



## NATIONAL CONFERENCE *of* STATE LEGISLATURES

*The Forum for America's Ideas*

October 5, 2012

Little Hoover Commission  
925 L Street, Suite 805  
Sacramento, CA 95814

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Dear Chairman Hancock and Members of the Commission:

Thank you for this opportunity to speak on performance-based funding for higher education. My name is Brenda Bautsch and I am a Senior Policy Specialist at the National Conference of State Legislatures. NCSL is the membership organization of the 50 state legislatures. We are a bipartisan organization that seeks to strengthen the legislature through research, information sharing and forums. Our research covers many topics from energy, to health to education. Within our education program, one of our most important issues has been higher education performance funding.

### **Performance Funding Overview**

State finances are still in recovery from the Great Recession. While there are signs of improvement, the turnaround has been slow and uneven across the nation. State legislators continue to deal with many pressing policy issues in these difficult financial times. One of the most urgent challenges for state legislatures is designing effective policies to significantly improve the educational attainment of its citizens, which is fundamental to improving state economic vitality. Economists project that a growing proportion of jobs will require a college certificate or degree, and many states have set ambitious goals to improve the number of citizens who have postsecondary credentials.

One strategy states are considering to improve college completion is rethinking how higher education is funded by the state. Performance-based funding has been growing in popularity among legislators because it brings together their most important task—accountability—with their most important power—funding—in a way that provides clear expectations but does not micromanage.

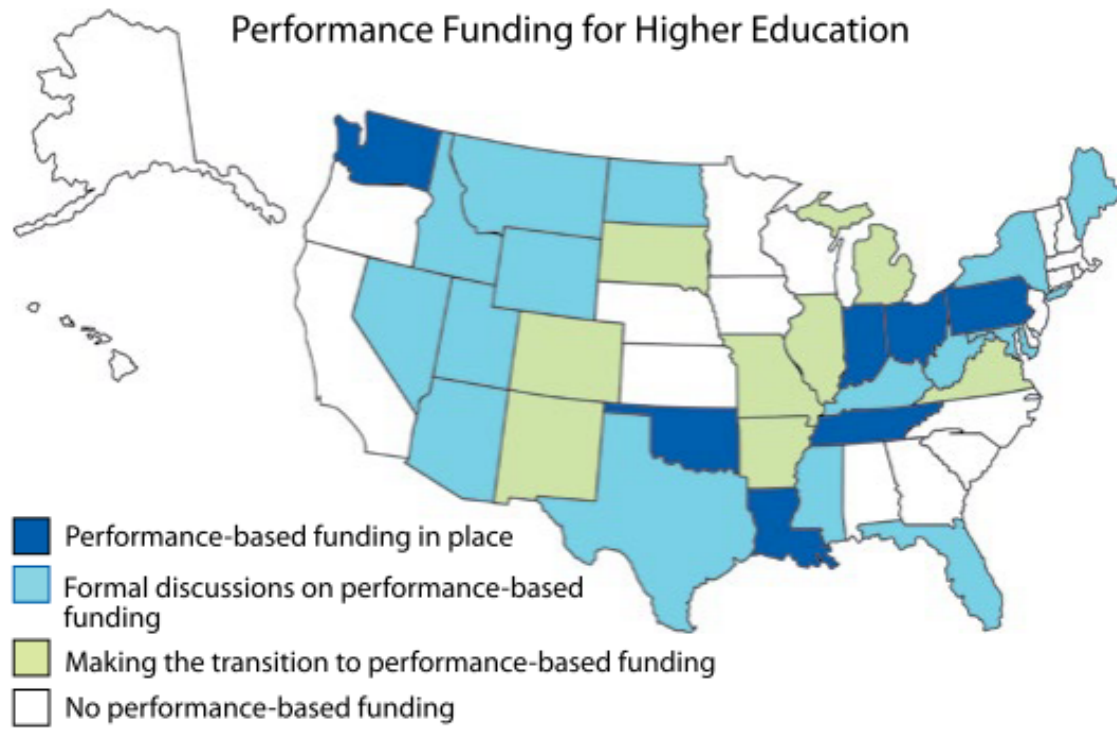
Performance-based funding is a departure from the way institutions are currently funded. Typically, colleges receive state funding based on how many full-time equivalent students are enrolled at the beginning of the semester. That model provides incentives for colleges to enroll students—but not necessarily to help them graduate. Many states are reconsidering the enrollment-based funding model and instead are allocating money to colleges based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates.

