis City, which remained constant between FY02 and FY03, then jumped 33 percent in FY04 and another 20 percent between FY04 and FY05, presumably because local providers gained experience administering new testing protocols.

- *Building a Culture of Data*—Compensating providers for generating learner outcomes has helped to focus directors’ attention on program performance, and, particularly on making connections between specific instructors and learner outcomes. Before PBF, program directors reported that few of their colleagues “owned” their data; that is, although information may have been collected, few had an incentive to use it, since funding was based on contact hours.

Linking funding to performance (and subsequently updating ACES data fields) helped motivate directors to pay greater attention to program data, for example, encouraging them to review data system reports to identify areas where they could increase their funding. According to the state division coordinator, although only 10 percent of funds were allocated based on performance, providers treat the system as though 90 percent of their funding were at risk, so program directors today are more responsible for, and thus responsive to, their data.

If a teacher is not doing well and not getting students to progress, then the local director knows they need to look at that. Because if they’re not performing, or progressing from one level to another, for that ... factor in the formula, they’re going to get less.
—*Missouri State Director*

- *Professionalizing the Teaching Force*—Program directors believe that the shift to performance funding has helped improve instructor quality, in part because of the emphasis placed by state administrators on training local staff. To support the state goal of encouraging professional development, the state funding formula initially stipulated that program directors earmark a minimum of 10 percent of their programs’ performance allocation for instructor stipends for planning and preparation and 25 percent of PBF funds to support professional development activities. This funding can be used to ensure that teachers continue to improve their instructional skills.

As one director observed, “There are workshops that have to be attended, there are a number of development hours they have to do every year to maintain that certification. ... We really strive to make sure our adult education teachers have the ability and the background and the training to be an adult teacher.” Another director reported using performance resources to provide financial awards to staff exhibiting high performance, while another used them to reward staff with trips to

Effects of Performance-based Funding

seminars and workshops, as well as to purchase materials and equipment for classrooms.

The addition of targeted funding for marketing services also enabled providers to sell their programs more effectively to potential clients, which program directors reported helped them to attract higher quality staff. Program directors also reported that the introduction of PBF helped to remove teachers unwilling to be held accountable for their performance from the classroom. Although program directors believed PBF has contributed to teacher quality, the state has not conducted any formal studies to assess the relationship of the professional development expenditure requirements in the funding formula to changes in instructor quality over time.

Drawbacks

Interviews with state administrators and local program directors indicate that PBF has been effectively institutionalized in Missouri. However, not all providers initially supported the transition to the new funding system, nor do they enthusiastically support all aspects of the current formula. Drawbacks associated with implementing PBF include:

- *Lag Between Program Data and Funding Eligibility*—Providers begin budgeting for the coming fiscal year in the early spring, before final fiscal year data on contact hours and performance outcomes are available. To permit the state to budget provider resources more accurately, the state agency calculates provider eligibilities for the upcoming fiscal year using data from the preceding year (i.e., data for FY04 is used to estimate funding for FY06).

The delay between when programs post outcomes and receive their resources can mean that programs may have difficulty expanding programs to new sites, since providers do not realize any benefit for their successes until two years after posting their data. As the state fiscal supervisor explained, because a program experiencing substantial enrollment growth will not be rewarded for two years, the program is forced to carry its increased costs for one year until state allocations catch up with its expanded needs. The state has attempted to address this deficiency by offering one-time Expansion and Enhancement grants that providers can use to address site-specific issues related to program growth.

- *Administrative Burden on Instructional Staff*—Tracking learner outcomes can create additional work for instructors, many of whom are more concerned with teaching than with keeping detailed records. Under the old system, teachers were simply required to track contact hours for funding purposes; with the new system,

Effects of Performance-based Funding

instructors must understand the content of the NRS performance measures and testing protocols, as well as monitor outcomes for a range of student activities. For example, although providers receive contact-hour funding for all students enrolled, they only are eligible for performance funding for participants meeting the 12-hour enrollment threshold. This has required staff to pay closer attention to tracking student participation.

According to one program director, the paperwork associated with collecting accurate data has made it difficult to retain some experienced teachers, many of whom are part-time employees who would prefer to spend their limited time in student-centered activities. Although a number of directors shared this view, no empirical studies exist to quantify the extent to which the adoption of PBF has actually affected statewide staffing.

- *Insufficient Compensation for Learners With Special Needs*—Not all learners are capable of making annual progress on state performance measures, meaning that instructors may have difficulty achieving measurable gains for special-needs students, particularly those requiring remedial instruction or with documented learning disabilities. In the words of one director, this “enrages some of the teachers because they are experienced enough to know that 60 hours of on-task work in a particular area may not remediate the student to the point that they may move up a grade level.”

Although contact-hour funding helps offset some instructional costs, while ensuring that providers have an incentive to serve all students, other than the ESL component, the state formula does not compensate providers for high-cost learners. According to state administrators, the formula is intended to provide sufficient resources, on average, to educate all types of students. Administrators also have provided professional development to instructors to assist them in identifying and referring learners with special needs, as well as tools to help them improve instruction.

*Effects of Performance-based Funding***Effect of PBF on Adult Education Providers**

Before the adoption of PBF in FY02, 46 providers were eligible to receive federal and state adult education funding. In the year following the adoption of PBF, which coincided with a new three-year funding cycle for adult education (FY03–FY05), three providers—Ava, Boonville R-I, and Fulton—were dropped and one program, Susanna Wesley, was added to the system. Of the programs no longer participating, two were small agencies that were subsumed into a neighboring provider, and one closed because it was unable to deliver its proposed program to inmates in state corrections facilities.

Our focus is what's going to be the best for the customer: get them a job, get them into postsecondary education, get that GED, help them with their kids, help them learn English, and be part of society. It seems to me that's kind of where our focus ought to be and not so much how long they're sitting in a chair everyday or how many hours a week they're participating. What are they able to do and how are we really helping them?

—Missouri State Director

According to the state director, with the exception of one program that was unable to generate sufficient contact hours or performance outcomes to qualify for resources, the introduction of PBF was not directly responsible for the loss of any adult education programs. Rather, the loss of programs was blamed on problems with the invitation to bid process, in which providers had problems with or forgot to submit required forms and, consequently, were declared ineligible for program funding in the new funding cycle.

Fiscal Eligibility

At the outset of performance funding in FY02, 38 of 46 providers realized funding gains over their contact-hour allotment in FY01 (see table C-6). For many smaller providers, resource increases were primarily due to the addition of state categorical grants for data collection, marketing, and technology, rather than to the actual introduction of performance funding. Although introduced in FY02, the full effects of PBF were not felt for at least two years due to the time lag between data collection and the application of data to provider allocations and the small amount of funding allocated based on performance criteria.

