# Funding Student Success:

## How to fund personalized, competency-based learning

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Those who lead successful system transformations know the importance of achieving internal alignment around a common vision and strategy. Yet while many leaders are now transforming their systems to be more responsive to the needs of all learners, one critical aspect often remains unaligned: funding. Current structures for school funding assume that every child will attend a single, brick-and-mortar school in their district, will do so full-time, and will advance through educational programming in lock-step with their age-based peers. But in student-centered environments such as competency-based education (CBE) and personalized learning, none of these assumptions can be taken for granted. In such settings, students may enroll in a mix of full- or part-time programs online or outside of their neighborhood school; may gain credits or micro-credentials through expanded learning opportunities, internships, or career pathways outside traditional school walls; and may move at a pace uniquely their own, even progressing at different paces in some topics versus others.

These new mechanics for teaching and learning require new ways of funding such opportunities so that the funds incentivize behaviors that produce success. Recently, three funding concepts have risen to the forefront of national discourse: portability, performance-driven funding, and weighted student funding, the merits of which have been debated in recent pieces by school finance experts [Larry Miller](#) and [Marguerite Roza](#). Ultimately, how state and local leaders choose to align these concepts can make all the difference in how well they achieve their vision for student-centered learning.

**Background**

*Portability* is a funding mechanism where dollar amounts are allocated per student and "follow" students wherever they enroll. While invoked by many as a strategy to fund charter schools or voucher programs, the concept can be applied to student-centered learning systems in which students may earn credit for learning online or through out-of-school experiences. Miller offers two additional terms to help undertand the opportunity for portability in a competency-based, personalized system: along with being portable, funds must be *divisible*, meaning that "a student can allocate some funding to a primary school, and then take courses with other providers and use [portions of] their allocation to pay tuition and fees" (L. Miller, personal communication, May 23, 2017). Second, funds need to be *assignable*, meaning that families themselves can choose where to allocate them. In such a system, each student would carry a metaphorical ["backpack" of funding](#) from which they could pull to pay for whatever mix of school(s) or provider(s) that they choose as they embark on unique educational pathways. As Roza notes, such a model would incentivize schools and providers "to pursue diverse digital and personalized learning offerings in ways that work best for their mix of students." Conversely, without applying such rules to federal, state, and local funds, policymakers may find it more difficult to finance non-traditional learning opportunities for students, thereby constraining students' opportunities by geography and latent in-school expertise.

*Performance-driven funding* models attempt to mirror the shift in how CBE credentials learning with an aligned shift in how it is paid for. Traditionally, districts and schools are funded based on enrollment numbers or average daily attendance – i.e. how many students signed up or showed up, regardless of

how much they learned. Yet this "[innate disconnect between resources and results](link)" creates what John Bailey, Carrie Schneider, and Tom Vander Ark consider to be "perhaps the most troubling of the deep-seeded flaws in the current patchwork system" of school finance. In particular, as systems undergo structural and cultural shifts to CBE, wherein credit is awarded not for "showing up" but for demonstrating competence, the need to align funding with achievement rather than enrollment becomes important to creating the right incentives. "When completed assignments are funded instead of enrollment," Miller writes, "administrator and faculty focus is expected to shift from supporting the recruitment and enrollment process to supporting students completing assignments." Further, student achievement ahead-of-schedule is encouraged. In contrast to the current system, in which schools lose out on seat-time funding when students graduate early, schools funded by performance-driven models may actually incur savings if students achieve mastery in less time than expected. Meanwhile, the emphasis on performance means that the school remains responsible for achieving expected results for *all* students and will be incentivized to do whatever it takes to help each student reach expected performance targets – even educating some students for longer periods of time or more intensely if needed.

Currently, [performance-driven funding models in K-12 education](link) are more commonly found tied to online course offerings or, to a lesser degree, in contracts with providers of supports and interventions for struggling students. Most existing models are completion-based, meaning that compensation is given to the provider when milestones – such as assignments or an end-of-course assessment – are completed or passed.  Some models are high-stakes, such as Florida's model that funds online programs when students pass an end-of-course exam; whereas others are low-stakes, such as New Hampshire's model that funds the state's Virtual Learning Academy Charter School (VLACS) based on the percentage of low-stakes assignments its students have completed. And, whereas high-stakes models can introduce an uncomfortable degree of funding uncertainty for schools and programs, New Hampshire further mitigates this uncertainty for VLACS by funding the year ahead based on predicted completions, then reconciling the predicted rate with actual completion rates at the end of the year.

*Weighted student funding* (WSF) describes a per-pupil funding allocation model that allocates more dollars to students based on student demographics that are typically associated with higher costs to educate to state standards. Common student categories that receive higher levels of funding include low socioeconomic status, special education, and English language learners. WSF is utilized to allocate at least portion of funds in most every state and district. In cases where [states](link) or districts have applied WSF rules to an unusually high proportion of funding, some studies have shown there to be [more equitable distribution of resources](link) as a result.

