OUTCOMES-BASED FUNDING: National Context, Design Principles and Implementation

Texas Higher Education Coordinating Board Meeting
January 25, 2018
Educational Attainment* (Adults 25-64)

*Since 2014, workforce-relevant certificates have been included in the total of postsecondary credentials.

Educational Attainment by Race/Ethnicity
Adults 25-64 with at least an Associate Degree

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>TX</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian Pacific Islander</td>
<td>61.2</td>
<td>65.6</td>
</tr>
<tr>
<td>American Indian</td>
<td>23.9</td>
<td>35.5</td>
</tr>
<tr>
<td>African American</td>
<td>31.5</td>
<td>29.3</td>
</tr>
<tr>
<td>Hispanic</td>
<td>18.9</td>
<td>21.3</td>
</tr>
<tr>
<td>White</td>
<td>46.8</td>
<td>45.7</td>
</tr>
</tbody>
</table>
Outcomes-Based Funding History

- Enrollment-driven models were the dominant funding methodology beginning in 1960s
  - Tied to number of students enrolled

  - Many states copied. Fell in and out of favor.

- Around 2009, several states reexamined old funding methods that no longer aligned with state goals. Sought to link funding to outcomes
Policy Rationale for Funding for Outcomes

Align funding method with state/system priorities
- Attainment & Equity
- Jobs/Economic Development
- Accountability & Transparency

Align institution priorities
- Support Scaling of Proven Student Success Practices
- Programmatic Evaluation and Change
- Improve Efficiency & Reward Outcomes

TRENDS IN OUTCOMES-BASED FUNDING POLICIES
Active State Policy Conversation, but with significant variation in design, sector(s) of implementation and funding

Typology Classification

Some states may meet most but not all criteria. States that do not meet all criteria for a level are assigned a lower type.

- **Items in green italics are primary differences from prior level**

<table>
<thead>
<tr>
<th>TYPE I</th>
<th>TYPE II</th>
<th>TYPE III</th>
<th>TYPE IV</th>
</tr>
</thead>
<tbody>
<tr>
<td>No attainment/completion goal</td>
<td>Completion or attainment goal in place</td>
<td>Completion or attainment goal in place</td>
<td>Completion or attainment goal in place</td>
</tr>
<tr>
<td>New-money only</td>
<td>Recurring dollars/base funding at least portion of funding source</td>
<td>Part of general allocation</td>
<td>Part of general allocation</td>
</tr>
<tr>
<td>Does not include all institutions</td>
<td>&lt; 5% of overall support</td>
<td>Moderate funding level</td>
<td>Significant funding (&gt;25%)</td>
</tr>
<tr>
<td>Degree completion not included</td>
<td>Does not include all institutions</td>
<td>All institutions included</td>
<td>All institutions included</td>
</tr>
<tr>
<td>Underrepresented student success not reflected</td>
<td>Degree completion included</td>
<td>Differentiation in metrics</td>
<td>Differentiation in metrics</td>
</tr>
<tr>
<td>&lt; 5% of overall support, based on statewide analysis</td>
<td>Underrepresented students may be prioritized</td>
<td>Degree completion included</td>
<td>Degree completion included</td>
</tr>
<tr>
<td>Target/recapture approach</td>
<td>Target/recapture approach likely</td>
<td>Underrepresented students are prioritized</td>
<td>Formula driven</td>
</tr>
<tr>
<td>May not have been sustained for 2 or more consecutive years</td>
<td>May not have been sustained for 2 or more consecutive years</td>
<td>May not be formula driven</td>
<td>Sustained for two or more consecutive years</td>
</tr>
</tbody>
</table>

More reflective of early PBF 1.0 models

Reflect robust OBF 2.0 models
Typology Classification

TYPE I
No goal, little $, “accountability plus”

TYPE II
Linked to goals, low $

TYPE III
Stronger link to goals, more $

TYPE IV
Substantial $, enduring over many budget cycles

More reflective of early PBF 1.0 models
Reflect robust OBF 2.0 models

OBF in Two-Year Sector As Percentage of Overall Sector Support

AGENDA ITEM IV-A
## Texas Outcomes-Based Funding: Summative Chart

<table>
<thead>
<tr>
<th></th>
<th>Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectors with OBF</td>
<td>2-year</td>
</tr>
<tr>
<td>Linked to State Attainment/Completion Goal</td>
<td>Yes</td>
</tr>
<tr>
<td>Base/Recurring or New Funding</td>
<td>Recurring</td>
</tr>
</tbody>
</table>

### Sector Level OBF Analysis

<table>
<thead>
<tr>
<th></th>
<th>Four-Year</th>
<th>Two-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formula Type</td>
<td>N/A</td>
<td>III</td>
</tr>
<tr>
<td>Funding Level</td>
<td>N/A</td>
<td>Moderate</td>
</tr>
<tr>
<td>Addresses Institutional Mission</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Includes Degree/Credential Completion</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Underrepresented Student Success Prioritized</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Implementing for 2 or more years</td>
<td>N/A</td>
<td>Yes</td>
</tr>
<tr>
<td>Formula Driven or Target/Recapture</td>
<td>N/A</td>
<td>Formula</td>
</tr>
</tbody>
</table>

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**DESIGN PRINCIPLES & COMMON METRICS**
Key Design Principles for OBF Models

- Begin with a state goal/clear policy priorities
- Use a stable and simple approach that supports continuous improvement
- Include only measurable metrics, prioritizing credential completion
- Incent success of typically underrepresented students
- Reflect institutions’ missions
- Seek Stakeholder Input
- Make the money meaningful
- Phase-in (≠ Hold Harmless)
- Sustain over several years, and plan to evaluate

Common Metrics Most Aligned with Educational Attainment

- Degrees/Certificates
- Progression
- Priority funding for underrepresented students
  - Underrepresented minorities
  - Low-income students
  - Adults
  - Academically underprepared
Common Metrics Related to Specific Attainment Concerns

- Job placements
- Wages of graduates
- High demand/STEM degrees

Other Common Metrics

- Research expenditures
- Public service expenditures
- Successful transfer
- Degrees per 100 FTE
Common but Most Problematic Metrics

- Graduation rate
- Retention rate
- Other rate and cohort-based metric
Challenges for States

• Development
  – Engaging stakeholders/securing commitment
  – Technical sophistication
  – Appropriately weighting/accounting for underserved student populations
  – Balance limited metrics with different institutional missions
  – Quality of data

• Implementation
  – Date and level of implementation not specified from outset
  – Perpetual pilot
  – Validating data

• Sustainability
  – Using model in all funding environments

Communicate and Support Implementation

• **State Level:** Policy should be communicated within context of broader state attainment and equity goals; as a tool to align state finance model with these goals and outcome priorities.

• **Campus Level:** Campus leaders should connect OBF model with existing student success efforts and how it reinforces these efforts or allows them to be brought to scale.
What to Look for in Research/Practice

- State-level examples closest aligned to TX
- No two funding systems are the same, outcomes-based or otherwise