Generally, community colleges and the Department of Corrections benefited the most under the new funding system. According to the state director, this was because community colleges were more successful in recruiting individuals preparing for their GED, while the corrections agency was able to control attendance and to measure inmate progress. In FY05, the state lowered its contact-hour rate for inmates from \$2.70 to \$2.20 to adjust for this relative advantage.

SECTION C - 5

*Effects of Performance-based Funding***Table C-6
Missouri Adult Education Expenditures Prior to and After PBF and Percentage Change, by Provider: FY01
to FY05**

	FY01 Expenditure (Prior to PBF)	FY02 Expenditure PBF	Percent Change FY01 to FY02	FY03 Expenditure PBF	FY04 Expenditure PBF	FY05 Expenditure PBF	Percent Change FY01 to FY05
AEL^a Program							
Statewide Total	\$11,337,169	\$12,394,697	9%	\$11,065,156	\$10,882,354	\$12,040,787	6%
Nevada ^b	454,979	382,810	-16%	220,317	98,586	105,023	-77%
Mexico	22,630	15,815	-30%	14,758	11,589	15,226	-33%
Poplar Bluff	313,928	372,197	19%	322,481	267,550	247,700	-21%
Sedalia Community College	234,021	202,043	-14%	199,225	179,805	192,399	-18%
Crowder College	230,064	232,357	1%	204,875	201,628	202,092	-12%
Rockwood	83,089	82,173	-1%	72,410	60,985	74,705	-10%
Moberly Community College	30,292	28,511	-6%	27,952	25,172	27,684	-9%
Parkway	915,275	895,044	-2%	804,405	788,125	839,890	-8%
University City	327,081	357,385	9%	303,177	295,969	302,679	-7%
Sikeston	127,165	168,903	33%	156,095	113,905	121,998	-4%
Cape Girardeau	152,927	205,968	35%	134,423	140,407	148,559	-3%
St. Joseph	470,630	417,633	-11%	439,250	394,756	459,908	-2%
Hannibal	71,259	59,198	-17%	77,562	58,103	71,204	0%
St. Louis City	1,527,864	1,644,221	8%	1,514,196	1,506,349	1,529,543	0%
Waynesville	79,812	99,073	24%	81,613	63,655	81,146	2%
Della Lamb	404,342	435,916	8%	373,740	398,409	417,159	3%
Ritenour	87,899	100,669	15%	80,785	78,142	97,025	10%
Kansas City	968,956	1,018,129	5%	889,155	973,148	1,071,928	11%
Bonne Terre	383,198	392,090	2%	436,691	339,297	425,143	11%
Vandalia	505,279	604,370	20%	483,445	539,369	569,282	13%
North Kansas City	254,298	299,145	18%	275,803	262,165	289,472	14%
Carthage	65,010	72,695	12%	64,215	64,892	74,338	14%
NW Missouri State University	170,221	204,749	20%	179,710	190,688	204,144	20%
Blue Springs	27,931	35,394	27%	30,709	27,374	33,750	21%
Kirksville	44,641	71,583	60%	53,500	40,180	54,344	22%
Columbia	259,035	262,298	1%	241,407	285,190	327,863	27%
DOC	1,313,677	1,345,397	2%	1,446,683	1,464,158	1,666,641	27%
Rolla	120,224	154,652	29%	139,743	142,170	153,279	27%
Springfield Community College	365,785	450,834	23%	436,606	416,510	471,542	29%
Independence	183,764	253,101	38%	197,148	227,298	253,503	38%
Jefferson College	103,599	155,987	51%	102,413	116,372	143,023	38%
Joplin	118,982	137,180	15%	119,541	139,267	165,657	39%
St. Louis Community College	80,440	110,662	38%	86,508	94,549	112,685	40%
Jefferson City	85,368	125,952	48%	108,806	111,212	123,405	45%
St. Charles Community College	151,125	171,923	14%	200,416	168,781	243,743	61%
East Central	76,961	101,619	32%	95,260	99,044	125,793	63%
West Plains	106,464	171,941	62%	195,941	202,915	195,176	83%
Macon	38,789	66,524	72%	54,517	61,579	72,387	87%
Linn Community College	1,696	7,569	346%	3,589	3,958	3,711	119%
Camdenton	19,484	25,853	33%	24,873	26,896	42,761	119%
Lebanon	38,414	45,801	19%	66,576	38,898	88,424	130%
Houston	16,015	34,348	114%	31,570	24,883	48,535	203%
Trenton Community College	15,282	45,770	200%	73,067	40,856	62,986	312%
Ava ^c	32,637	43,307	33%	—	—	—	—
Boonville ^d	3,549	12,143	242%	—	—	—	—
Fulton ^e	253,088	273,765	8%	—	—	—	—
Susanna Wesley ^f	—	—	—	—	97,570	83,332	—

SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Adult Education and Literacy; corresponds to six functional academic performance levels for ABE and ASE learners.^b In FY03 the federal government closed a training camp located in Nevada, which severely impacted program services.^c Consolidated with West Plains in FY03.^d Consolidated with Sedilla in FY03.^e Program unable to deliver proposed programs; resources subsumed by Department of Corrections.^f New program added in FY03.

Effects of Performance-based Funding

It appears that enrollment changes may have had a greater effect on provider eligibility than PBF. As indicated in table C-7, eight of 12 providers losing adult education funding between FY02 and FY05 also suffered above-average declines in core funding, indicating these programs were either experiencing relatively large enrollment declines or eliminating a larger-than-average number of duplicate enrollments as they improved the quality of their local data systems. In general, with the exception of 11 programs, all providers lost core funding between FY02 to FY05, as might be expected given the declining value attached to contact hours in the formula and improvements in providers' ability to track students and eliminate duplications.

In contrast, the contribution of PBF to providers' expenditures took on greater importance as state performance rates increased and program staff simultaneously improved their assessment protocols and instructional approaches. As evident in table C-8, expenditures for provider performance outcomes was initially held constant in FY02 and FY03, because funding was based on assessment results collected prior to or concurrent with the introduction of new *AEFLA* reporting requirements. As performance criteria were allowed to vary, differences in outcomes across providers became more evident.

Performance-based funding changes appear particularly pronounced in some larger providers, such as Kansas City, which increased its performance eligibility by 293 percent between FY02 and FY05. According to the state director, such changes likely occurred because providers became more adept at collecting data on student progression; even so, by FY05, roughly half of the providers had gained performance funding relative to the statewide average, with gains slightly more pronounced in larger programs. Unfortunately, due to the introduction of a revamped ACES database in FY04, state staff were able to provide only total program allocation figures, and not raw performance data, for individual providers, making it impossible to control for the effect of learner population characteristics on program outcomes.

