

# The Broader context for Outcomes-Based Funding



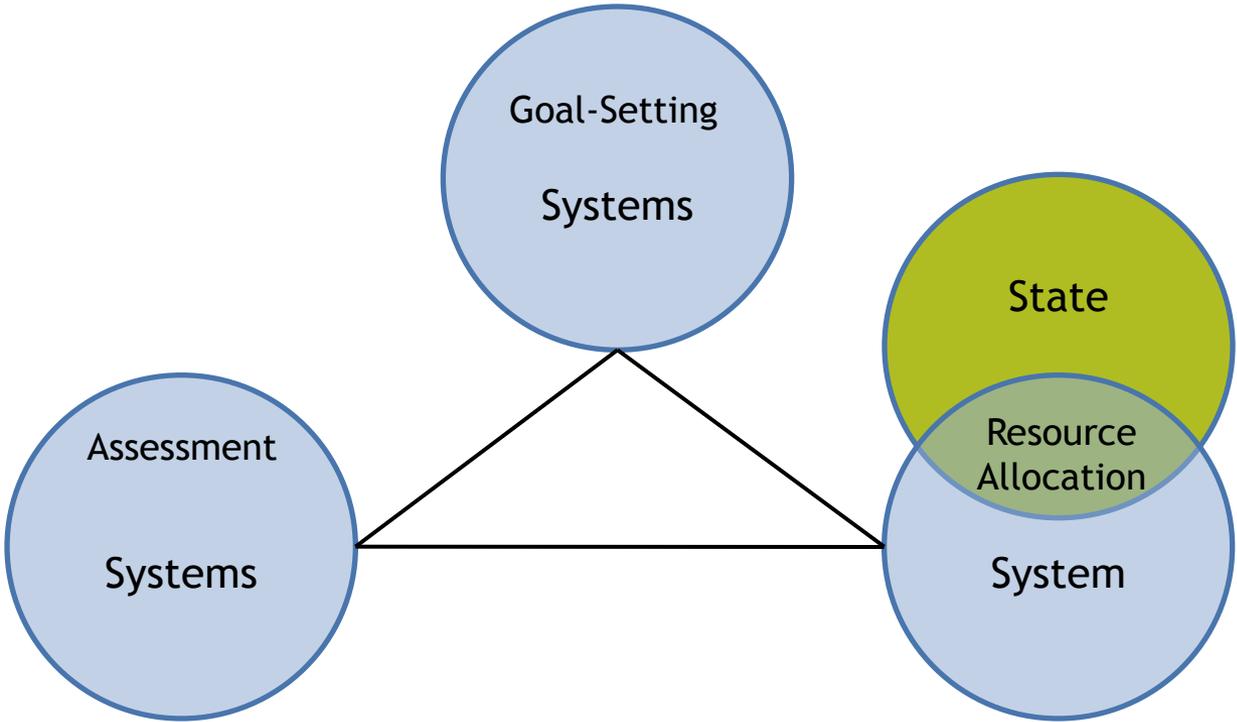
Dennis Jones



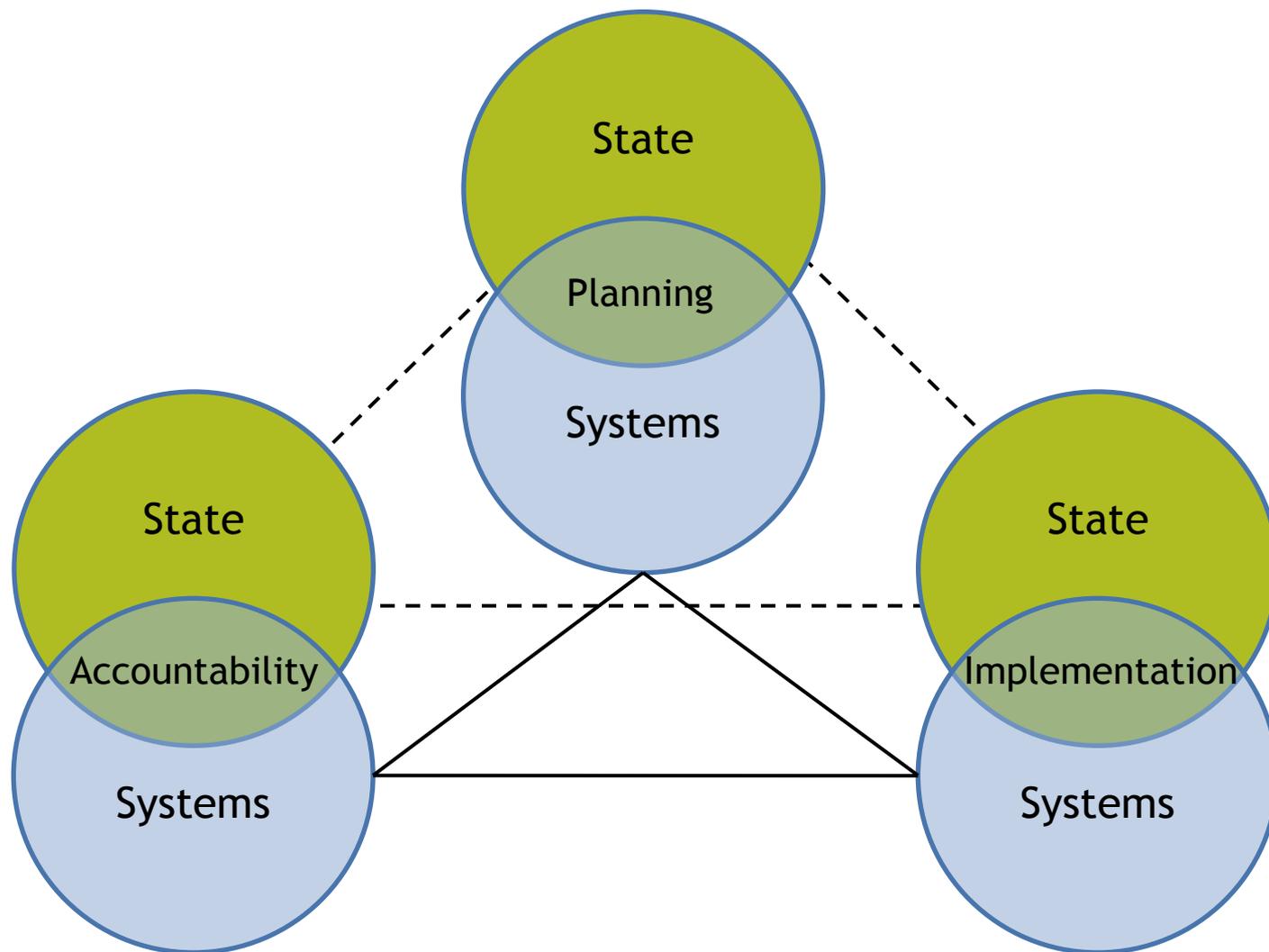
**NCHEMS**

**National Center for