

Policy Analysis of the “Performance-based Funding Model for State-related Institutions” Within  
Governor Shapiro’s “Blueprint for Higher Education” in Pennsylvania

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On January 26, 2024, the forty-eighth Governor of Pennsylvania, Josh Shapiro, delivered his plan for the future of higher education within Pennsylvania, calling it a “Blueprint for Higher Education”. Within this plan, Governor Shapiro outlined the steps needed to ultimately improve Pennsylvania’s current issues regarding access and affordability for those pursuing a postsecondary education. One of the major constituents of the blueprint involves installing a “performance-based funding” formula for the state-related institutions of higher education within Pennsylvania. Performance-based funding, heralded as a solution for transparency and accountability, seeks to tie state funding to the institution’s performance and achievement of set goals. While offered as an answer to the public’s waning trust in higher education and value of a college degree, a foray into the historical background of performance-based funding unearths concerns from previous researchers regarding the application of a model upon education—an area that is already notoriously underfunded and facing equity gaps. While this paper seeks to analyze and discuss the potential application of the policy upon the state-related higher education institutions of Pennsylvania, it must be noted that this is not a complete overview and can only offer a sweeping perspective regarding one layer of a complex and evolving topic.

### **Blueprint for Pennsylvania’s Higher Education Systems**

The “Blueprint for Higher Education”, first unveiled in January 2024 by Governor Shapiro, discussed the plan’s proposal of three parts to chart a new direction for Pennsylvania’s

future by positioning affordable and accessible post-secondary education as a driver for the state's economic growth and development of a healthy workforce. In the first part, Governor Shapiro sought to unite and support the Pennsylvania State System of Higher Education (PASSHE)'s ten state-owned universities and the fifteen community colleges under one governance system. Second, Governor Shapiro proposes significant financial investments into Pennsylvania's state-owned institution. These significant financial investments will allow state-owned institutions to set the maximum cap of tuition and fees at one-thousand dollars per semester for students of Pennsylvania households that are making up to the median family income (Commonwealth of Pennsylvania, 2024a).

Third, and the focus of the report, is the proposal to install a performance-based funding formula model to increase transparency and improve post-secondary education outcomes for the state-related universities of Lincoln University, Pennsylvania State University, Temple University and The University of Pittsburgh. In the performance-based funding model, Governor Shapiro proposed tying direct state funding and appropriations to a "predictable, transparent, outcomes-focused formula that will incentivize" the institutions (Commonwealth of Pennsylvania, 2024a).

### **Performance-Based Funding and State-Related Institutions of Pennsylvania**

In July 2024, the Pennsylvania General Assembly and Governor Shapiro passed State Bill 1154, which established the Performance-based Founding Council. The council, tasked with consultations with commonwealth agencies and experts and holding public hearings at the state-related institutions to gather opinions from interested parties, will develop and deliver recommendations for the formulation of the performance-based funding equation by a deadline of April 30, 2025 (Pennsylvania State University, 2024). Within the amended and latest version

of the State Bill 1154 (2024), the three state-related institutions of Pennsylvania State University, Temple University and The University of Pittsburgh will be impacted by the formula's criteria.

The criteria include fifteen set metrics and two metrics to be determined by need.

The metrics, are as follows:

“(1) The fixed amount per state-related university to ensure on-going operations, (2) Incentive Funding, (3) Performance Thresholds, (4) Two-year and Four-year Graduation Rate for First-Time College Students, (5) Number and Percentage of Pennsylvania Undergraduate Students Enrolled Who Received a Pell Grant During the Previous School Year, (6) The Six-Year Graduation Rate for Students Who Are Awarded a Pell Grant In Their First Year, (7) The Four-year Graduation Rate for Baccalaureate Students, (8) Student Retention Rates, (9) Bachelor's Degree Production per 100 Full-Time Enrolled Students, (10) Net Tuition and Fees per 120 Credit Hours, (11) Post-graduation Employment Rates and Salaries, (12) The Number of Students Who Attain Credentials in High-Priority Occupations in this Commonwealth, (13) The Number of Non-traditional Students Enrolled in a Programs Aligned to High-Priority Occupations in this Commonwealth, (14) The Number of High School Students Who Are Dual-Enrolled and the Number of Credits Earned, (15) The Number of Students Who Transfer to a State-Related University With At Least 24 College-Level Credit Hours and The Time to Degree at the Receiving Institution, (16) Other Metrics Provided By Each State-Related University, (17) Other Metrics Related To Higher Education That The Council Deems Appropriate” (S.B. 1154, 2024).