With contact hours, the [provider's] attitude is, 'We got someone in here, we're collecting the money.' So the question is: What is management going to pay for, what do they want? If you're looking at retention, then you go by contact hours. If you're going to want performance, then you use the performance-based funding.
—*Missouri Fiscal Manager*

SECTION C - 5

*Effects of Performance-based Funding***Table C-7****Missouri Adult Education Core Expenditures^a to Providers: FY02 to FY05**

AEL Program ^b	Core Expenditures				Percentage Change	
	FY02	FY03	2004	2005	FY02 to FY03	FY02 to FY05
Statewide Total	\$10,003,559	\$8,937,259	\$8,641,407	\$8,666,383	-11%	-13%
Nevada ^c	322,109	289,898	80,961	59,064	-10%	-82%
Sikeston	130,214	117,192	84,355	73,423	-10%	-44%
Kirksville	41,166	28,870	25,490	24,591	-30%	-40%
Poplar Bluff	292,980	263,682	213,222	177,133	-10%	-40%
Cape Girardeau	147,507	132,756	105,340	99,342	-10%	-33%
Waynesville	75,128	67,615	55,355	58,391	-10%	-22%
Rockwood	60,934	54,841	45,610	48,055	-10%	-21%
University City	310,940	297,846	259,594	247,804	-4%	-20%
North Kansas C.	230,505	207,455	199,865	188,747	-10%	-18%
Jefferson College	101,236	91,112	83,507	84,022	-10%	-17%
Jefferson City	77,101	69,391	64,037	64,430	-10%	-16%
Vandalia	532,569	446,834	462,169	445,869	-16%	-16%
Parkway	774,332	696,899	675,252	652,008	-10%	-16%
Mexico	9,326	8,393	7,114	7,976	-10%	-14%
St. Louis City	1,447,383	1,302,644	1,266,857	1,246,581	-10%	-14%
Crowder College	166,951	151,125	148,428	144,817	-9%	-13%
Sedalia Community College	131,831	122,325	121,155	116,939	-7%	-11%
Linn Community College	2,380	1,827	2,108	2,136	-23%	-10%
East Central Community College	64,618	58,156	61,156	58,581	-10%	-9%
Ritenour	70,008	63,007	63,717	63,750	-10%	-9%
Blue Springs	21,399	19,259	19,199	19,625	-10%	-8%
St. Joseph	328,044	295,239	290,976	301,765	-10%	-8%
Macon	47,529	42,776	48,154	43,787	-10%	-8%
Kansas City	923,634	831,271	845,524	858,236	-10%	-7%
Rolla	111,791	100,612	112,760	104,127	-10%	-7%
DOC	1,195,558	1,237,741	1,125,083	1,142,966	4%	-4%
Springfield Community College	340,117	306,105	326,028	327,348	-10%	-4%
NW Missouri State University	166,785	150,107	158,763	160,944	-10%	-4%
St. Louis Community College	69,711	62,738	63,849	67,510	-10%	-3%
Della Lamb	361,878	325,690	349,634	356,009	-10%	-2%
Carthage	52,406	47,165	46,092	52,013	-10%	-1%
Independence	170,856	153,771	165,715	169,784	-10%	-1%
Bonne Terre	297,314	267,582	255,622	299,011	-10%	1%
Joplin	92,335	83,101	89,635	95,668	-10%	4%
Moberly Community College	17,272	15,545	14,772	18,046	-10%	4%
Camdenton	15,714	14,143	14,956	17,713	-10%	13%
West Plains	123,340	137,212	166,790	140,336	11%	14%
Columbia	195,792	176,213	209,562	234,002	-10%	20%
Hannibal	36,697	33,027	41,316	45,867	-10%	25%
St. Charles Community College	107,872	97,084	105,453	143,310	-10%	33%
Trenton Community College	26,319	23,687	24,781	36,136	-10%	37%
Houston	21,859	19,673	17,933	32,715	-10%	50%
Lebanon	28,501	25,650	33,198	68,149	-10%	139%
Ava ^d	29,118	—	—	—	—	—
Boonville ^e	5,754	—	—	—	—	—
Fulton ^f	226,746	—	—	—	—	—
Susanna Wesley ^g	—	—	90,320	67,657	—	—

SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Core expenditures include resources provided based on a provider's total audited contact hours.^b Adult Education and Literacy; corresponds to six functional academic performance levels for ABE and ASE learners.^c In FY03 the federal government closed a training camp located in Nevada, which severely impacted program services.^d Consolidated with West Plains in FY03.^e Consolidated with Sedilla in FY03.^f Program unable to deliver proposed programs; resources subsumed by Department of Corrections.^g New program added in FY03.

SECTION C - 5

*Effects of Performance-based Funding***Table C-8****Missouri Adult Education Performance-based Funding Expenditures, by Provider: FY02 to FY05**