Higher Education Management Systems**  
3035 Center Green Drive, Suite 150  
Boulder, Colorado 80301

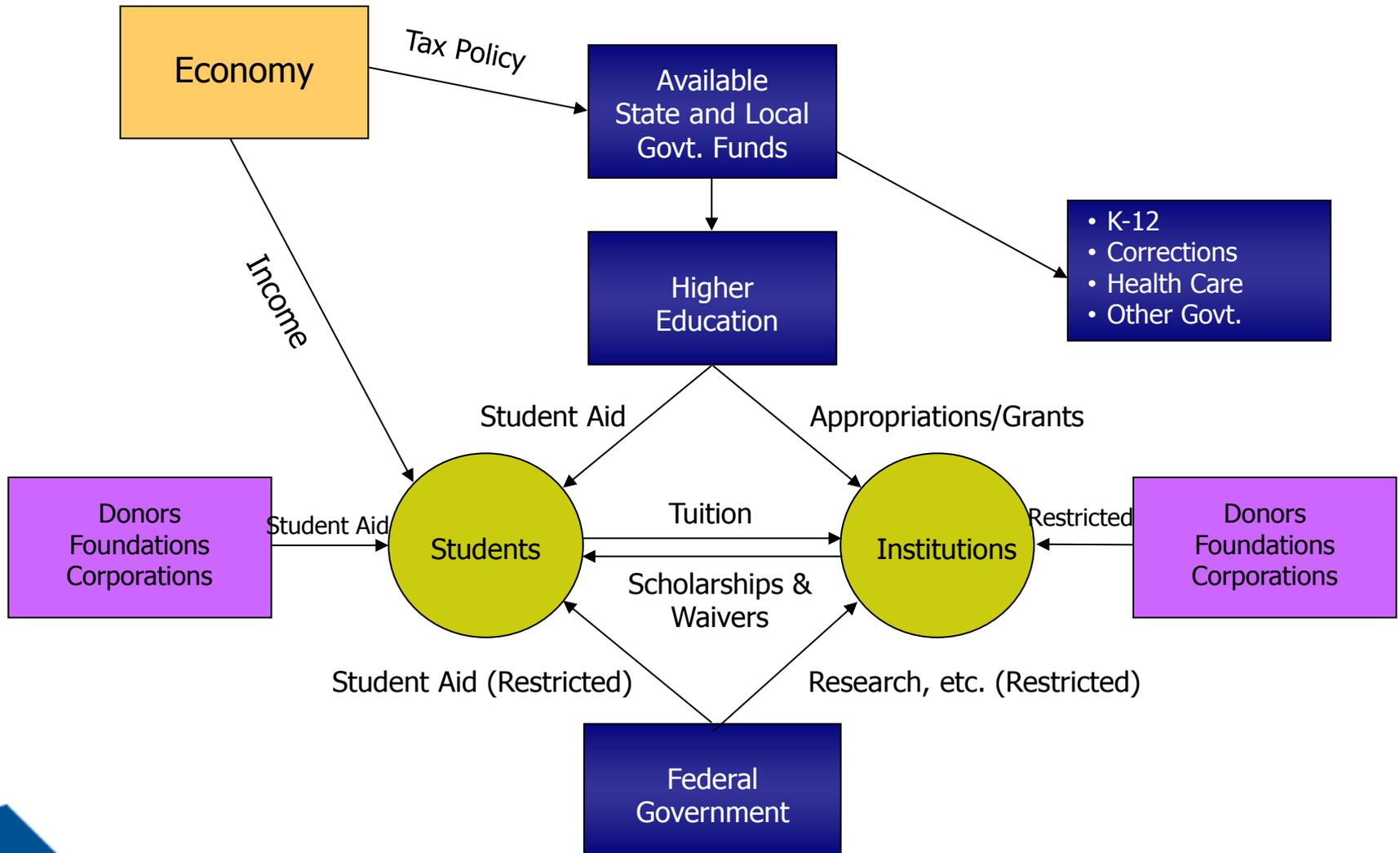
# State Role in Higher Education Policy - Past