Of note, the proposed introduction of the performance-based funding formula model for state-related institutions of Pennsylvania has been in continuous flux. The aforementioned S.B.

1154 (2024) underwent three amendments before its passing in July 2024. An earlier document on introducing the performance-based funding formula by the Pennsylvania General Assembly can be traced to the year 2022, a year before Governor Shapiro took office. Within this document, the bill lists all four state-related institutions of Lincoln University, Pennsylvania State University, Temple University and The University of Pittsburgh to be impacted by the performance-based funding model. The policy itself opens with a mandate that the Public Higher Education Funding Commission “shall develop a performance-based funding model...to distribute State funding to the State-related universities...” by June 2023 (Public School Code of 1949, 2022). The proposed funding model listed metrics that would be used to determine the allocation of funds based on performance (meeting expectations vs. underperforming), including adjustment of a "performance-based funding incentive payment" should a university fail to meet the required metrics for excellence. Of note, the latest S.B. 1154 passed in 2024 does not contain language regarding “adjustments of a performance-based funding incentive payment” for underperforming institutions.

As of December 2024, the latest discoverable update regarding the performance-based funding model was the appointment of Republican Senator Wayne Langerholc to the Performance-based Funding Council in September 2024 (PA Senate Republicans, 2024). Mirroring the change in the latest S.B. 1154, the announcement regarding the appointment only lists the three state-related institutions of Pennsylvania State University, Temple University and The University of Pittsburgh and excludes Lincoln University, a Historically Black College and University (HBCU).

### **Historical Context of Performance-based Funding**

Performance-based funding is a funding model that has been in existence for more than four decades since it was first adopted by Tennessee in 1979. The earlier models of performance-based funding sought to tie state funding to the performance of the institutions based on metrics that may include, but are not limited to, retention, graduation, student outcomes, and so on. (Larocca & Carr, 2020). Other states followed suit and implemented performance-based funding to their own systems of higher education institutions in the 1990s (Shin et al., 2024). Gaither (1997, as cited in Layzell, 1999) noted that the other types of resource allocation used for distributing funds were incremental budgeting and formula budgeting, both of which were models based on the needs of the higher education institution. In comparison, performance-based funding was a model that was based on merits. Layzell (1999) continues that the states that adopted the funding model faced difficulties, resulting in some states ending the performance-based funding model in the early 2000s. Shin et al. (2024) noted that these earlier versions of performance-based funding were considered to be failures due to “budgetary pressures and concerns about the program’s effectiveness” as there was a lack of clarity regarding policy outcomes, collected data, standardization of the metrics of “success” and “effectiveness”. Furthermore, as the performance-based funding model occurred year-to-year, institutions were more or less unable to plan ahead as a significant portion of their state appropriations was contingent on the year-to-year redistribution (Layzell, 1999). Despite the lack of success with the earlier models of performance-based funding, there was a revitalized interest in the funding model in 2007 and states sought to re-adopt and modify the model. In the fiscal year of 2020, performance-based funding was in effect in over thirty-two states (Ortagus et al., 2022).

Pennsylvania, while it currently seeks to adopt the performance-based funding model for the state-related institutions, had also previously adopted the funding model in early 2000s for

the state-owned institutions within PASSHE. Pennsylvania's performance-based funding model, at the time, was considered to have the most stable and longest operating program. The funding model used seventeen indicators for performance levels and embedded funding in annual redistribution of state appropriations. Institutions were sorted into categories, and more or less "competed" with each other for funds. The amount of funding that would be received by the institution(s) that had performed to expectations was contingent on how many other institutions within the same category also performed well. More institutions meant that each institution received less funding versus a singular institution that received all of the funding allocated for that category (Hillman et al., 2014).