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Seven states—Indiana, Louisiana, Ohio, Oklahoma, Pennsylvania, Tennessee and Washington—currently have a funding formula in place that provides some amount of funding based on performance. Another 23 states are considering or are making the transition to performance-based funding for higher education. In the map below, “formal discussions” refers to formal hearings held at the Legislature or meetings conducted by governing boards on the topic and the presence of active interest among key stakeholders.



Knowledge about the effectiveness of performance-based funding is limited. In the past, the amount of funding allocated to colleges based on performance was too small to make a difference. Only recently have states begun allocating larger amounts for this purpose. Arkansas, for example is beginning at just 5 percent of higher education funding but increasing the amount to 25 percent over five years. Tennessee will be the first state to base 100 percent of higher education funding on course completion and other performance indicators.

Although the effects of an entirely performance-based funding formula are unknown, there is some evidence of success. In Pennsylvania, four-year institutions have received performance-based funding for the last decade. During that time, graduation rates have increased by about 10 percentage points, and retention rates for Hispanic students have increased by 15 percentage points.

## **Design Tips**

Past experiences have led to the identification of design tips for states considering performance-based funding.

- Begin with clear state goals that are supported by a broad group of stakeholders.
- Put enough funding at stake to create an incentive for institutions to improve results, and decide whether the funding will come from new money or base funds. Most states are putting aside five to 25 percent of higher education dollars for performance funding.
- Allow postsecondary institutions with different missions to be measured by different standards. For example, research universities could be rewarded for research and development performance, while community colleges could be rewarded for workforce training results.
- Engage all stakeholders—policymakers, higher education leaders and faculty members—in the design of the funding system.
- Phase in the performance funding system to make the transition easier.
- Keep the funding formula simple, with unambiguous metrics, so expectations are clear to everyone.
- Maintain focus on the goal of improving college completion, while rewarding both progress and success. States can reward colleges not only for increased degree production, but also for retaining students year to year and for helping students transfer between institutions.
- Include a measure to reward colleges that graduate low-income, minority and adult students to ensure that institutions keep serving these populations.
- Align the funding formula with state economic and workforce needs by providing performance funding to those colleges that are graduating students in high-priority fields.
- Preserve academic quality by incorporating student learning measurements into the performance funding system.

## **Recent Legislative Action Across the Country**

In 2012, Michigan, New Mexico and South Dakota developed new performance funding programs. The Michigan Legislature passed a higher education budget containing a 3 percent increase in funding over last year for public universities. The new funding, totaling \$36.2 million, will be tied to performance measures, including graduation rates; the number of degrees awarded in science, technology, engineering, math and other critical area fields; and research and development expenditures. The formula also includes an incentive for universities to keep tuition increases below 4 percent.

New Mexico's FY 2013 budget sets aside 5 percent of total higher education funding to be awarded based on performance. The performance funding formula focuses on course completion rates, the number of certificates and degrees awarded, the number of certificates and degrees awarded in state workforce priority areas (e.g., science, technology, engineering, health care and math), and the number of certificates and degrees earned by financially at-risk students.

The South Dakota Legislature approved \$3 million for a new performance funding formula. The funds, to be matched by the state universities, will be allocated based on degree completion rates and production of graduates in high-priority fields.

### **California Context**

NCSL has been working with California legislators and legislative staff for the past two years through our Lumina Foundation project on college completion. In February 2012, NCSL convened a one-day workshop for legislators and staff on college completion with the assistance of Senator Alan Lowenthal and Assemblyman Marty Block. We reviewed California completion data and discussed specific policy options, including performance funding. About 10 legislators and 10 legislative staff attended the workshop.