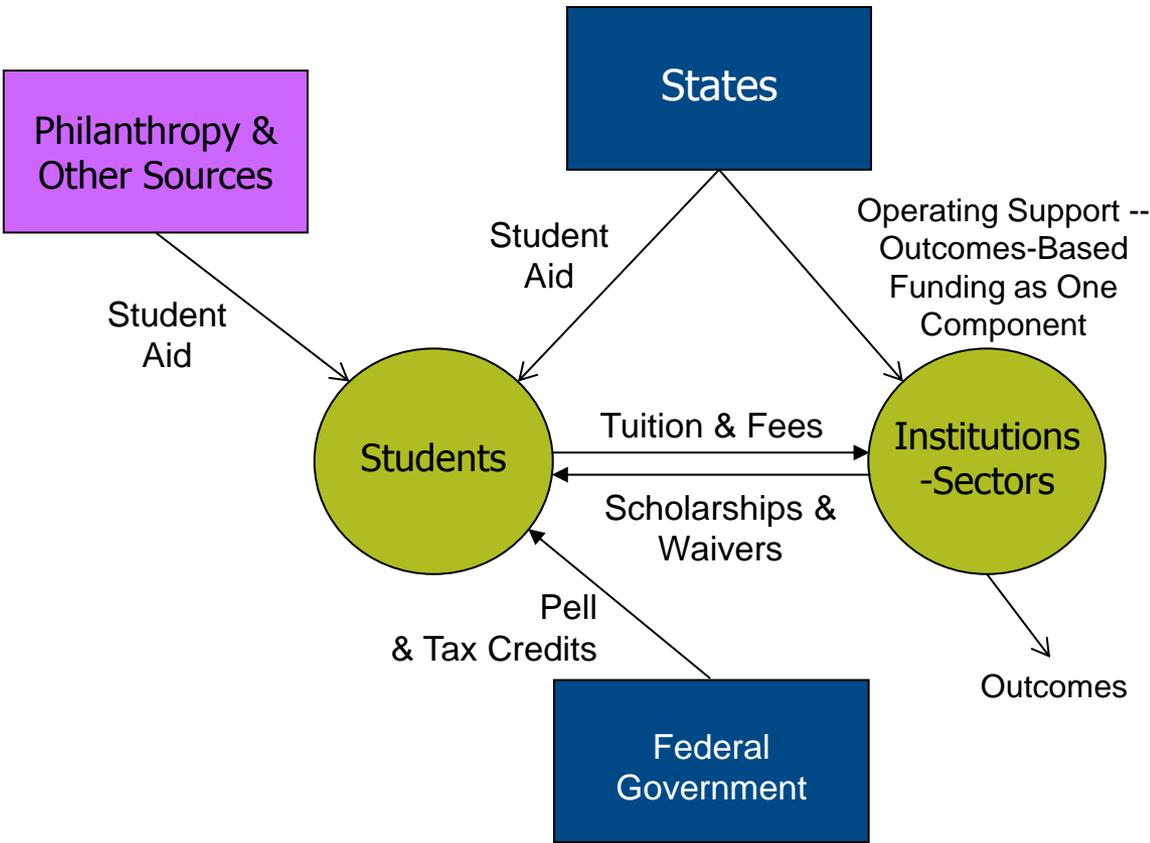
# State Role in the Higher Education Policy - Current



