OUTCOMES-BASED FUNDING:
OVERVIEW OF BEST PRACTICES, RESEARCH & COMMON ELEMENTS

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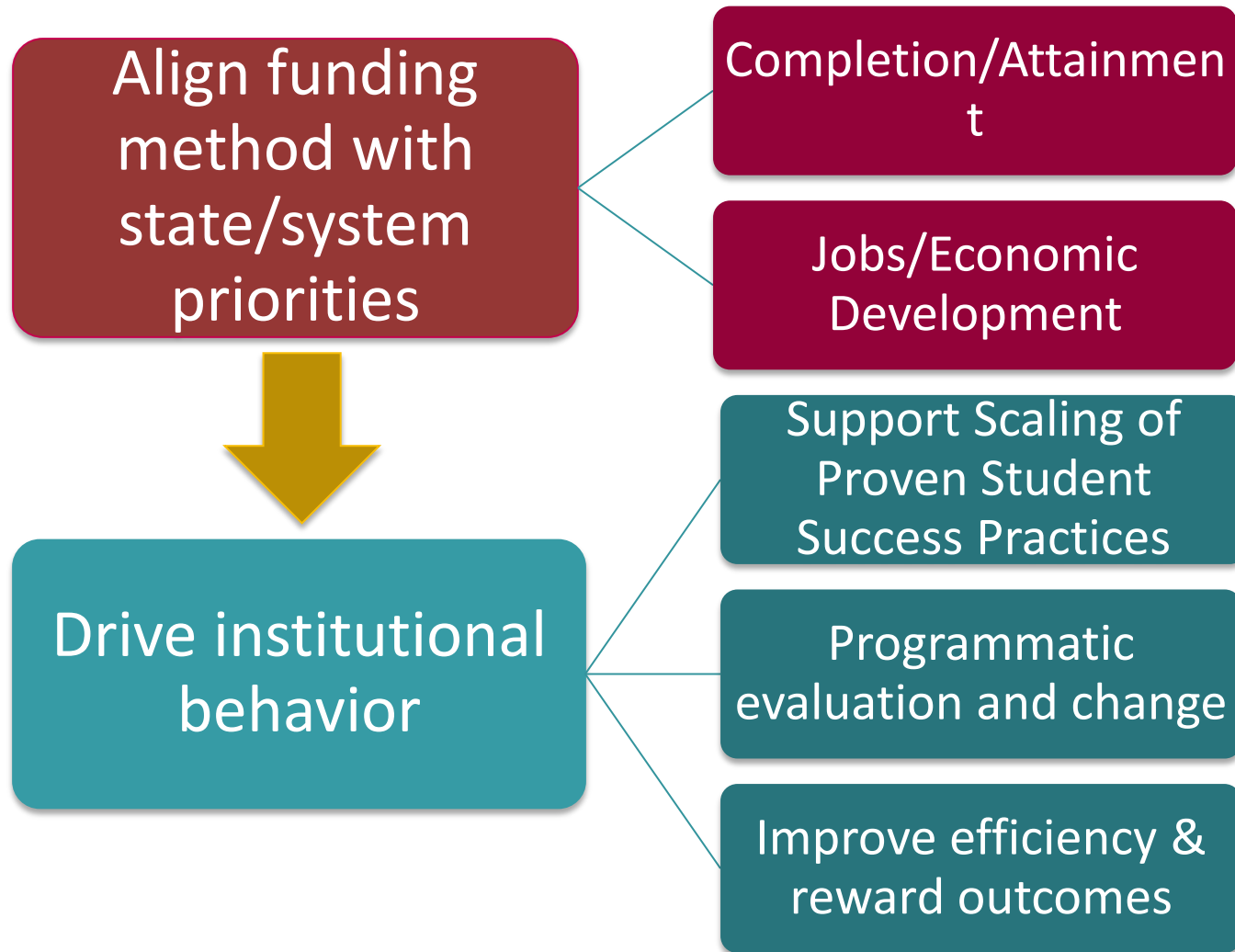
Early Performance
- Reward for reaching performance milestones or goals
- Completion not necessarily key objective
- Often Bonus or small % of base allocation
- Challenge: Sustainability and funding