### **Previous Research**

Previous research has shown an alarming trend when it comes to performance-based funding. Firstly, due to each state implementing the model based on their own needs and goal outcomes, the variations within policy design and formulae have created challenges when studying the policy itself. In an evaluation study, Hagood (2019) found that performance-based funding favored the more selective, well-resourced institutions with high research activities in comparison to their less-selective, under-resourced and non-research counterparts. Ortagus et al. (2023) furthers our understanding by simultaneously analyzing the implementation and evaluation of the various policy designs and their impacts on the higher education institutions, especially as they pertain to low dosage (less state appropriations tied to performance) versus high dosage (more state appropriations tied to performance). The latter dosage was found to negatively impact the state funding. As such, there is a big concern regarding the implications of performance-based funding exacerbating equity gaps for Minority-Serving Institutions (MSI), HBCUs and institutions that serve a higher number of minoritized students and those with Pell

Grants. All institutions that have, historically, been underfunded in comparison to their counterparts. In a quasi-experimental study conducted by Serna (2020), Serna utilized a difference-in-differences design to analyze and evaluate the impacts of states adopting later models of performance-based funding on the “state-funding” behavior for public higher education. Results of the study found that states that adopted performance-based funding “exerted a downward-pressure” of 5.55% to 10.68% on state-funding for public higher education in comparison to states that did not adopt the funding model. In conjunction with past performance-based funding models negatively impacting an institution’s planning due to a large portion of funds being tied to performance, researchers have expressed that this behavior may exacerbate the equity gaps at already under-resourced and underserved institutions.

Evaluation studies show little to no effect of a substantial positive impact upon the completion rates of baccalaureate degrees at the four-year institutions (Larocca & Carr, 2020; Tandberg & Hillman, 2014). Furthermore, while Larocca & Carr (2020) found that performance-based funding does improve completion rates at two-year institutions, it is only under certain conditions. The authors also point out that a high percentage of tenured faculty may suggest less compliance with ensuring that institutional goals are met versus part-time and/or non-tenured faculty who may feel pressured to conform with institutional goals in order to stay employed with the institution. For example, a tenured faculty member may feel less inclined to pass students simply because of administrative pressures to meet performance goals versus a non-tenured member whose employment may be in jeopardy for refusal. Hillman et al. (2014) evaluates the impacts of the performance-based funding model on college completion within the adopted performance-based funding model for PASSHE in Pennsylvania and found that, overall,

it had failed to showcase an increase in college completion in comparison to institutions that have not implemented the system.

Lastly, Layzell (1999) offers several recommendations for constructing future performance-based funding models based on the earlier versions of the funding models and their oversights in policy design and implementation. Firstly, it is recommended to limit the number of performance metrics and indicators of success used within the policy, and to assess whether or not certain metrics were in conflict. For instance, an increase in institutional access and admission (ie. open door policy) may prove to be unintentionally at odds with higher graduation rates. Previous models also failed to include a policy framework and to ensure buy-in from all stakeholders. There is an expressed need for an allocation of funds for affected institutions within the initiative, and that the model needs a “positive political environment” to thrive (p. 237-245). Ties to the overarching political environment and ultimately, the individual conditions that a state may find itself in, may call to attention which party is currently in place. For instance, a Democratic party in charge may mean that there is higher spending behavior for Higher Education while a Republican party may mean a lower spending behavior. State and population needs will also have an impact on how governmental entities prioritize and spend, as a higher population of young adults may mean more funding into post-secondary education while a higher population of adults over the age of 65 may mean that more funding will be invested into healthcare (Serna, 2020).

### **Application of Policy Frameworks**

To ultimately understand performance-based funding model, using different frameworks for policy analysis is necessary to provide an overview of the funding model within Pennsylvania. Performance-based funding, as it stands, hides layers underneath its deceptive

simplicity. Understanding one part lends comprehension to another, and hopefully, the bigger picture. To this end, policy frameworks discussed will center on Theory of Change and frameworks introduced by Deborah Stone in her book *Policy Paradox*.

### ***Theory of Change***

Within his January delivery, Governor Shapiro alludes to “thirty years of disinvestment” that have left Pennsylvania institutions with inadequate funding and forced the burden onto students instead. Under this new plan, Governor Shapiro cites a direction with a focus on “competitiveness and workforce development grounded in access and affordability” (Commonwealth of Pennsylvania, 2024a). One of the groups affected by this plan is the state-owned universities of: University of Pittsburgh, Pennsylvania State University, Temple University and Lincoln University.