# The Flow of Funds



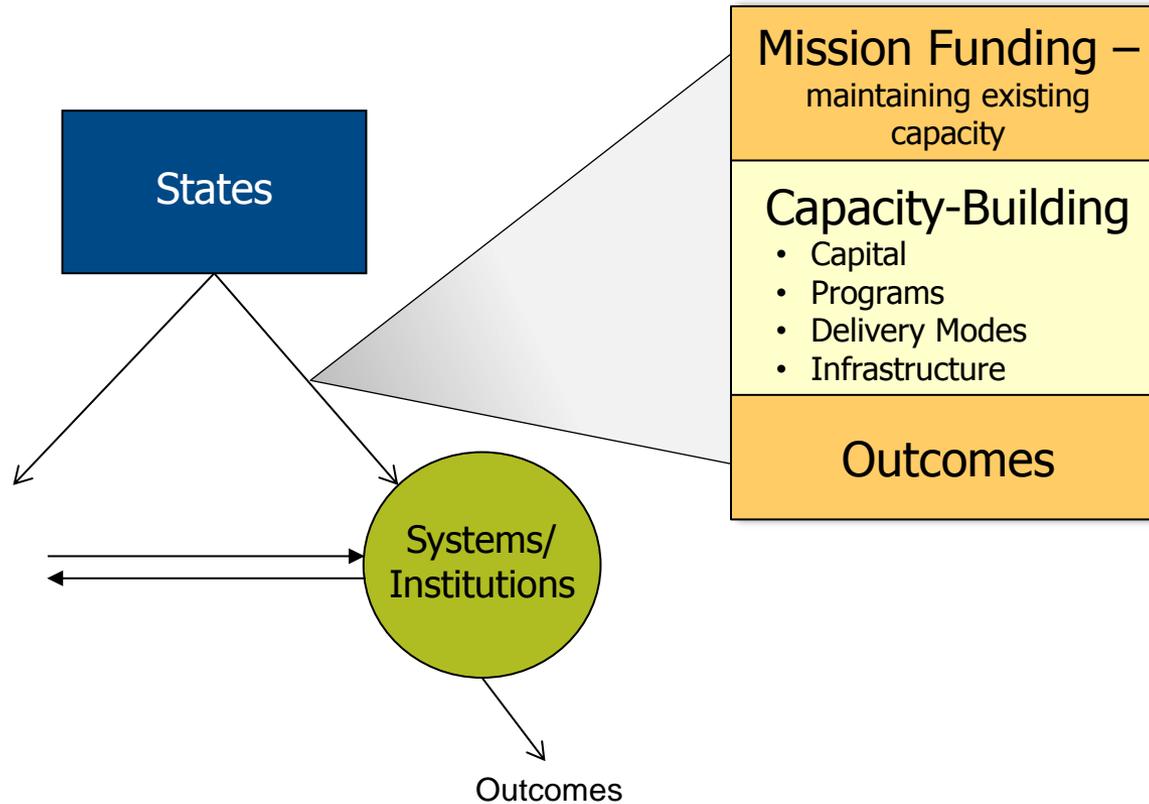
# The Elements of Finance Policy

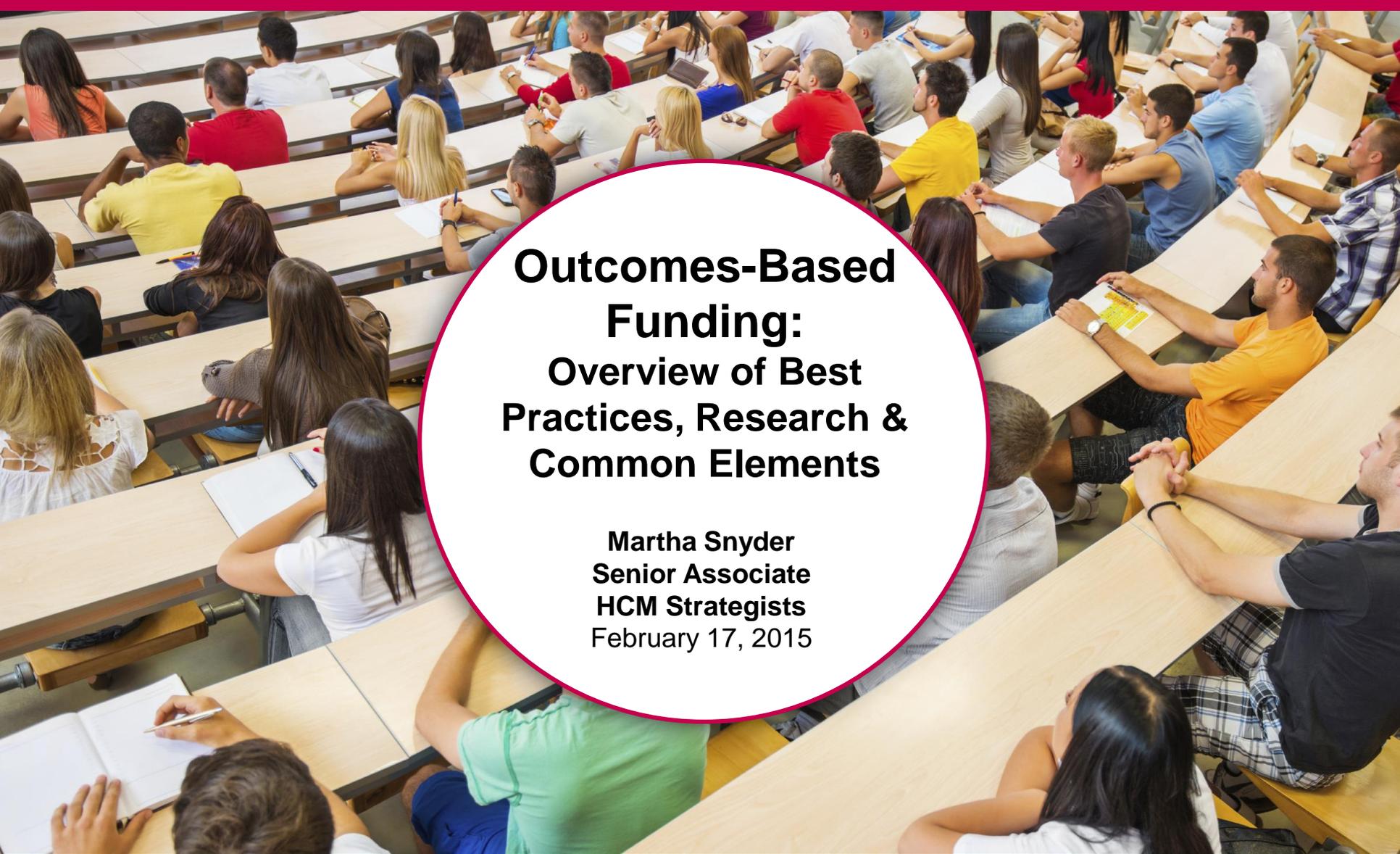


# The Elements of a Financing Strategy

- Appropriations to institutions
- Tuition
- Student financial aid
- Improvements to institutional productivity

# Components of State Funding of Institutions





# **Outcomes-Based Funding: Overview of Best Practices, Research & Common Elements**

**Martha Snyder**  
Senior Associate  
HCM Strategists  
February 17, 2015

**STRATEGY LABS**

State Policy to Increase Higher Education Attainment



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# ALIGN INVESTMENTS: OUTCOMES-BASED FUNDING

Objectives, Status, Design Principles & Research

# Institutional Funding Models

## Historic

- Allocation based on prior levels of funding
- Adjusted +/- based on available funds
- **Challenge: Equity in institutional funding**

## Enrollment

- # of students enrolled at census date
- Recent shift to course completion
- **Challenge: seldom “fully funded” by state; incentive on prolonged persistence/retention**