AEL Program ^a	Performance Expenditures				Percentage Change	
	FY02	FY03	FY04	FY05	FY04 to FY05	FY02 to FY05
Statewide Total	\$1,135,050	\$1,118,657	\$1,383,375	\$2,243,450	62.2%	97.7%
Linn Community College	450	450	350	75	-78.6%	-83.3%
Nevada ^b	36,350	36,350	5,100	19,825	288.7%	-45.5%
Crowder College	30,750	30,750	36,200	28,775	-20.5%	-6.4%
Independence	43,200	43,200	32,100	47,000	46.4%	8.8%
Waynesville	8,900	8,900	2,550	10,425	308.8%	17.1%
Moberly Community College	4,000	4,000	3,000	4,950	65.0%	23.8%
Poplar Bluff	28,150	28,150	22,875	38,350	67.7%	36.2%
North Kansas City	30,050	30,050	32,300	43,025	33.2%	43.2%
Sedalia Community College	27,750	28,900	31,650	40,100	26.7%	44.5%
Cape Girardeau	20,500	20,500	16,100	30,300	88.2%	47.8%
Houston	3,750	3,750	3,950	5,600	41.8%	49.3%
Ritenour	9,200	9,200	6,175	14,025	127.1%	52.4%
Jefferson College	25,400	25,400	16,525	39,250	137.5%	54.5%
NW Missouri State University	20,100	20,100	19,925	31,200	56.6%	55.2%
Bonne Terre	57,050	57,050	53,675	89,025	65.9%	56.0%
St. Louis City	127,350	127,350	169,625	203,075	19.7%	59.5%
St. Louis CC-M	18,100	18,100	19,950	28,925	45.0%	59.8%
Kirksville	8,650	8,650	8,625	14,475	67.8%	67.3%
Springfield Community College	54,650	54,650	47,950	91,600	91.0%	67.6%
Jefferson City	19,500	19,500	30,175	33,475	10.9%	71.7%
Vandalia	46,250	46,250	48,700	87,050	78.7%	88.2%
Joplin	22,300	22,300	30,400	42,350	39.3%	89.9%
St. Joseph	55,450	55,450	60,425	105,325	74.3%	89.9%
Della Lamb	16,250	16,250	18,775	31,150	65.9%	91.7%
Sikeston	12,450	12,450	15,050	25,575	69.9%	105.4%
Rolla	12,400	12,400	8,375	25,725	207.2%	107.5%
Blue Springs	3,950	3,950	3,925	8,375	113.4%	112.0%
St. Charles Community College	27,200	27,200	29,725	58,350	96.3%	114.5%
West Plains	11,750	19,200	14,125	25,275	78.9%	115.1%
Camdenton	2,900	2,900	3,900	6,550	67.9%	125.9%
Parkway	56,250	56,250	73,100	134,025	83.3%	138.3%
Columbia	21,850	21,850	42,875	54,575	27.3%	149.8%
Carthage	5,550	5,550	10,550	14,075	33.4%	153.6%
Trenton Community College	5,100	5,100	10,325	13,700	32.7%	168.6%
Mexico	1,750	1,750	1,975	4,750	140.5%	171.4%
Macon	5,950	5,950	9,675	16,350	69.0%	174.8%
University City	7,100	7,100	11,375	20,875	83.5%	194.0%
East Central Community College	14,150	14,150	24,100	41,900	73.9%	196.1%
Lebanon	5,300	5,300	1,450	16,025	1005.2%	202.4%
Rockwood	6,500	6,500	9,625	20,900	117.1%	221.5%
Hannibal	4,650	4,650	6,700	15,925	137.7%	242.5%
DOC	136,600	152,707	325,575	510,175	56.7%	273.5%
Kansas City	38,450	38,450	63,850	150,975	136.5%	292.7%
Ava ^c	7,450	—	—	—	—	—
Boonville ^d	1,150	—	—	—	—	—
Fulton ^e	32,500	—	—	—	—	—
Susanna Wesley ^f	—	—	3,000	7,675	155.8%	—

SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

Note: — Not applicable.

^a Adult Education and Literacy; corresponds to six functional academic performance levels for ABE and ASE learners.^b In FY03 the federal government closed a training camp located in Nevada, which severely impacted program services.^c Consolidated with West Plains in FY03.^d Consolidated with Sedilla in FY03.^e Program unable to deliver proposed programs; resources subsumed by Department of Corrections.^f New program added in FY03.

*Effects of Performance-based Funding****Program Outcomes***

With the exception of FY03, in which adult education enrollments peaked, the number of learners who completed a level and either left the system or remained enrolled and moved to one or more higher levels of instruction has increased over time. Specifically, the number of level completers climbed from 11,213 in FY01 to 13,643 in FY05 (table C-9). Although program enrollments have fallen since FY03, the percentage of learners completing a level has remained relatively constant, which may indicate that providers are becoming increasingly effective in achieving state goals.

Table C-9
Selected Characteristics of Missouri Adult Education Level Completers: FY01 to FY05

	FY01	FY02	FY03	FY04	FY05
Participants	41,089	39,821	41,928	37,729	37,052
Level Completers	11,213	12,350	17,952	12,889	13,643
Percentage Completing Level	27%	31%	43%	34%	37%
Average Attendance Hours/Participant	78.0	98.4	98.3	94.5	98.6

SOURCE: Missouri Department of Elementary and Secondary Education, 2006. Funding data provided by state.

Roughly a year into formula operation, a group of providers raised concerns about perceived funding inequities associated with the state's ESL program, because it was suggested that ESL students do not progress to higher learning levels at the same rate as do other students. To address this issue, the state convened a special committee comprised of local program directors. After reviewing contact-hour data for ESL as compared to ABE and ASE participants, the committee proposed modifying the state formula to include a separate performance-funding category for ESL level advancement. Supplemental funding weights were incorporated into the funding formula beginning in the FY05 program year.

A review of state data appears to support state administrators' contention that certain populations of students require additional time to achieve an educational gain. For example, in FY05, roughly 33 percent of ESL participants achieved a level completion, compared to 37 percent of ABE and 40 percent of ASE participants (table C-10). Although completion rates for ESL populations were somewhat lower than for other learners, on average, ESL programs logged nearly 127 hours per participant, compared to roughly 98 hours per ABE and 63 hours per ASE participant. On average, this suggests that local providers must invest roughly 30 percent more time in ESL instruction than in ABE instruction to achieve a lower completion rate.

Effects of Performance-based Funding

Table C-10
Selected Participation Characteristics of Missouri Adult Education Participants by ABE, ESL, and ASE
Status: FY01 to FY05

	FY01	FY02	FY03	FY04	FY05
Adult Basic Education					
Participants	24,986	25,321	26,264	24,186	23,518
Completers	7,392	7,603	12,621	8,360	8,788
Percent Completing	29.6%	30.0%	48.1%	34.6%	37.4%
Average Attendance Hours/Participant	84.8	91.4	95.0	96.0	97.5
English Literacy					
Participants	9,704	8,583	9,361	8,036	7,955
Completers	1,532	2,453	2,906	2,487	2,625
Percent Completing	15.8%	28.6%	31.0%	30.9%	33.0%
Average Attendance Hours/Participant	63.3	136.3	125.4	113.7	126.9
Adult Secondary Education					
Participants	6,399	5,917	6,303	5,507	5,579
Completers	2,289	2,294	2,425	2,042	2,230
Percent Completing	35.8%	38.8%	38.5%	37.1%	40.0%
Average Attendance Hours/Participant	74.1	73.6	71.6	60.3	62.7

Although local providers did not receive additional resources for achieving a performance outcome for ESL participants before FY05, it does not appear that providers were less likely to serve ESL learners immediately following the introduction of PBF. Between FY02 and FY05, the number of ABE and ESL participants each fell roughly 7 percent, and ASE participants fell roughly 5 percent, in keeping with an overall decline in statewide enrollment. However, since the addition of supplemental funding for ESL level completers was not introduced until FY05, with allocations based on FY03 data, it is impossible at the present time to assess the effect of additional weighting on provider behavior.