Establishing the Problem requires review of the 2022 policy and Governor Shapiro’s words at the time of the first delivery of the Blueprint. Both of which categorize the state-owned universities as “deviants” (groups with low political power and negative social construction) due to higher education systems contributing to the financial crisis, lack of affordability, lower degree attainment, lack of transparency, and decrease in public trust (General Assembly of Pennsylvania, 2024b; Public School Code of 1949, 2022; Schneider & Ingram, 1993). Therefore, the 2022 policy’s Solution utilizes mandates for the establishment of a council and process that distributes funding based on performance-based metrics that are aligned to the commonwealth’s desired outcomes. In addition to the mandate, the performance-based funding model is an inducement that promises resources and incentives to institutions that perform adequately but may double as a sanction should an institution underperform.

Under the threat of a sanction, the performance-based funding model includes “...adjusting a performance-based funding incentive payment if a State-related university fails to meet the minimum eligibility thresholds” (Public School Code of 1949, 2022). This adjustment may mean a decrease in state support and funding. For already financially struggling institutions, this decrease or withholding of support may have salient repercussions on their health, incentivizing them to improve their performances. The Pennsylvania State University President Neeli Bendapudi is quoted, “The funding we receive from the commonwealth is critical to our public mission to serve Pennsylvania students at our campuses across Pennsylvania” (Unglesbee, 2024).

Through the Blueprint, Shapiro promises to build “a higher education system that opens up doors of opportunity, prepares our workforce, and serves as the linchpin to Pennsylvania’s economic success” (Commonwealth of Pennsylvania, 2024). Reflective of this, the short-term goals of Shapiro’s proposal seek to establish a predictable and transparent performance-based funding formula that incentivizes and reinforces behaviors of institutions that result in outcomes that benefit the Commonwealth. These outcomes include, but are not limited to, increased student achievement, increased student enrollment, increased number of first-generation college student enrollment, improved graduation rates, completion of degrees and credentials that address Pennsylvania work shortages, etc. (Commonwealth of Pennsylvania, 2024). Ultimately, the long-term goals of the policy seek to establish a higher education system that serve as the “linchpin” to the economic growth and prosperity of Pennsylvania in the coming years.

However, several assumptions are made regarding the status of the current higher education system within Pennsylvania and the assured success of the performance-based funding model. Firstly, the policy and its constituents assume that the state-related institutions will

benefit equally from a blanket policy despite the differences in resources and student populations. Furthermore, employing “incentives” and “sanctions” on already struggling areas is thought to solve the problem despite the lack of funding in the areas that need improvement.

Without additional state support, it is assumed that each institution is ready and outfitted on all levels to tackle these issues by the start date of 2025-2026. The current 2024-2025 education budget for Penn State, for example, only receives 10% of its budget from state appropriations and support. In comparison, the 1970 education budget for Penn State received over 62% of its budget from state support (Unglesbee, 2024). In already imminent budget crises, decreased student enrollment and rising costs of running an institution, university leaders are looking for additional support from the state in order to reduce or remove the financial burden from its students. Another assumption is that these institutions will not selectively choose stronger candidates that are more likely to graduate or lower the standards on their program requirements to ensure student success through perverse incentives. Critics of performance-based funding formula models have pointed out that there is usually an unintended perverse incentive by institutions to reduce the quality of the degree in order to boost the number of awarded degrees according to set performance goals (Hillman et al., 2014). Both of these contribute to foreboding obstacles and conflicting priorities when it comes to the stated desired outcomes of increasing student success and preparing a workforce.

Lastly, there is an assumption that this funding will not “disadvantage minority-serving institutions” and create new problems (Hillman & Corral, 2017). Overall, the performance-based funding model seeks to correct the negative reputation of higher education institutions—specifically those of the state-related universities—and employ a mandated performance-based funding model that hinges on a formula of metrics to determine state support. However, multiple

assumptions are made about the current health of these institutions and future behaviors regarding the threat of withholding state funding. While Lincoln University was ultimately omitted from later iterations of the funding model proposal, it is important to take note of this specific assumption.