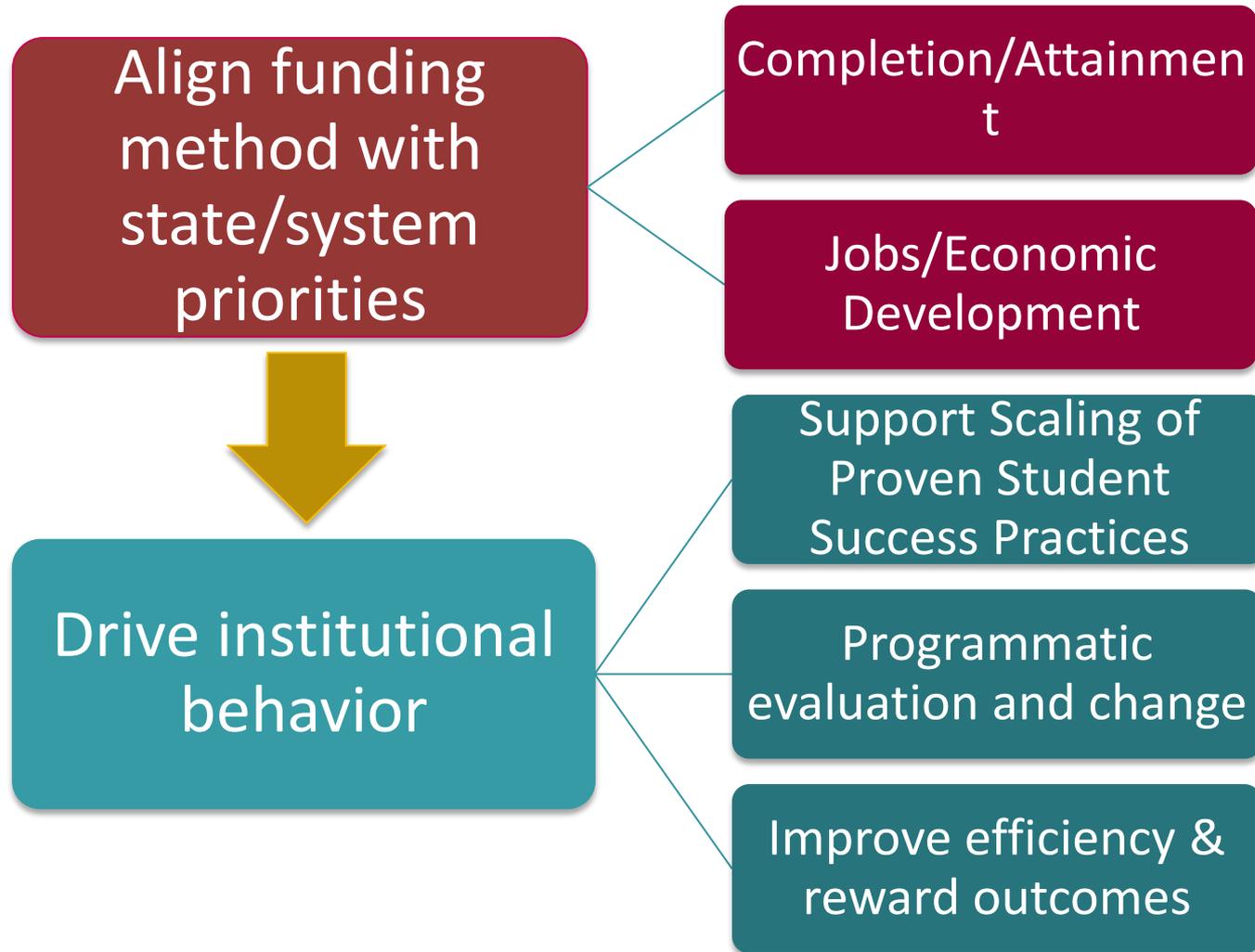
## Early Performance

- Reward for reaching performance milestones or goals
- Completion not necessarily key objective
- Often Bonus or small % of base allocation
- **Challenge: Sustainability and funding**

## Outcome-Based

- Funding based on student success and completion
- Significant portion of general allocation to institutions (not bonus)