## Considerations for State and Local Leaders

When applied in combination, portability, performance-driven funding, and weighted student funding can provide viable mechanisms for financing student-centered learning experiences such as personalized learning and competency-based education. To do so, and to avoid unintended consequences, policymakers should carefully craft such policies to ensure their systems are both effective and equitable. Three key considerations follow.

1. **State and local leaders should implement new funding models in ways that safeguard against budget cuts.**

In current portable funding models, it is more common for states to allow funding to follow students if they enroll full-time in a school other than their neighborhood school, but less common for states to permit partial funding portability based on part-time enrollments (in other words, what Miller terms *divisibility* and *assignability* are rare). In New Hampshire, for example, funding for the state's Virtual Learning Academy Charter School (VLACS) is portable only if students enroll full-time. Part-time enrollments, on the other hand, are essentially funded twice: the state fully funds the student's home district, and then through additional funds coming from a separate source in the state budget, funds VLACS based on the number of assignments that the part-time student completes.

Both Miller and Roza warn that funding part-time enrollments through set-asides in state budgets makes such funding vulnerable to budget cuts down the road. Miller suggests that system-wide portability may be a solution, meaning that "sending districts" would be forced to share funding with other providers if their students enroll part-time elsewhere. As he notes, "in a true portable and divisible funding system, a portion of the state aid sent to the district would be combined with local and federal funds and sent to [the outside provider] to pay tuition. The state would have to set the price or establish a process to set the price." But Miller also concedes that doing so may ultimately reduce uptake if districts discourage students from enrolling elsewhere in an effort to retain funding. Roza offers a mitigating strategy by encouraging states to consider incentivizing districts through short-term investments or innovation grants, with the understanding that districts and schools will need to adjust their budgets to be sustainable as system-wide portability is phased in over time.

Miller further notes that policymakers should attend to which sources of funding are made portable. Portability in state funding may have little impact if federal or local sources of funding – the latter of which accounts for a sizable portion of per pupil revenues – remain traditionally allocated.

2. **State and local leaders should explore the impact of portable and/or performance-driven funding models on equity.**

Both funding portability and performance-driven funding models have been criticized for their potential to create inequitable distributions of funding across students, so states considering such policies should first consider their impact on equity.

Many funding models that rely on portability also use weighted student funding – that is, more money follows students that face greater costs to educate to standards – but some have argued that this is not enough to ensure equity. The reason is that such models overlook what research has shown to be the [compounding effects of higher concentrations of higher-needs students](). That is, a low-income student in a high-income school is generally less expensive to educate to standards than that same student in a low-income school. Applying the argument to portable funding for personalized learning experiences, states may need to continue considering group demographics in addition to individual student demographics when assigning weights to portable funding formulas. States building systems that allocate a "backpack" of funding to each student may still want to allocate some additional funds that go

directly to schools, programs, or other learning experiences that serve disproportionate numbers of high-needs students.

Like funding portability, performance-driven funding policies have the potential to create inequity by concentrating more money on some students than others. As Roza warns, states relying on performance-driven funding models "will have effectively spent less money on students who perform poorly than on those who perform well." This risk is evident in New Hampshire, which does not include weighted student funding in its completion-based funding to VLACS. Instead, according to Miller, "[a] completion is funded at the same rate regardless of who earned it." While the intent may be to incentivize VLACS educators to invest in the success of all its students regardless of demographics, such policies may inadvertently cause teachers to focus more energy on those students who already possess the background knowledge and skills needed to successfully complete assignments, overlooking those who are struggling. VLACS attempts to overcome this conflict of interest by holding teachers accountable for student success rates (a measure of the ratio of students who successfully complete a course compared to the number that enrolled), thereby retaining an emphasis on success for all students. Another option for states may be to craft performance-driven funding models that account for students' prior learning and apply weighted student funding according to the amount of growth required to reach the standards or competencies in question. Or, states may use student demographics as a basis for weighting the amount of pay that schools or providers receive when students achieve performance targets, but such measures are blunt at best.

3. State and local leaders should mitigate the risk that performance-driven funding models might create misaligned incentives for educators.

In his account of New Hampshire's completion-based funding system for VLACS, Miller writes that "[f]or an incentive to be effective, conflicts of interest must be acknowledged and avoided." One such conflict arises between funding mechanisms and accountability systems when the same high-stakes measures are used to determine both. In such systems, teachers could be incentivized to pass a greater number of students than are actually competent in order to generate more revenue and to secure their positions. Or, they might steer students away from more challenging programming in a misguided effort to boost completions.