System Evolution

Performance funding is a dynamic system in Missouri. Although formula distribution criteria have remained stable over time, state administrators have modified the amount of resources allocated as core, performance, and categorical funding. Formula changes reflect state attempts to fine-tune the system to address provider concerns and to adjust for changing funding environments, as in FY04 when sharp reductions in federal funding diminished the state's ability to maintain its resource allocations to programs.

Specifically, in FY04, changes in federal census data reduced Missouri's eligibility for *AEFLA* resources, leading to a \$1,000,000 reduction in funds. In an effort to protect local providers, the state dropped its allocation of state funding for marketing activities and Expansion and

Effects of Performance-based Funding

Enhancement grants. In addition, the state funneled resources to local providers out of its statewide leadership projects to offset this unanticipated drop in federal resources.

Another example of the system's evolution is the state's adjustment of its formula to differentially fund students with language challenges. The AEL Supplemental Literacy Funding, introduced in the FY04 program year, is intended to promote volunteerism and to support instruction for adults in the lowest literacy levels (below sixth grade). Because of where services are based, this program steers a large share of resources to Department of Corrections programs. Funding allocations under the new formula were based on local programs' literacy hours, with rates of \$3.00 per hour for volunteer tutors and \$6.00 per hour for certified volunteer tutors in corrections facilities. All funds generated under the program are to be allocated to support literacy coordinator salaries, purchased services, and materials and supplies.

The state is currently in the process of changing how it identifies sites requiring technical assistance. Under the existing system, local providers perform an annual self-evaluation using a state-supplied checklist. Technical assistance needs are determined through informal, anecdotal evidence collected by local program staff from telephone calls, conversations, and reviews of submitted data. In FY07, given the emphasis on meeting state performance targets, the state is shifting to an evaluation review process that aligns with components in the NRS. Providers will indicate whether or not they had a successful year, and, if not, offer reasons why they were unable to meet their NRS performance targets. Underperforming providers also will need to develop a corrective action plan indicating how they will address their deficiencies. Both state and local administrators must sign off on this plan, which will form the basis for targeting technical assistance to programs in areas of identified need.

Appendix C Summary

In FY05, the most recent year for which data are available, Missouri allocated roughly 19 percent of provider funding based on performance, drawing on both federal and state resources for both base funding and PBF. When introduced in FY02, PBF resources were limited to roughly 9 percent of total funding. Over time, as the state has cut back on its contact-hour rate while increasing the value of performance outcomes, the proportion of funding allocated based on performance has risen. Unlike in the higher education sector where PBF adoption was externally imposed, the decision to adopt PBF was made almost entirely based on programmatic factors, with the adoption process spearheaded by a state director newly appointed to his position. State administrators reported no political or other external pressures to adopt performance funding.

To build support for PBF and to design an allocation mechanism, the state director worked with a group of approximately 20 program directors drawn from throughout the state. These members worked with state administrators, in a collaborative, consensus-based approach to funding formula development. Buy-in among committee members would later pay huge dividends for the state in reducing provider resistance to the new formula. Near the end of the formula development process, as the new system was being readied for implementation, a few program directors voiced concern regarding PBF, at a program directors' retreat. Committee members who had participated in the formula development process pointed out that they had been involved in the process and had worked to ensure that providers' viewpoints were incorporated into the final formula.

The state allocates roughly 72 percent of provider resources as base funding according to providers' total audited contact hours. The state also earmarks state and federal resources for use in specific functions identified by the state. These include data collection funding to support data entry staff salaries and computing upgrades; marketing funding to offset provider advertising expenses; technology funding to purchase computing hardware and software; and One-Stop program funding to support coordination with One-Stop Career Centers. The availability of these categorical funds is dependent upon state funding conditions; for example, in FY04, the state dropped the marketing component to compensate for decreased federal resources.

In the belief that lower-level learners often take longer to achieve a level progression, the state has adopted a graduated funding scale, with supplemental resources attached to students making gains at the lowest learning levels. To establish initial rates for AEL level completions, the state

Appendix C Summary

modeled resource allocations based on the number of outcomes recorded by providers in FY01 and the amount of performance funding available for distribution in FY02. In FY05, award amounts increased and the state added a separate set of rates for students participating in ESL programs.

Because the introduction of PBF coincided with an infusion of federal and state resources into the system, the state did not attempt to insulate providers from shifts in their resource eligibility. This may have been because no action was needed: Simulations indicated that there would be few losers, and those projected to experience a drop in resources were generally larger providers with budgets big enough to offset any loss. Initial effects also may have been small because the state initially distributed just 9 percent of provider funding using PBF criteria; over time, this amount has gradually increased to its current level of 19 percent.

Although case study participants ascribed both positive and negative outcomes to the adoption of performance funding, few if any data exist to substantiate these claims. Participant observations suggest that PBF helped improve the validity and reliability of adult education data, both because program directors were more likely to review information for accuracy prior to submission and because providers conscientiously followed accepted testing protocols when measuring learner progression. Performance funding also was credited with helping to professionalize the teaching force, in part because of the emphasis placed by state administrators on training local staff.

Finally, before PBF, program directors reported that few of their colleagues “owned” their data; that is, although information may have been collected, few had an incentive to use it, since funding was based on contact hours. It was suggested that the current system has helped to focus directors’ attention on program performance, and, in particular, on making connections between specific instructors and learner outcomes.

Program directors also reported some drawbacks with PBF. The delay between when programs post outcomes and receive their resources can mean that programs may have difficulty expanding programs to new sites, since providers do not realize any benefit for their successes until two years after posting their data. Tracking learner outcomes also can create additional work for instructors, many of whom are more concerned with teaching than with keeping detailed records. Finally, directors suggested that the current system does not provide sufficient compensation for learners with special needs. Since not all learners are capable of making annual progress on state performance measures, directors reported that instructors have difficulty achieving measurable gains for special-needs students, particularly those requiring remedial instruction or with documented learning disabilities.

Appendix C Summary

Since the introduction of performance funding, the total number of providers has declined by two programs. According to the state director, the introduction of PBF was not directly responsible for the loss of any adult education programs, although one program was unable to generate sufficient contact hours or performance outcomes to qualify for resources. Rather, the loss of programs was blamed on problems with the invitation to bid process, in which providers had problems with or forgot to submit required forms and consequently were declared ineligible for program funding in the new funding cycle.

Review of state performance data indicates that in FY04, Missouri scored near the national average on most NRS measures. Although the state recorded a substantially higher percentage of learners receiving a GED credential, learner attainment of educational levels was slightly below the national average. Although it is difficult to determine the effect that PBF has had on state attainment of its negotiated federal performance targets, the state director and program directors interviewed for this study suggested that PBF has supported the state in improving data quality and provider use of data for program improvement purposes at the local level.