- **Challenge: College’s ability to respond; funding**

# Objectives of Outcomes-Based Funding



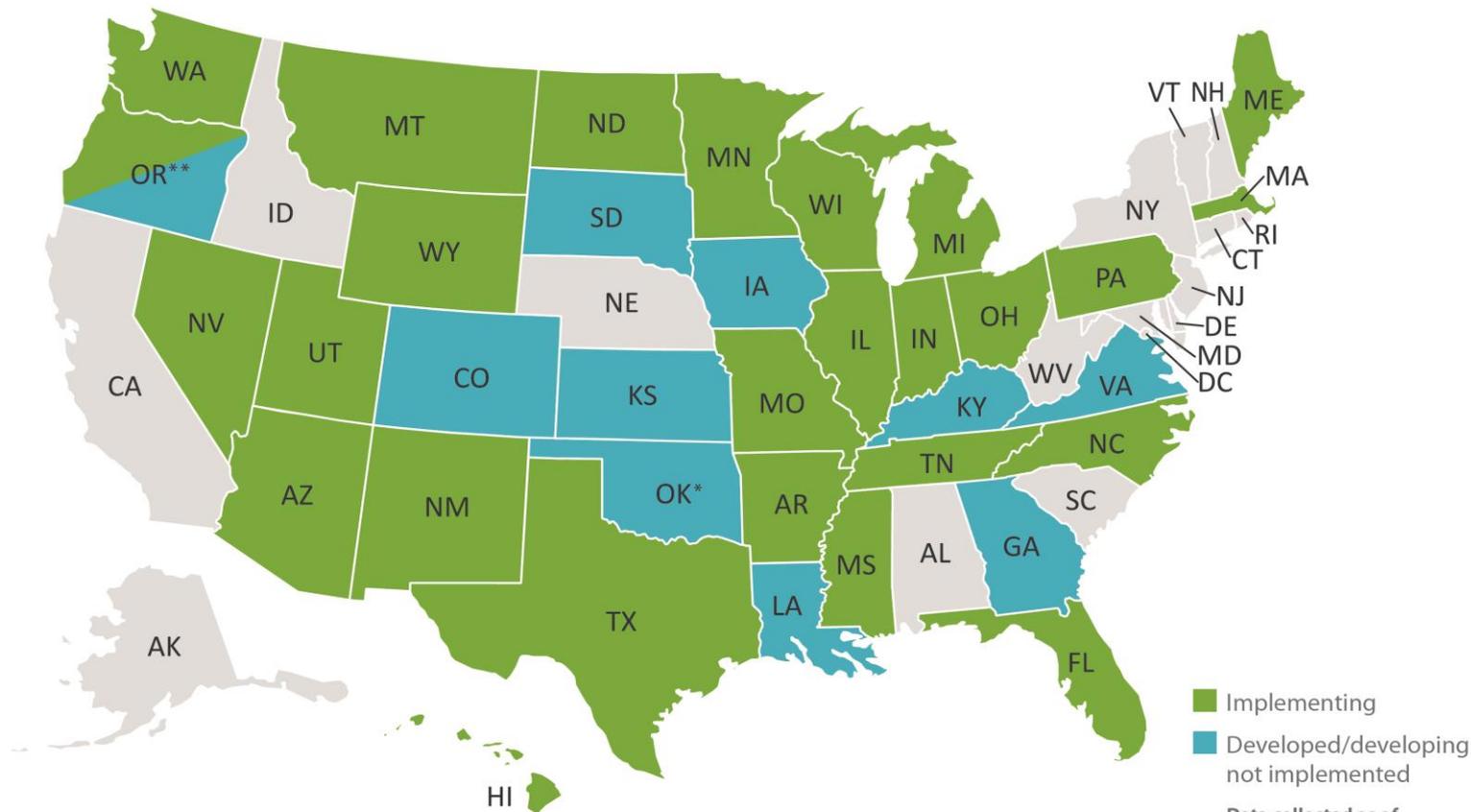
# Early Efforts (Performance Funding)

*More than half of states adopted a form of performance funding in the past 35 years, challenges in sustaining the model existed b/c of design & implementation shortfalls:*