To reduce such misbehaviors, system leaders might look to create separate funding and accountability determinations by using distinct (though related) measures. In the case of VLACS, Miller describes how New Hampshire funds it and holds it accountable through separate metrics to mitigate any conflicts of interest between the two. As noted, funding is determined by the percentage of low-stakes assignments its student body completes in aggregate, regardless of whether students end up mastering competency-based assessments and passing their courses. But the state holds the school and its teachers accountable for students mastering competency-based assessments – thus, regardless of how the school is funded, teachers remain incentivized to help students demonstrate mastery, not just to "pass them along."

Further, VLACS retains a focus on each individual student by compensating teachers for instructing an agreed upon number of students who complete 100% of their personal assignments. Teachers who

exceed that number are given extra pay, while those who miss their targets are not deducted pay but are instead referred for professional development.

Another key factor not to be overlooked is the role of culture in mitigating misbehaviors. At VLACS, Miller observed that "[a]t every stage of this analysis, we found VLACS leaders downplaying, minimizing, and protecting teachers and students from performance pressure." In the words of one teacher interviewed,

> "…there's no part of what we do that ends up saying to the kid, you must do this because our funding is on the line, and instead of just worrying about learning, they're worried about their teacher losing their job…. It just wouldn't be right."

Thus, education leaders should recognize the power they hold to define cultural norms and expectations in such a way that the pressure to secure funding or jobs is never inappropriately placed on students, or educators.

4. State and local leaders should mitigate the risk that performance-driven funding models might cause an imbalance in the market of providers.

If funding is contingent on student learning, Roza reasons that smaller vendors will be discouraged from offering services because they are unable to risk paying for costs up-front without the guarantee of payback. She notes that "[o]nly big vendors with deep pockets are likely to be able to afford to be paid on a competency-based basis. This could eliminate smaller for-profits, nonprofits or schools themselves that may have much to offer the emerging field but can't afford the financial uncertainty of a performance-pay system."

While Roza applies this argument to dissuade policymakers from pursuing performance-driven funding models, Miller's analysis of VLACS suggests alternatives. First, he notes how Hew Hampshire intentionally un-levels the playing field by protecting VLACS' status as the sole provider of online learning in the state. New Hampshire implemented "the equivalent of a corporation's 'poison pill' in state statute, essentially reimbursing new online charter operations at a rate of more than $2000 less per student." Thus, rather than being concerned by market imbalance, the state all-but-eliminates the market by endorsing one provider over all others, and by holding it accountable for quality directly.

Another alternative that surfaces in Miller's analysis is to design performance-driven funding models around low-stakes metrics. VLACS is funded when students complete low-stakes through-course assignments, whether or not those students reach mastery on competency-based assessments needed to pass the course. Funding is not all-or-nothing based on end of year results; instead, providers can recoup some costs even if students don't pass. Of course, in such systems, states will need other means to hold providers accountable for results. Here, Roza suggests a potential solution:

> "States can vet vendors, making them start slow, on a trial basis, with small numbers of students to ultimately prove themselves worthy of making it onto a state-approved vendor list. Vendors can earn their right

to stay on that list—and continue to receive public dollars—only if good
performance continues."

## Putting It All Together

The box to the right contains a hypothetical example for how a
state might combine portability, performance-driven funding,
and weighted student funding to create a financial structure
aligned to student-centered learning. It should be noted that
this example is fictional and greatly oversimplified. States and
their local communities will need to determine the best
policies given their unique contexts.

To that end, the following questions are offered to help states
and their local communities gauge the degree of alignment
between funding mechanisms and their goals for
student-centered learning:

1. Do our funding mechanisms support or prohibit students
   from enrolling in programs or other learning experiences
   outside of traditional school walls?
2. Do our funding mechanisms support or prohibit students
   from moving at a flexible pace?
3. Do our funding systems incentivze enrollment or
   demonstration of learning?
4. Do our funding mechanisms account for the relative costs
   required to help different students to master standards or competencies, based on demographics or
   prior learning?
5. Do our funding mechanisms incentivize teachers to focus on the achievement of all students, or do
   they unintentionally incentivize investment in some students over others?
6. Do our funding mechanisms support a proliferation of high-quality learning experience providers?

With an aligned set of financial supports and incentives, state and local education leaders can encourage
a focus on student mastery – not just enrollment – while supporting college and career readiness
through both traditional and innovative pathways.

> In a hypothetical student-centered state,
> funding is weighted by student
> demographics and is fully portable:
> students can apply their allocations to
> whatever combination of learning
> opportunities they choose along their
> personalized pathways. Schools and other
> providers receive the funds if students
> demonstrate mastery of an agreed-upon
> set of targets – some of which should be
> low-stakes, mid-course, or formative. The
> funding model uses metrics that are
> distinct from the state's systems for
> school and/or educator accountability,
> which may be more comprehensive. State
> budgets set aside additional funding that
> goes directly to schools or providers that
> are serving disproportionate numbers of
> high-needs students. States hold
> non-traditional providers accountable
> through a state-vetted vendor list based
> on results.

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