### ***Stone: Numbers and Symbols***

The nature of the proposal itself is an on-going process that is in flux in real time. On this note, the pattern of communications and release of information has created an interesting and difficult process in trying to comprehend from a layman's standpoint. However, these same patterns and omissions lend another layer to the issue, which can be analyzed through the lens of symbols. Deborah Stone (2012) argues that in the realm of politics, "symbols are means of influence and control" that political actors use to define problems, ultimately persuading an audience to support or take a course of action on an issue (p. 160). For proficient political actors, usage of symbolic devices can be effective in influencing the perception of and, ultimately, swaying an audience even in unfavorable circumstances. Therefore, to truly understand the true nature and definition of a problem, it is crucial to understand symbols and analyze their applications.

In her argument, Stone (2012) presents three symbolic devices used in politics: stories, synecdoche, and metaphors. Stories as a symbolic device present the definition of policy problems as a narrative that follows the structure of a storyline: "a beginning, a middle, and an end" and offer an explanation to its audience. Political storytelling commonly uses two types of narrative story-lines: change and power. In the former, stories of change can focus on the narrative of declines. Often, political actors use stories of decline to point out that the problem has worsened—and will continue to worsen should there be no action taken. Within this story of

change, heroes and villains are featured devices. However, who is featured as the hero or as the villain, are choices wholly dependent on the political actor. Synecdoche, though not a device of focus within this paper, is a symbolic device that uses a small part to represent the whole problem. Thirdly, metaphors are symbolic devices that use comparisons in likening a problem to another. As a political tool, metaphors purport an assumptive statement that if a problem is likened to another, then it requires viewing and solving it in a similar fashion. Often, metaphors are used in suggesting a particular solution. Common political metaphors include machines, wedges & inclines, disease, and so on. (pp. 158-182).

Governor Shapiro uses a political storytelling that paints a narrative on the declining state of Pennsylvania's higher education system—a system that is “broken and called for a new blueprint (Commonwealth of Pennsylvania, 2024b).” He points out that “after 30 years of disinvestment, too many of our colleges and universities are running on empty and not enough students have affordable pathways through college and into good jobs”, leaving no reprieve for the hard-working faculty, staff and administrators that had been “dealt a lousy hand” to fill in the gaps. Higher education has been, he pointed out, subjected to a “cycle of political gamesmanship that has held funding hostage”. Governor Shapiro's selection of the terms “blueprint” and “linchpin” invoke an imagery of a vehicle and machine that Pennsylvanians themselves would build up as the “economic drivers” to Pennsylvania's economic growth and future. Usage of the metaphors of vehicles and machines reinforces the overall message and theme: higher education is one part of the system that will bring about economic growth. The villain, perhaps, could be seen as the Pennsylvania government that has neglected the parts of its own system—and in turn, damaged its people and economy.

Furthermore, he pointed out that Pennsylvania “ranks 49th for state investment in higher education, and 48th in higher education affordability” and that in “the past decade, enrollment in our state system of higher education has dropped 30 percent and enrollment in our community colleges has dropped 37 percent” (Commonwealth of Pennsylvania, 2024b). Governor Shapiro likens the situation of the higher education system to that of deficits—ultimately comparing it to a metaphoric math formula. For so long, it has been about the subtraction of resources, services and access. Now, Governor Shapiro claims, we must “play a game of addition”. Continuing the metaphors, the blueprint itself presents as a structural plan for the vehicle that would allow Pennsylvanians “freedom to chart their own course and the opportunity to succeed”. Through an analysis of symbols, Governor Shapiro uses a story of change and decline that has ultimately moved into one of power and control. The use of precise and decreasing numbers, moves that Stone (2012) would argue, both boost the authority of Governor Shapiro and help to paint the story of decline within his addresses. While the story of change and decline and its use of numbers was a call for action, Governor Shapiro spurs on the continuing change in policies and direction through power and control.

The proposal for a policy to install a performance-based funding as part of Governor Shapiro’s “blueprint” for Pennsylvania’s higher education systems to be built as part of the “educational foundations” for “an economy that is a leader in economic development, innovation, and job creation” (Commonwealth of Pennsylvania, 2024b). Through the budget and its small steps promises that Pennsylvania “would jump from 49th in the nation today to 22nd in just 5 years (Commonwealth of Pennsylvania, 2024b).” Stone (2012) asks— “to what extent can we control our life conditions and destinies?”. By asserting that the “blueprint” is a step-by-step plan that uses monetary tools, regulation of state funding for state-related institutions through a

performance-based formula, Governor Shapiro emphasizes the simplicity and ease of use in a short amount of time.