NCSL has also been engaged with California through our Legislative Institute on Higher Education. This is an annual invitational meeting—we target about 10 states to attend the Institute and ask those states to send teams of legislators and staff. We had participants from California at our 2011 and 2012 Institutes.

At these convenings, legislators and staff have expressed to NCSL the need for California to develop state goals for higher education. This is seen as a key step to accomplish before tackling a larger performance-based funding program. Legislators are eager to improve higher education success rates and to develop robust accountability systems, but first there needs to be statewide consensus on what the overarching goals are. After goals are established, the state can then work on developing metrics to measure progress towards those goals. With goals and metrics in place, California can move forward with a performance-based funding plan if it chooses to do so.

Senators Lowenthal and Liu sponsored SB 721 this year, which passed the Legislature but was vetoed by Governor Brown. SB 721 laid out three goals for higher education: 1) Improve student access and success for all demographic groups; 2) Better align degrees with the state's workforce needs; and 3) Ensure effective and efficient use of resources to maintain both quality and affordability in higher education. The legislation called for a working group to be established to develop metrics to monitor progress toward the specified goals. Even though the legislation ultimately was not successful, there is hope that the conversation around goals and metrics will continue. Legislators recognize the need to bring the Governor's office into these conversations and would like to collaborate on this important issue.

## Roadmap for Accountability Measures

As California considers developing accountability goals and metrics, one prominent model for states is the “common metrics” model put forth by the National Governors Association (NGA) and Complete College America. NGA and Complete College America have identified criteria that are important to understanding all the elements that factor into college success. They have grouped the metrics into two categories: progress and outcome.

Progress metrics identify steps in a student’s college career that, if completed, increase the chances the student will graduate. These metrics include retention from year to year; course completion; enrollment and success in remedial and subsequent courses; student success in first-year, introductory college courses; and credit hours accumulated each year. Progress metrics can help states understand how students move through postsecondary institutions and identify areas for improvement.

Outcome metrics identify the success rates of postsecondary institutions over time and measure if they are improving from year to year. These metrics include graduation rates, the number of degrees and certificates awarded annually, transfer rates, and the average time and credits students are taking to graduate. Using the information gathered from outcome metrics, states can monitor success and identify how much improvement is necessary each year to reach state and national completion goals. For more information, see NGA’s 2011 report “From Information to Action: Revamping Higher Education Accountability Systems,” or visit Complete College America’s website at [www.completecollege.org/path\\_forward/commonmetrics/](http://www.completecollege.org/path_forward/commonmetrics/).

## Summary

To ensure economic vitality, states will need to dramatically increase the number of people who receive a college degree. State legislators are at the forefront of education reform, and given the difficult fiscal environment, they are pursuing new funding strategies to increase efficiency and productivity. As legislators take on this issue, it is important to begin with statewide goals and metrics to set a framework for measuring accountability. Performance-based funding has become a popular policy strategy across the country, and some tips for designing such a funding formula have been discussed here. NCSL looks forward to continuing to work with California legislators and staff on this very important issue.

Sincerely,



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Enclosure: Performance Funding State Activity Chart



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### Performance-Based Funding for Higher Education: State Activity

October 2012

State	Status	Funding Amount	Metrics	Supporting Documents
Arizona	Formal discussions	FY2013 - \$5 million of existing dollars will be reallocated by the Board of Regents based on performance metrics.	With Senate Bill 1618, the legislature required the Arizona Board of Regents to submit a report on a funding structure for performance and outcomes-based funding. Proposed fiscal 2013 funding includes performance funding for degree completion and credit hour completion with each weighted by level, cost, and research/public service.	2011 SB 1618
Arkansas	In transition	Begins with 5% in 2013-2014 school year, and increases in 5% increments until capped at 25% during the 2018-2019 school year. The remaining 75 percent of funding will be based on enrollment and institutional	Act 1203 of 2011 directed the Arkansas Department of Higher Education (ADHE) to collaborate with college leaders to develop a funding formula that takes into account institutional performance in the following categories. The formula was approved by the ADHE in December 2012. The most important feature of the performance funding system is the requirement that the number of degrees awarded by higher education institutions double by the year 2025, while maintaining academic integrity and quality. <ul style="list-style-type: none"><li>• Although technical certificates and associate degrees are included, significant weighting is placed on increasing the number of bachelor's degrees awarded.</li><li>• The performance funding measures of total credentials awarded, bachelor credentials awarded, STEM production and student progression will generate 40 percent (40%) of all performance funding with the remaining 60 percent (60%) generated by optional measures selected by each institution.</li></ul> Two-year colleges are open-door institutions that serve four major educational	<a href="#">2011 Act 1203</a>