- Multiple, unaligned priorities
- Lack of institutional consultation
- Complicated & Burdensome
- One-size-fits-all
- Competed w/Access Agenda
- Target oriented approach
- Funding challenges

# **CURRENT STATUS & STATE EXAMPLES**

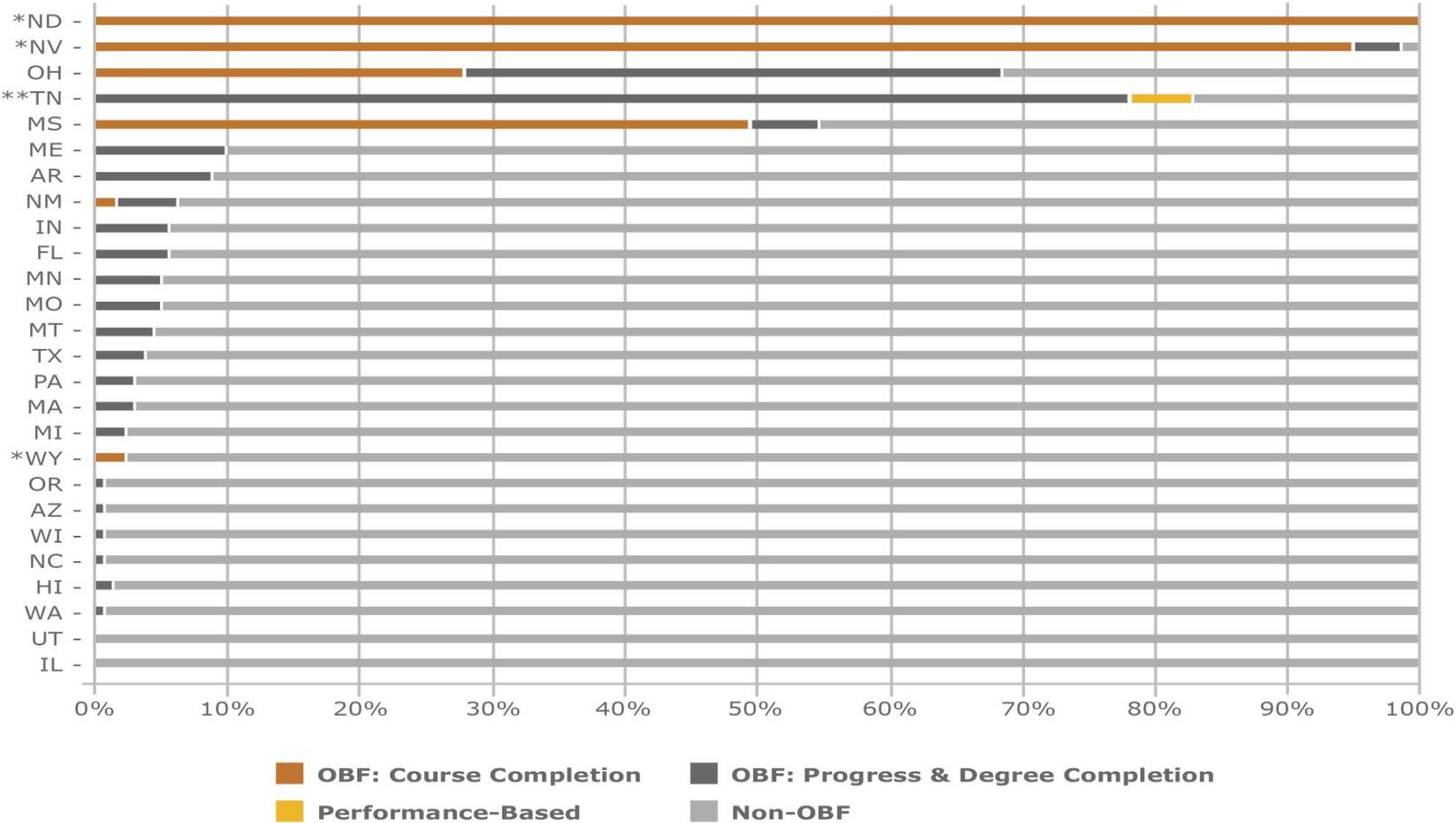
# Current Status of Outcomes-Based Funding in States (as of Dec 2014, HCM Strategists)



\* Oklahoma implemented OBF as a bonus in FY 14 but did not appropriate bonus funds in FY 15.

\*\* Oregon is both developing and implementing.

# OBF Funding in States: Not all Equal



\*North Dakota and Wyoming OBF formulas are based on course completions only; no other measures, such as degree completions, are used. Nevada's formula is 96 percent course completion, with 3.8 percent distributed on degree completion and student progression measures.