However, by emphasizing the simplicity of the presented solution and small steps within the blueprint, Governor Shapiro strategically employs the use of ambiguity within the budget address. Ambiguity, as Stone puts, is a tool that politicians may use to hide the depth and complexity of the entirety of the issues (2012). Firstly, the metrics for how state-related institutions will be measured are not explicitly addressed and ultimately will be left to an established commission, leaving room for ambiguity. This, as Stone (2012) points out, allows for politicians and policymakers the ability to work out the specifics “behind closed doors” (p. 181). Moreover, this ambiguity also allows group leaders to reach a consensus and work together. This very ambiguity is evident in the S.B. 1154, passed six months later in July 2024, with the omission of Lincoln University within the proposal and the lack of communications regarding the specifics of the metrics to be used as performance indicators.

Lastly, while Governor Shapiro is proposing a solution to the current state of higher education systems in Pennsylvania, additional problems may arise. Stone (2012) points out that measurers have the power of control, leaving the state-related institutions at the mercy of the Commonwealth of Pennsylvania. Being measured may spur these institutions to manipulate their outcomes in an effort to reach the performance goal metrics. As Stone (2012) pointed out, “manipulation is the Achille’s heel of pay-for-performance systems” (p. 200).

### **Closing Discussion**

As it currently stands, the application of a performance-based funding model is an inadvisable course of action and incompatible with the aims of the Blueprint for Higher

Education. The evidence for the effectiveness of performance-based funding models is largely inconclusive when applied to four-year institutions and increasing the number of degree completion among undergraduate college students. Previous studies on the implementation and evaluation of outcomes for performance-based funding models generally raised concerns about the adoption of the model and its unintended consequences of widening equity gaps for MSIs, HBCUs and institutions that serve minoritized and underserved student populations.

Additionally, institutions may feel pressured to manipulate its own outcome metrics in order to meet the criteria that the funding model imposes—a move that, unfortunately, circles back to the problem of the undermined value of a college degree. As there is a large variance in the design of the policies and the states' needs, there is a lack of national standardization and accessible information available. This lack of availability of information and clear dissemination leaves stakeholders in the dark, while political actors push forth action and agendas. With the exclusion of Lincoln University from the group of state-related institutions targeted by performance-based funding, the question remains: What happens to Lincoln University? Will Lincoln University see any changes, or grouped in their own category?

All of these combined with the policy analyses of S.B. 1154 and previous addresses put forward by Governor Shapiro reveal a disconnect between previous research results and desired outcomes as it relates to the future of Pennsylvania's economic growth through post-secondary pathways. At the present, applying the performance-based funding model will inadvertently harm the institutions and populations it seeks to aid. However, while the changing nature of the policy, ambiguity and lack of transparent communication altogether prompts confusion, these combined actions may be intentionally calculated on the part of Governor Shapiro. Navigation of a highly politicized topic encourages discretion and selection of what and how information will be shared.

Perhaps the ambiguity, as Stone (2012) points out, serves as a political move within an environment that has been hostile to higher education and may evolve to greater heights of scrutiny in the coming months when the presidential systems change.

Further analysis, investigation and research are needed to understand the true complexity of installing a performance-based funding model within Pennsylvania's state-related institutions. As it stands, this paper only reviews performance-based funding models on an institutional level and leaves out the activities at the microlevel. Furthermore, a majority of studies completed are focused on quantitative methods and leave a gap for qualitative studies. Questions regarding the middle-men and street-level bureaucrats, and their knowledge of higher education financing, how they interpret and respond to these policies may be fruitful endeavors of research in the future. Especially as politicians wield narratives, measurements and ambiguity as tools, there is a reliance on the layman's gap of understanding in financial matters in higher education to push forth decisions. Lastly, further analysis, research and questioning on the actions taken and behaviors of policymakers and leaders may also be beneficial in understanding not only the topic of performance-based funding, but the overall politics embedded within higher education.

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