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

Align funding method with state/system priorities

Completion/Attainment

Jobs/Economic Development

Drive institutional behavior

Support Scaling of Proven Student Success Practices

Programmatic evaluation and change

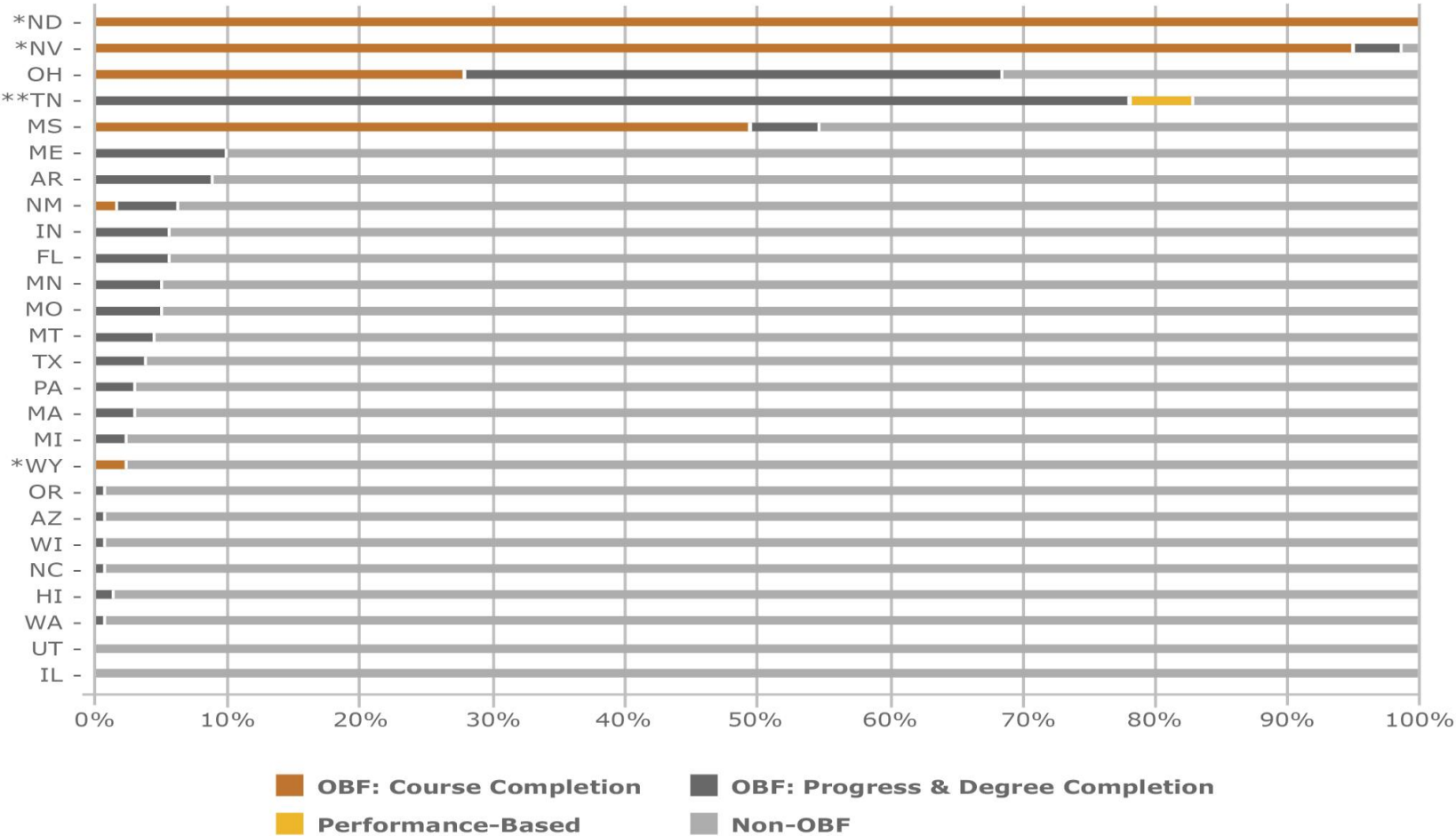Improve efficiency & reward outcomes

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)

Legend:
- Implementing
- Developed/developing not implemented

Data collected as of December 2014

* 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
Student Progression and Momentum *Intermediate outcomes/key milestones important to student's progression toward completion*	• Remedial education success • Completion of first college-level mathematics and English courses • Credit accumulation (e.g. 15, 30 credit hours)
Completion & Outcomes *Promote certificate, degree completion, transfer*	• Number or rate of program completers • Number of transfers • Licensure pass rates • Job Placement
Productivity & Institution Mission *Promote efficiency, affordability and focusing dollars on core mission functions*	• Cost per undergraduate to institution • Degrees per 100 FTE • Research • Workforce Training
Priority *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.*	• Adult students • Academically underprepared students • Low-income (Pell-eligible) students • Minority students • STEM-H degrees *Note: often reflected by providing an extra weight to progression and completion metrics*

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
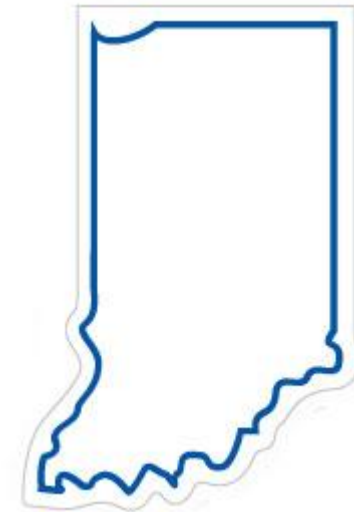
For More Information

- Driving Better Outcomes: Typology and Principles to Inform Outcomes-Based Funding Models (HCM Strategists, 2015)

- Lumina Foundation Strategy Labs: Align Investments, Adopt and Sustain Outcomes-Based Funding

STRATEGY LABS

State Policy to Increase Higher Education Attainment

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