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		needs.	purposes: 1) technical skills education; 2) preparation for transfer to a four-year university; 3) remedial education and; 4) workforce training for business and industry. The two-year college performance funding model incorporates all four purposes. Considering the unique characteristics of two-year colleges, ADHE found it imperative to keep the model as simple as possible while also maintaining flexibility for individual colleges to account for regional missions and demographics.	
<b>Colorado</b>	In transition	25% of General Fund appropriation, beginning after FY15-16	The metrics are still under development by the Colorado Commission on Higher Education. Thus far, the following goals for the formula have been set: <ul style="list-style-type: none"> <li>• Increase attainment</li> <li>• Improve student success</li> <li>• Diversify enrollment and reduce attainment gaps</li> </ul> Restore balance in postsecondary revenues and maintain productivity	<a href="#">2011 SB 52</a>
<b>Florida</b>	Formal discussions		Florida used to have a performance funding program in place for their community colleges, but it has lapsed. Legislators have recently held discussions about reinstating a performance-based funding formula that would include the four-year sector.	
<b>Illinois</b>	In transition	Less than 1% in FY2013, may grow in future years.	Schools are scored on a variety of variables, including degree completions and the amount of money spent on each degree produced. <ul style="list-style-type: none"> <li>• Schools receive bonuses for low-income and minority students, and for producing degrees in the critical science, technology, engineering and math fields.</li> <li>• Community colleges also have a system, but theirs is based more on enrollment numbers.</li> </ul> The final results in the first year provided little drama, with no school gaining more than an extra one-tenth of a percent of funding, and no school losing more than one-fifth of a percent of its funding.	<a href="#">2011 HB 1503</a>
<b>Indiana</b>	In place	5% in FY2011-2013 budget; projected to be 6% in FY2014	Institutions evaluated against the same benchmarks regardless of size or mission. <u>Metrics (% Allocation)</u> <ul style="list-style-type: none"> <li>• Total Degree Attainment Improvement: 60 percent</li> </ul>	<a href="#">CHE Presentation to House Ways &amp;</a>

		and 7% in FY2015	<ul style="list-style-type: none"> <li>o Change in overall degree attainment: 30 percent</li> <li>o Change in on-time degree attainment: 15 percent</li> <li>o Change in low-income degree attainment change: 15 percent</li> <li>• Total Credit Hour Completion Improvement: 25 percent               <ul style="list-style-type: none"> <li>o Successful completion of credit hours: 18.7 percent</li> <li>o Successful completion of dual-credit credit hours: 5.5 percent</li> <li>o Successful completion of “early college” credit hours: .8 percent</li> </ul> </li> <li>• Total Improvement in University Research: 15 percent</li> </ul>	<a href="#">Means Cte, January 2011</a> (slides 4-10)
<b>Louisiana</b>	In place	25%	<p>Louisiana’s revised (as of 2011) funding formula has two components: cost and performance.</p> <ul style="list-style-type: none"> <li>• 85% of the total state general funds will be distributed based on the cost model and the remaining funds will be distributed based on performance.</li> <li>• The performance component has been simplified and aligned with the GRAD Act. State general funds will be awarded based upon an institution’s performance on the following student success measures:               <ul style="list-style-type: none"> <li>o Implement policies established by the institution's management board to achieve cohort graduation rate and graduation productivity goals that are consistent with institutional peers.</li> <li>o Increase the percentage of program completers at all levels each year.</li> <li>o Develop partnerships with high schools to prepare students for postsecondary education.</li> <li>o Increase passage rates on licensure and certification exams and workforce foundational skills.</li> </ul> </li> </ul> <p>Campuses can achieve an additional 10% in tuition funding if they meet their annual GRAD Act targets for a total performance component of 25%.</p>	<a href="#">2010 GRAD Act</a>
<b>Maine</b>	Formal discussions		Maine is currently developing recommendations on performance funding metrics and strategy.	
<b>Maryland</b>	Formal discussions		NCSL participated in discussions on performance funding with Maryland legislators and legislative staff in 2011 and 2012.	
<b>Michigan</b>	In	3.0% under FY	The legislature passed a higher education budget containing a 3 percent increase	<a href="#">House Bill</a>