APPENDIX D

Study Methodology and Analysis Procedures

SECTION D-1:

Study Methodology

Researchers conducted two-day visits to each case study state to interview state administrators and local service providers, and to collect fiscal allocation data and background materials.¹³ To ensure cross-case consistency, researchers developed interview guides organized around the research questions and the study conceptual framework (i.e., approach to the analysis project). Research team members used these guides and framework to structure case study interviews and focus groups, and to request state documents and fiscal data.

Case Study Visits

The first case study visit was conducted with three members of the research team—Steve Klein, MPR Associates; Garland Hankins, former Arkansas state director of adult education; and Raymond Maietta, a qualitative analysis consultant. Team members consulted with one another both prior to and following the first case study visit to review study protocols and research questions, and to review data submitted by the state prior to site visits. Klein and Hankins conducted subsequent case study visits.

Researchers forwarded a list of requested documents and fiscal data at least four weeks prior to the site visit, and shared copies of interview or focus group questions with state administrators at least two weeks prior to the visit. State directors were asked to forward requested documents and fiscal data at least two weeks prior to the site visit. To narrow the volume of information collected, researchers provided state directors with a letter reiterating the study goals and research questions, and clarifying the intended use of the information collected. (See exhibit D-1 for a copy of the letter.) Requested documents included:

- State-developed descriptions of formula components and allocation procedures;
- Examples of technical assistance and training materials distributed to service providers, only as they relate to the use of performance-based funding;
- Formal studies of formula operation developed by state or independent agencies;

¹³ States selected for study participation were identified as having among the more advanced PBF systems in the nation.

APPENDIX D-1:
Study Methodology

- Program education outcome data, including the number of students served, enrolled (12 hours or more), student contact hours, retention rate, cost per student, and percentage of education levels completed; and
- Annual state fiscal allocation data, beginning two years preceding and three years following formula adoption. Data to be collected will include the number of providers funded, the type of providers funded, the amounts provided to each provider, and the data used to calculate provider eligibilities.

Research team members reviewed submitted materials to supplement questions contained in the interview protocol and to inform analysis of the research questions. Analysis of submitted documents focused on identifying text that related to the specific questions contained within the interview guides or that answered the research questions guiding the study.

Interviews

Research team members interviewed key program staff within each state. (See exhibit D-2, Case Study Site Visit Agenda.) At least six weeks prior to case study visits, research team members conferred with the state director of adult education within each state to identify state-level participants and their job responsibilities. Although the mechanics of operation of state adult education formula varied across sites, research team members met with the following types of individuals:

- *State Director of Adult Education*—responsible for overseeing policy development and system operation of state adult education services;
- *State Adult Education Administrators including assistant directors and staff reviewing local provider funding applications*—responsible for conducting ongoing administration and monitoring of program operations, and for providing technical assistance to enable local providers to meet state requirements associated with performance-based funding;
- *State Fiscal Administrators*—responsible for analyzing local data and for determining providers' basic grant and performance-based funding grants;
- *State Management Information Staff*—responsible for collecting, cleaning, and managing performance data from local providers;
- *Local Provider Directors*—responsible for overseeing adult education program and fiscal operations; and

APPENDIX D-1:
Study Methodology

- *Local Provider Staff who are key program staff, including institutional researchers and fiscal administrative staff*—responsible for collecting learner outcomes and program data, analyzing program performance, and overseeing professional development activities.

In practice, the number of individuals interviewed within each state varied, depending upon the organization and scale of state services. For example, in smaller states, the responsibility for administering program outcome and fiscal data were more likely to be performed by a single individual.

All interviews were approximately one and a half hours and were conducted using open-ended questions, in a semi-structured interview format. This approach allowed participants to provide details that would not be accessible via a pre-designed survey format and to respond to research questions in their own words. Where appropriate, instead of individual interviews, data collection occurred using a focus group format, in which multiple individuals were asked to respond to interview questions. For example, where appropriate, focus group interviews were held with a team of two or more state administrators who shared common job duties or responsibilities (e.g., reviewing provider applications or conducting audits of local data).

Research team members consistently applied protocols across sites, with questions individually tailored to specific job categories. Researchers were given the flexibility, however, to further tailor interview questions to participants' job responsibilities and to follow up on potentially relevant lines of questioning. All interviews were audio taped, with written consent obtained from study participants. (See exhibit D-3 for a copy of consent form.)

Research team members interviewed local providers both as a group and individually. To permit researchers to meet with multiple local providers, the state adult education director was asked to convene a group of directors from between three to five nearby local providers, with the meeting held either at the offices of the state agency or a local provider. Following the focus group meeting, researchers visited a single provider located within a one-hour drive of the state agency.

Researchers consulted with states to identify providers that represented the types of organizations that offer adult education programs in the state. Every effort was made to include providers that offered a variety of adult education programs and services, such as, adult basic education, adult secondary education, English language literacy, workplace literacy, and family literacy.

Researchers requested that state directors of adult education identify participants for the provider focus groups and interviews six weeks prior to the site visits. To assist state directors in selecting

APPENDIX D-1:
Study Methodology

providers, state directors were provided with a list of criteria for selecting participants. These criteria specified provider:

- *Type*—sites should be representative of the type and diversity of adult education providers in the state;
- *Experience*—sites should have participated in the state funding system since its inception and be staffed with administrators who have extensive experience using the state funding formula;
- *Clientele*—sites should be representative of the different types of students being served, since some students (e.g., GED participants) may be easier to recruit or serve than other types of students (e.g., ABE participants);
- *Historical Data*—sites should have complete fiscal records of state allocations beginning in the year preceding formula adoption, and be willing to share this information with case study researchers;
- *Satisfaction*—participants should provide a fair and balanced view of the use of performance-based funding, and may include individuals supportive and critical of the funding approach; and
- *Geographic Proximity*—sites should be within a one-hour drive of the state agency or other providers selected for study participation to allow researchers sufficient time to travel among sites.

Care was taken that interviews with state administrators and local adult education program staff aligned with project research questions and the study conceptual framework. For example, interviews with state directors of adult education focused on global issues relating to the adoption and use of performance-based funding, ranging from the rationale for system development (e.g., what were the driving forces to introduce systems and who participated in the decision-making process), the processes used to design and implement funding formulas (e.g., who participated in system development and how were measures selected and integrated into the formula), and the perceived system effects on the provision of adult education services. In contrast, interviews with state fiscal staff focused primarily on how systems were implemented and their effects on provider operations. To avoid simply collecting anecdotal information, researchers formulated interview protocols so that local provider staff were more likely to supply concrete, detailed examples to support their responses.