# Design Principles for Outcomes-Based Funding

Begin with a state goal/clear policy priorities

Use a simple approach

Include only measurable metrics

Incent success of typically underrepresented students

Account for institution differences

Seek Stakeholder Input

Make the money meaningful

Phase-in  
(≠ Hold Harmless)

Plan to evaluate

# Research & Impacts

- Focused mostly on 1.0 policies; beginning to track impact on 2.0 policies
- Research is almost entirely focused on intermediate (institutional change) impacts
- Limited information/ability to understand ultimate impact (scarce research)

# Research and Impacts

- + Change in colleges' awareness of state priorities & own performance
- + Reported increase in use of data in institutional planning
  - identify student barriers
  - align institution policies/investments
- + Academic program improvements
  - Academic departments: staffing and structure changes
  - Academic delivery: program structure (remedial education)

# Research and Impacts

## + Student Services

- Registration, graduation procedures, financial aid
- First-year retention programs
- Targeted student advising, tutoring and supplemental services
- Job placement services

## - Concern over:

- Quality
- Instability of funding
- Gaming system: Setting low goals
- Uneven knowledge of performance funding across and within colleges (not filtering to faculty)

# Common Metrics

Type of Measures	Examples
<p><b>Student Progression and Momentum</b>  <i>Intermediate outcomes/key milestones important to student's progression toward completion</i></p>	<ul style="list-style-type: none"> <li>• Remedial education success</li> <li>• Completion of first college-level mathematics and English courses</li> <li>• Credit accumulation (e.g. 15, 30 credit hours)</li> </ul>
<p><b>Completion &amp; Outcomes</b>  <i>Promote certificate, degree completion, transfer</i></p>	<ul style="list-style-type: none"> <li>• Number or rate of program completers</li> <li>• Number of transfers</li> <li>• Licensure pass rates</li> <li>• Job Placement</li> </ul>
<p><b>Productivity &amp; Institution Mission</b>  <i>Promote efficiency, affordability and focusing dollars on core mission functions</i></p>	<ul style="list-style-type: none"> <li>• Cost per undergraduate to institution</li> <li>• Degrees per 100 FTE</li> <li>• Research</li> <li>• Workforce Training</li> </ul>
<p><b>Priority</b>  <i>Student categories and/or degree types that are a priority for the state to meet attainment and job needs. Student focus is on progression and completion, not just access.</i></p>	<ul style="list-style-type: none"> <li>• Adult students</li> <li>• Academically underprepared students</li> <li>• Low-income (Pell-eligible) students</li> <li>• Minority students</li> <li>• STEM-H degrees</li> </ul> <p><i>Note: often reflected by providing an extra weight to progression and completion metrics</i></p>

# Other Common Considerations

## Cost-basis

- Reflect relative costs associated with different degree programs

## Mission differentiation

- Weighting across common metrics and/or sub-set of institution specific metrics

## Phase-in

- Calibration of model
- Stop-loss
- Increased allocation to outcomes over time

# Summary: Development Steps

## Step 1: Establish a framework

- ✓ Goals & Priorities
- ✓ Timeline for development & implementation
- ✓ Funding amounts

## Step 2: Establish Process for Stakeholder Input

## Step 3: Review Data and Choose Initial Metrics

## Step 4: Model various formula options

## Step 5: Implementation/phase-in options

## Step 6: Finalize recommendations

## Step 7: Communicate

# Tennessee



- ✧ Governor led/legislatively adopted
  - ✧ Complete College Tennessee Act (2009)
  - ✧ Formula Review Committee (included campus leadership)
- ✧ Mission differentiation across & within sectors
  - ✧ 2-and 4- year metrics, common categories
  - ✧ Weights vary across Carnegie classification (4-year) or mission priority (CC)
- ✧ 100% of enrollment allocation
  - ✧ ~ 85 percent of all state allocation to institutions
- ✧ At-risk student priority
  - ✧ 40% premium for adult and low-income students
- ✧ Phased-in impact
  - ✧ Stability built in to formula

# State Example: Ohio

Recent legislation updated OBF policies.

Key features include:

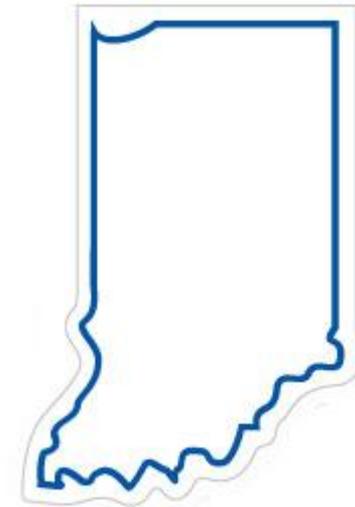
- 4-year institutions: 50% degree completion, 30% course completion, 20% doctoral/medical
- 2-year colleges: 50% course completion, 25% student success points and 25% completion milestones
- Includes priority for student populations: adult, low-income, minority, academically underprepared
- Long established cost-basis retained
- Phased in:
  - Stop-loss was in place 2009-2014
  - Adjusted allocation across metrics over time



# State Example: Indiana

State approach has evolved over time:

- OBF piloted with new incentive dollars for research universities in 2003
- 2007 expanded to all institutions as bonus allocation
- Embedded in general allocation in 2009
- Common & Differing Metrics across sectors:
  - On-time completion, student progression, overall completion, remedial education success, STEM degree completion, priority student completion (adult, low-income)
- Allocation based on improvement using rolling averages
- For FY 2015, 6% of funding determined by outcomes



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