	transition	2012-13 enacted budget (\$36.2 million)	in funding over last year for public universities. The new funding will be tied to performance measures including graduation rates, the number of degrees awarded in science, technology, engineering, math and other critical area fields, and research and development expenditures. The formula also includes an incentive for universities to not increase tuition by more than four percent. To be eligible for the performance funding, universities must participate in the state's student transfer network, have reverse transfer agreements in place with at least three community colleges, and accept dual enrollment credits.	<a href="#">5372</a>
<b>Mississippi</b>	Formal discussions		House Bill 875 charges the Education Achievement Council, a group of political and educational leaders, with the duty of researching and developing a new funding formula for higher education institutions. The new formula will go beyond funding for enrollment to include funding based on how well institutions are meeting state productivity goals. The council must present its recommendations to the Legislature and governor by November 2012.	<a href="#">2011 HB 875</a>
<b>Missouri</b>	In transition	Applies to new appropriations only. Funding earned through performance in one year will be added to an institution's base the following year. Total funding allocated on the basis of performance will not exceed approximately 2-3% of an	Performance measures are to be evaluated based on a three-year rolling average. Metrics vary by institutional sector and focus on the following areas: <ul style="list-style-type: none"> <li>• Student success/progress: a) completion rates; b) retention rates; c) completion of developmental and first credit-bearing course; d) credit accumulation</li> <li>• Degree attainment: a) total degrees awarded; b) graduation rates</li> <li>• Quality: a) job placement; b) licensure/certification exam results and pass rates; c) assessment results in major field, general education</li> <li>• Financial responsibility/efficiency: a) share of E&amp;G spending on core mission; b) revenue growth per FTE student; c) completed credit hours per \$100,000 of state appropriations or E&amp;G spending</li> </ul>	

institution's total state funding in any given year. Excepted to be in place by FY2014 budget.

<b>Nevada</b>	Formal discussions		The Nevada State Legislatures' Committee to Study the Funding of Higher Education is considering rewriting the funding formula to be based on completion and other performance indicators.	
<b>New Mexico</b>	In transition	New performance-based formula makes up 5 percent of total funding to universities.	The formula distinguishes missions between sectors, providing different metrics for each. The formula focuses on the following four outputs: <ul style="list-style-type: none"> <li>• Course completion rate;</li> <li>• Number of certificates and degrees awarded</li> <li>• Number of certificates and degrees awarded in state workforce priority areas;</li> <li>• Number of certificates and degrees earned by financially at-risk students.</li> </ul>	Performance funding in effect in FY2013 budget (Laws 2012, chp. 19). <a href="#">Summary of formula.</a>
<b>New York</b>	Formal discussions		The State University of New York is leading a task force on developing recommendations.	
<b>North Dakota</b>	Formal discussions		NCSL participated in discussions on performance funding with North Dakota legislators and legislative staff in 2011 and 2012.	
<b>Ohio</b>	In place	Universities – All instructional funding based on course completions instead of enrollments,	There is a stop loss provision in place to guarantee that institutions do not lose more than 1% of their funding per year, with the stop loss eventually being phased out. The formula heavily favors course completions in the beginning. University main campus have begun using degree completions as well, with more weight shifting from course completions to degree completion each year. University regional campus are using only course completions at this point; degree completions will be added in the future. At-risk students are more heavily weighted in formula, and there is a STEM	<a href="#">Performance-Based Subsidy Formula Overview</a> by Chancellor Fingerhut