Site Meetings

To solicit local perspectives, researchers requested the state director or each state to identify program directors from at least four local providers representative of the type and diversity of adult education providers in the state.

INDIANA

The research team met with the state director and assistant state director of adult education at the state offices, located in Indianapolis. Group interviews were conducted off-site at a regional technical assistance center, with five program directors and one area director representing four of the eight adult education areas in the state. These off-site meetings included a one-hour interview with three program directors that was then repeated with a second group of three program directors. Researchers also met with two field-based representatives, including a state professional development consultant and a coaching consultant providing technical assistance to the field.

A site visit also was conducted to a local adult education provider located in a fifth regional area approximately 50 miles from the state adult education offices. This local site visit included an interview with the program director and an adult education instructor. Researchers also toured the instructional facilities.

Program directors selected by the Indiana state director of adult education for case study follow-up included four of 19 sites that lost performance funding at a rate exceeding the state average between FY01 to FY05, the first year and fifth years that PBF was awarded. Table D-1 contains data on the percentage and dollar amount change in provider funding eligibility for the six sites whose program directors participated in group interviews.

Table D-1
Change in Performance Award for Indiana, by Provider: FY01 to FY05

Provider	Percentage Change FY01 to FY05	Dollar Amount Change
Statewide Total	-18%	-\$224,421
Site 1	-60%	-\$24,153
Site 2	-44%	-\$27,268
Site 3	-39%	-\$29,170
Site 4 (local case study visit) ^a	-23%	-\$9,431
Site 5	-16%	-\$5,184
Site 6	6%	\$2,031

SOURCE: Indiana Department of Education, 2006. Funding data provided by state.

^a Case study team visited the local site indicated during the state visit.

APPENDIX D-1:
Study Methodology

KANSAS

The research team met with the state director and associate director of adult education at the state offices, located in Topeka. To solicit local perspectives, researchers interviewed program directors from five local providers identified by the Kansas state director as representative of the type and diversity of adult education providers in the state. Group interviews were conducted off-site at a Topeka hotel hosting the state’s annual meeting of program directors.

These off-site meetings included a 1.5-hour interview with four program directors and the independent field monitor; the state director joined the group for the final half hour of discussion. Following this group meeting, the research team met with the team of independent field monitors responsible for conducting provider visits and awarding program quality points.

The research team also conducted a site visit to a local education provider located approximately 55 miles from the state adult education offices. This local site visit included an interview with the program director and two adult education instructors. Researchers also toured the instructional facilities.

Program directors selected by the Kansas state director of adult education for case study follow-up included one of six sites that lost performance funding at a rate exceeding the state average between FY00 to FY04, the first year and fifth years that PBF was awarded. The remaining four sites gained funding between FY00 and FY04. Table D-2 contains data on the percentage and dollar amount change in provider funding eligibility for the five sites whose program directors participated in group interviews.

Table D-2
Change in Performance Award for Kansas, by Provider: FY00 to FY04

Provider	Percentage Change	Dollar Amount Change
Statewide Total	31%	\$223,333
Site 1	-43%	-\$120,284
Site 2 (local case study visit) ^a	56%	\$143,626
Site 3	74%	\$61,984
Site 4	105%	\$72,866
Site 5	243%	\$65,141

SOURCE: Kansas Board of Regents, 2006. Funding data provided by state.

^a Case study team visited the local site indicated during the state visit.

APPENDIX D-1:
Study Methodology

MISSOURI

Research team members met with the state director, former state director, and other state adult education administrators at the state office, located in Jefferson City. To solicit local perspectives, researchers interviewed program directors from five local providers identified by the Missouri state director as representative of the type and diversity of adult education providers in the state. Group interviews were conducted at the state offices with no members of the state administrative team in attendance.

Provider meetings included a one and one half hour interview with the five program directors. The research team also conducted a site visit to a local education provider located within walking distance of the state adult education offices. This local site visit included an interview with the program director and a tour of the instructional facilities.

Program directors selected by the Missouri Department of Elementary and Secondary Education for case study follow-up included three of 12 sites that lost performance funding at a rate exceeding the state average between FY01 to FY05, the last year of the old state funding formula year and the fourth year that PBF was awarded. The remaining three sites gained funding between FY01 and FY05. Table D-3 contains data on the percentage and dollar amount change in provider funding eligibility for the five sites whose program directors participated in group interviews.

Table D-3
Change in Performance Award for Missouri, by Provider: FY01 to FY05

Provider	Percentage Change FY01 to FY05	Dollar Amount Change
Statewide Total	1%	\$18,788
Site 1	-18%	-\$41,622
Site 2	-9%	-\$2,608
Site 3	-7%	-\$24,402
Site 4	0%	\$1,679
Site 5 (local case study visit) ^a	45%	\$38,037
Site 6	312%	\$47,704

SOURCE: Missouri Department of Elementary and Secondary Education

^a Case study team visited the local site indicated during the state visit.

Exhibit D-1: Letter to State Directors of Adult Education Requesting Selected Information for Cross-case PBF Study

December 26, 2005

State Director
Director of Adult Education
State Department
Street
City, State Zip

Dear State Director:

Thank you for agreeing to participate in the Office of Vocational and Adult Education, U.S. Department of Education study of performance-based funding (PBF) in adult education. As we discussed, MPR Associates, Inc., will be sending a team of case study researchers to your state to conduct a two-day site visit on Jan. 11–12, 2006. This visit will include interviews and focus groups with state adult education agency and local adult education provider staff. The purpose of these meetings will be to record administrators' experiences designing and implementing PBF systems and providers' perspectives on the use of PBF. We will be attempting to answer the following research questions:

- Why have states decided to adopt performance-based funding systems?
- How have performance-based funding systems been designed at the state level?
- How have performance-based funding systems been implemented at the state level?
- What effect have performance-based funding systems had on the attainment of state-identified performance goals and the delivery of services?

To help prepare you for our case study visit, we have enclosed examples of the type of questions we will ask during our visit, as well as a list of background information that we are requesting you compile prior to our arrival.

It is our hope that we will be able to speak to you and other individuals who can provide a comprehensive description of your state's decision to adopt performance-based funding, as well as the outcomes of system adoption. While we are asking you to identify the specific individuals

APPENDIX D-1:
Study Methodology

with whom we can meet, we anticipate that we will need to talk with the following types of individuals:

- *State Adult Education Administrators*—including assistant directors and staff responsible for reviewing local provider funding applications, for conducting ongoing administration and monitoring of program operations, and for providing technical assistance to enable local providers to meet state requirements associated with performance-based funding.
- *State Fiscal Administrators*—responsible for analyzing local data and for determining providers' basic grant and performance-based funding grant.
- *State Management Information Staff*—responsible for collecting, cleaning, and managing performance data from local providers.
- *Local Provider Directors*—responsible for overseeing adult education program and fiscal operations.
- *Local Provider Staff*—key program staff, including institutional researchers and fiscal administrative staff responsible for collecting learner outcomes and program data, analyzing program performance, and overseeing professional development activities.