	<p>with degree completions being phased in (began in 2010).</p> <p>Community Colleges – 5% of funding based on Success Points, 95% of based on FTE enrollment (began in 2011).</p>	<p>course incentive. Funds allocated for graduate education will be based on success factors (e.g. degree completion and research expenditures).</p> <p><u>University Main Campuses</u></p> <ul style="list-style-type: none"> <li>• Course and degree completion</li> </ul> <p><u>University Regional Campuses</u></p> <ul style="list-style-type: none"> <li>• Course completion</li> <li>• Degree completion will be added</li> </ul> <p><u>Community Colleges/Success Points</u></p> <p>Progression from remedial to college level courses Students earning 15 and 30 college level credits Students earning an associate degree Completion of 15 hours and transfers to four-year institutions</p>	
<p><b>Oklahoma</b></p>	<p>In place</p> <p>Small percentage of the overall budget for higher education. Colleges and universities still receive the bulk of their funding based on enrollment. In 2008, performance-based funding</p>	<p>The focus of the incentives is on student retention, graduation, and degree completion.</p> <p>The Board of Regents in April 2012 voted to approve a revised and expanded funding formula for new money, or any funding the system receives beyond its current base level. The revised formula will reward schools for student retention and degree completion.</p>	<p><a href="#"><u>Revised performance-funding formula</u></a></p>

		averaged \$2.2 million a year		
<b>Pennsylvania</b>	In place	2.4% -- funded from education & general appropriations	Performance-funding only awarded to 4-year sector (Pennsylvania State System of Higher Education). Measures are worth 1 point for total of 10 points, which are weighted by the base appropriation. Weighted points divided into total performance funding pool creating a dollar per point value.	
			<p><b>2011-2017 Revised Metrics</b></p> <p><u>Mandatory (5 measures)</u></p> <ul style="list-style-type: none"> <li>• Student Success: degrees conferred and closing achievement gap</li> <li>• Access: close access gap and faculty diversity</li> <li>• Stewardship: private support dollars raised</li> </ul> <p><u>Optional (chose 5)</u></p> <ul style="list-style-type: none"> <li>• Success: deep learning scale results; senior survey; student persistence; value added; and STEM degrees</li> <li>• Access: faculty career advancement; employment diversity; student experience with diversity; and student diversity</li> <li>• Stewardship: facilities investment; admin. expenditures as a % of educational costs; faculty productivity; and employee productivity</li> <li>• University-specific: may create no more than 2 indicators</li> </ul>	
<b>South Dakota</b>	In transition	\$6 million	South Dakota's Board of Regents created a performance funding pilot program that uses \$3 million in one-time state funding approved by the Legislature to be matched by universities' base budgets. The \$6 million of funding will be allocated to universities based on three years of degree production data. The pilot program will award institutions more funding for producing graduates in high-priority fields	
<b>Tennessee</b>	In place	100%	Adults (over 25) and low-income students completing any of the metrics are more heavily weighted. Additional weights are applied to each outcome depending on the priority and institutional mission. Points are awards based on outcomes metrics, which are then multiplied by the SREB average salary to	Complete College TN Act of 2010: <a href="#">Presentation</a>

			<p>monetize the formula. Fixed costs and the Quality Assurance program funds (accreditation, student satisfaction, and licensure exam pass rate) are added on.</p> <p><u>University Metrics</u></p> <ul style="list-style-type: none"> <li>• Students accumulating: 24, 48, and 72 hours</li> <li>• Bachelor’s, Master’s, Doctoral, and law degrees</li> <li>• Research/grant funding</li> <li>• Transfers out with 12 hours</li> <li>• Degrees per 100 full-time equivalent (FTE)</li> <li>• Six-year graduation rate</li> </ul> <p><u>Community College Metrics</u></p> <ul style="list-style-type: none"> <li>• Student accumulating: 12, 24, and 36 hours</li> <li>• Dual enrolled students</li> <li>• Associated degrees</li> <li>• Graduates placed in jobs</li> <li>• Remedial and development success</li> <li>• Transfers out with 12 credit hours</li> <li>• Workforce training (contact hours)</li> <li>• Award per 100 FTEs</li> </ul>	<a href="#">on Outcomes Funding Model</a>
<b>Texas</b>	Formal discussions	10%	<p>House Bill 9 of 2011 directs the Higher Education Coordinating Board to propose an outcomes-based funding methodology. They have proposed two different formulas to be considered by the Legislature in 2013:</p> <p><b>General Academic Institutions</b></p> <p>An outcomes-based allocation methodology would be funded outside of the instruction and operations formula with 10 percent of the funding that would have been allocated to undergraduate weighted semester credit hours.</p> <ul style="list-style-type: none"> <li>• The model would allocate funds based on a three-year rolling average of institutions’ performance on the below metrics.</li> <li>• All metrics would be weighted the same, except for the critical field metric which would receive a double weight.</li> </ul>	<a href="#">2011 House Bill 9</a>

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- All metrics are based only on undergraduates – graduate and professional students are excluded from the calculation.

Metrics

- Total Undergraduate Degrees
- Time-to-Degree Factor
- Institutional Mission Factor
- Cost-to-Degree Factor
- Critical Fields Factor (STEM and health fields)
- At-Risk Factor
- Persistence Factor

**Community and Technical Colleges**

The Commission recommends that funding equal to 10 percent of the base enrollment formula funds be allocated under the outcomes-based methodology in each year of the biennium.

- Institutions would earn momentum points for the number of students annually completing each of the following metrics.
- Funding would be allocated to an institution in proportion to its share of the total momentum points earned statewide.

Metrics

- Developmental Education
- Gateway Courses
- College Credit Hour Attainment
- Credentials Awarded
- Transfers to a Four Year Institution

<b>Utah</b>	Formal discussions	Senate Bill 97 establishes “mission based funding” as a basis for higher education appropriations in Utah. Instead of funding institutions based solely on enrollment growth, mission-based funding will consider both enrollment growth and the strategic priorities for colleges and universities. For example, a strategic priority for research universities would be research and development, while a	<a href="#">2011 Senate Bill 97</a>
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			<p>priority for community colleges would be open access. Legislators hope that allocating funding based on missions will give colleges an incentive to focus on their core priorities.</p>	
<b>Virginia</b>	In transition		<p>The Virginia Higher Education Opportunity Act of 2011 creates performance funding incentives for institutions that meet the goals of the legislation, which include:</p> <ul style="list-style-type: none"> <li>• increased enrollment</li> <li>• increased degree completion</li> <li>• improved retention and graduation rates</li> <li>• increased research output</li> <li>• increased degree production in STEM fields</li> <li>• increased efficiency gains through: <ul style="list-style-type: none"> <li>○ year-round use of campus facilities,</li> <li>○ online courses,</li> <li>○ resource sharing, and</li> <li>○ better use of technology.</li> </ul> </li> </ul>	<p><a href="#"><u>Virginia Higher Education Opportunity Act of 2011</u></a></p>
<b>Washington</b>	In place	<p>2009-2011: Proposed budget included \$3.5 million with \$500,000 set aside for first year</p>	<p>The formula is under development.</p> <p>The Student Achievement Initiative program allocates some funding to community and technical colleges based on their accumulation of momentum points, which are acquired through the following:</p> <ul style="list-style-type: none"> <li>• Building College Level Skills: adult literacy/English language proficiency test score gains; GED or H.S. diploma; and passing pre-college writing or math</li> <li>• First-year Retention: Earning 15 and 30 college level credits</li> <li>• Completing College Level Math: passing courses required for technical or academic associate degrees</li> <li>• Completions: certificates; Associate degrees; and apprenticeship training</li> </ul>	