All interviews will be approximately one and a half hours and will be conducted using open-ended questions, in a semi-structured interview format. The enclosed agenda, which we will tailor to fit your needs, provides an overview of the expected time we will need to spend with different groups.

To permit researchers to meet with multiple local providers, we are also asking that you convene a group of directors from between three to five providers, with the meeting to be held either at the offices of the state agency or a local provider. Following the focus group meeting, researchers will visit a single provider, preferably located within a one-hour drive of the state agency. To assist in selecting providers, we ask that you consider the following criteria:

- *Type*—sites should be representative of the type and diversity of adult education providers in the state.
- *Experience*—sites should have participated in the state funding system since its inception and be staffed with administrators who have extensive experience using the state funding formula.

APPENDIX D-1:
Study Methodology

- *Educational Clientele*—sites should be representative of the different types of students being served, since some students (e.g., GED participants) may be easier to recruit or serve than other types of students (e.g., ABE participants).
- *Historical Data*—sites should have complete fiscal records of state allocations beginning in the year preceding formula adoption and be willing to share this information with case study researchers.
- *Satisfaction*—participants should provide a fair and balanced view of the use of performance-based funding and may include individuals both supportive and critical of the funding approach.
- *Geographic Proximity*—sites should be within a one-hour drive of the state agency or other providers selected for study participation to allow researchers sufficient time to travel among sites.

State Materials

In addition to providing us with access to you and your staff, we are also requesting that you provide us with background information and fiscal data that will assist us in understanding how performance-based funding has been implemented in your state. In particular, we are asking that, prior to our visit, you compile the following types of information, where it exists:

- State-developed descriptions of formula components and allocation procedures.
- Examples of technical assistance and training materials distributed to service providers, only as they relate to the use of performance-based funding.
- Formal studies of formula operation developed by state or independent agencies.
- Program educational outcome data, including the number of students served, enrolled (12 hours or more), student contact hours, retention rate, cost per student, and percentage of education levels completed.
- Annual state fiscal allocation data, beginning two years preceding and three years following formula adoption. Data to be collected will include the number of providers funded, the type of providers funded, the amounts provided to each provider, and the data used to calculate provider eligibilities.

The site visit will not have any bearing on federal compliance issues and is intended only to collect information that can be used to assess the issues affecting state adoption of PBF.

APPENDIX D-1:
Study Methodology

Thank you in advance for your assistance. I anticipate speaking with you in early January to finalize our meeting plans.

If you have any questions, please feel free to contact me by phone: 503-675-6619 or you may e-mail me at sklein@mprinc.com.

Sincerely,

Steven Klein
MPR Associates, Inc.

Exhibit D-2: Case Study Site Visit Agenda
Performance-based Funding

Day 1: State Department of Adult Education

- 8:30–9:00 a.m.** **Arrive on site: Introductions & Study Overview**
- 9:00–10:30 a.m.** **Interview State Director of Adult Education**
Focus on rationale for system development and issues relating to system design and implementation.
- 10:30–10:45 a.m.** **Break**
- 10:45–12:00 p.m.** **Interview State Adult Education Administrators**
Meet with state agency personnel responsible for reviewing local provider funding applications, for conducting ongoing administration and monitoring of program operations, and for providing technical assistance to enable local providers to meet state requirements associated with performance-based funding.
- 12:00–1:00 p.m.** **Lunch with State Director of Adult Education (if available)**
- 1:00–2:30 p.m.** **Interview with State Fiscal Staff**
Meet with individuals responsible for analyzing local data and for determining providers' basic grant and performance-based funding grant.
- 2:30–2:45 p.m.** **Break**
- 2:45–4:15 p.m.** **Interview with State Management Information Staff**
Meet with individuals responsible for collecting, cleaning, and managing performance data from local providers.
- 4:15–4:45 p.m.** **Closing Interview State Director of Adult Education**
Follow up on issues identified by staff and solicit recommendations to guide system development in other states.

APPENDIX D-1:
Study Methodology

Day 2: Local Provider(s) of Adult Education (Focus Group and Site Visit)

- 8:30–8:45 a.m.** **Arrive on site: Introductions & Study Overview**
- 8:45–10:45 a.m.** **Focus Group Interview: Local Provider Institutional Directors**
Meet with individuals responsible for overseeing adult education program and fiscal operations
- 10:45–11:00 a.m.** **Break**
- 11:00–11:30 a.m.** Focus Group Interview: Local Providers, Institutional Directors, and State Director of Adult Education
Solicit recommendations to guide system development in other states.
- 11:30–1:00 p.m.** **Lunch/Travel Time**
- 1:00–2:30 p.m.** **On-Site Interview: Service Provider Director**
Meet with individual responsible for overseeing adult education program and fiscal operations.
- 2:30–3:00 p.m.** **Tour of Facility**
- 3:00–4:30 p.m.** **On-site Focus Group: Service Provider Administrative Staff**
Meet with key program staff, including institutional researchers and fiscal administrative staff responsible for collecting learner outcomes and program data, analyzing program performance, and overseeing professional development activities.

Exhibit D-3: Audiotape Consent Form
Performance-based Funding in Adult Education

1. Study Purpose

This study has been commissioned by the Office of Vocational and Adult Education (OVAE), U.S. Department of Education to assess adult education fiscal policies in states using performance-based funding to allocate program resources.

2. Study Benefits

Findings from this study will be used to assist state policymakers in making more informed decisions when designing and implementing state allocation formulas to distribute federal and state resources to adult education and literacy service providers. Study participants will indirectly benefit if study findings are used by the state to improve formula operation.

3. What You Will Be Asked to Do

Study participants will be asked to participate in interviews with study researchers and to respond to a series of questions about their experiences using performance-based funding in their state.

4. Confidentiality

All information provided by study participants is considered confidential. Researchers will use information provided by participants in a case study report that will summarize state agency and local providers' experiences working with performance-based funding. Audiotapes of interviews will be transcribed and analyzed using qualitative software, with access to tapes and transcriptions limited to study personnel and OVAE staff.

I have read the above and agree to audiotaping at _____
(interview location)

on _____.

(print name)

(signature)